



## Hindustan Construction

STOCK INFO.	BLOOMBERG
BSE SENSEX: 19,243	HCC IN
	REUTERS CODE
S&P CNX: 5,702	HCNS.BO

26 October 2007

Buy

Previous Recommendation: Buy

Rs201

		YEAR	NET SALES	PAT*	EPS*	EPS*	P/E*	P/BV	ROE	ROCE	EV/	EV/
		END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
Equity Shares (m)	274.3	3/07A	23,576	595	2.1	-35.3	94.2	5.7	6.1	6.6	2.8	30.1
52-Week Range	209/83	3/08E	32,642	1,058	3.9	81.0	52.1	3.8	8.9	12.2	2.0	17.5
1,6,12 Rel. Perf. (%)	32/56/5	3/09E	44,425	2,037	7.4	92.5	27.0	3.4	13.2	14.7	1.6	12.5
M.Cap. (Rs b)	55.1											
M.Cap. (US\$ b)	1.4											

- 2QFY08 performance inline with expectations:** During 2QFY08, HCC reported revenues of Rs5.5b (up 28.9% YoY), EBIDTA of Rs602m (up 52.4% YoY), and net profit of Rs117m. Reported numbers includes foreign exchange gain of Rs100m on outstanding FCCBs. Adjusted Net profit stands at Rs17m, down 59% YoY. While reported revenue was in line with our estimates of Rs7.5b, EBIDTA margins at 11% were higher than our estimates of 9.9%.
- EBIDTA margin improvement driven by higher share of hydro power in revenue mix:** The EBIDTA margin during 2QFY08 stood at 11% vs 9.3% in 2QFY07 (improvement of 169bps), driven by higher share of revenues from hydro power segment at 25.1% (vs 9.4%). The work in progress (unbilled revenues) for the company as of September 2007 stood at Rs13b vs Rs18b in March 2007, as several project entered the revenue recognition threshold. Hydro power now accounts 44% of order book vs 41% as at Mar 06 and 14% as at Mar 05
- Update on Real Estate development:** a) Successful launch of Phase I of Lavasa, 300 units (Rs3b revenues at an average of Rs2,950/sq.ft) on offer was totally booked in a span of less than a month. b) Construction of Corporate park at Vikhroli started, Possession by March 2009, c) acquired 150 acres of the contracted 1500 acres (on outskirts of Mumbai, Nashik and Pune) for township development, total investment in HCC real estate at Rs2.5b.
- Valuations and view:** We expect HCC to report net profit of Rs1.1b during FY08 (up 77.6% YoY) and Rs2b in FY09 (up 92.5% YoY). Based on SOTP, we arrive at price target of Rs200/sh, comprising of core business at Rs111/sh (15x FY09E), Lavasa at Rs55/sh (5,000 acres at Rs5m/acre), Vikhroli Corporate park Rs18/sh (NPV), Slum Rehab projects at Rs6/sh (NPV) and other Land Banks at Rs10/sh. At CMP of Rs201/sh, HCC quotes at reported PER of 52x FY08 and 27x FY09. Adjusted for value of real estate (Rs89/sh), stock quotes at 29x FY08 and 15x FY09. Maintain **Buy** given significant value accretion possibility from the Lavasa project.

Q/Y/E MARCH	QUARTERLY PERFORMANCE								(Rs Million)	
	FY07				FY08				FY07	FY08E
	1Q	2Q	3Q	4QE	1Q	2Q	3QE	4QE		
<b>Gross Sales</b>	<b>5,806</b>	<b>4,257</b>	<b>5,407</b>	<b>8,476</b>	<b>7,306</b>	<b>5,487</b>	<b>7,407</b>	<b>12,442</b>	<b>23,945</b>	<b>32,642</b>
Change (%)	25.9	40.9	18.6	10.3	25.8	28.9	37.0	46.8	20.5	36.3
<b>EBITDA</b>	<b>461</b>	<b>395</b>	<b>664</b>	<b>877</b>	<b>791</b>	<b>602</b>	<b>818</b>	<b>1,541</b>	<b>2,396</b>	<b>3,752</b>
Change (%)	12.8	53.3	36.6	29.9	71.5	52.4	23.2	75.8	31.0	56.6
As of % Sales (Adj)	7.9	9.3	11.1	9.1	10.8	11.0	10.1	11.4	9.3	10.9
Depreciation	161	186	206	244	228	226	260	209	797	923
Interest	74	158	175	212	322	342	325	311	620	1,300
Other Income	62	10	2	125	315	106	1	-1	199	421
Extraordinary Items	0	0	0	0	0	0	0	0	0	0
<b>PBT</b>	<b>288</b>	<b>61</b>	<b>284</b>	<b>546</b>	<b>556</b>	<b>140</b>	<b>234</b>	<b>1,020</b>	<b>1,179</b>	<b>1,950</b>
Tax	36	19	65	266	206	23	63	182	386	474
Effective Tax Rate (%)	12.6	31.5	22.8	48.7	37.1	16.5	27.0	17.8	32.8	24.3
<b>Reported PAT</b>	<b>251</b>	<b>42</b>	<b>220</b>	<b>280</b>	<b>350</b>	<b>117</b>	<b>170</b>	<b>839</b>	<b>793</b>	<b>1,476</b>
<b>Adj PAT</b>	<b>201</b>	<b>42</b>	<b>144</b>	<b>160</b>	<b>32</b>	<b>17</b>	<b>170</b>	<b>839</b>	<b>547</b>	<b>1,058</b>
Change (%)	-11.2	45.3	-36.5	-62.4	-84.0	-59.0	18.7	424.0	-33.1	93.4

E: MOST Estimates

**2QFY08: performance inline with expectations**

During 2QFY08, HCC reported revenues of Rs5.5b (up 28.9% YoY), EBIDTA of Rs602m (up 52.4% YoY), and net profit of Rs117m. The reported numbers includes foreign exchange gain of Rs100m on outstanding FCCBs. Adjusted Net profit stands at Rs17m, down 59% YoY. While reported revenue was in line with our estimates of Rs7.5b, EBIDTA margins at 11% were higher than our estimates of 9.9%.

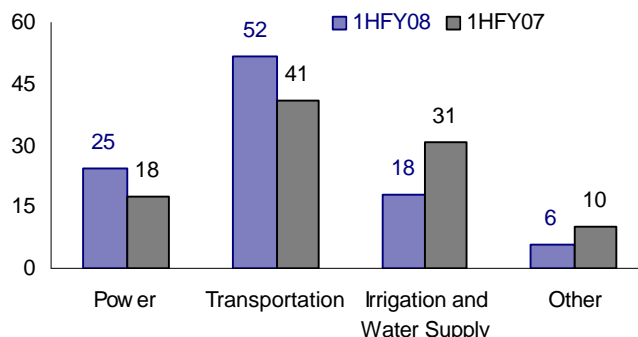
Interest cost (net of interest income) increased to Rs342m during 2QFY08, vs Rs158m in 2QFY07, and Rs322m during 1QFY08. Cash on books declined to Rs1b as at September 2007 vs Rs1.8b as at June 2007, while debt increased to Rs16b vs Rs11.1b as at Mar 2007. The company also has not taken mobilization advances from customers (eligibility ~Rs7.5b) which carry interest rates of 10-5-11.0%. During FY08, cash flow should improve as majority of the projects under mobilization would enter construction phase, resulting in receipts from customers against invoice raised.

**EBIDTA margin improvement driven by higher share of hydro power in revenue mix**

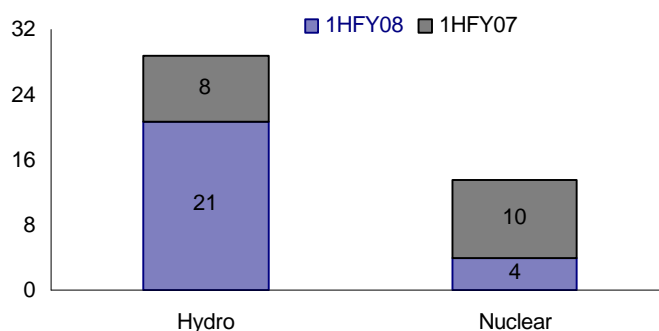
The EBIDTA margin for 2QFY08 stood at 11% during 2QFY08 vs 9.3% in 2QFY07, an improvement of 169bps. The key reason for the improvement in margin was higher share of revenues from Hydro power segment at 25.1% (vs 9.4%). The work in progress (unbilled revenues) for the company as of September 2007 stood at Rs13b vs Rs18b in March 2007, as several project entered the revenue recognition threshold.

For 1HFY08, EBIDTA margin for the company improved by 238bps to 10.9% vs 8.5% in 1HFY07 (EBIDTA margin improvement of 289bps in 1QFY08). The improvement in EBIDTA margins for the company was driven largely by 1) Reduced losses on Bandra Worli Sealink project and 2) Increasing share of higher margin segment in revenue mix. The revenue composition during 1HFY08 stood as: Transportation - 48.8% (45.6%), Power – 29% (21.3%), Water Supply and Irrigation projects – 14.1% (28.9%) and Others – 1.8% (4.2%).

SEGMENT WISE REVENUE COMPOSITION (%)



POWER SECTOR REVENUE COMPOSITION (%)

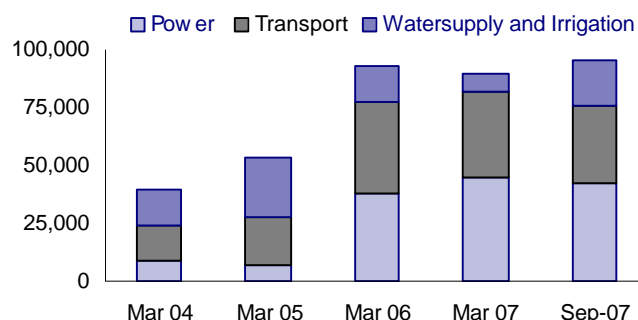


Source: Company

**Robust order backlog, increased share of power sector**

Order book during September 07 stood at Rs96b (vs Rs98.2b during September 2006). HCC has submitted tenders for projects worth Rs45.6b, of which it is L1 in projects (roads, tunnel and bridge segments) worth Rs25b. The company is pre-qualified to bid for projects worth Rs123.8b. The key order intake during 2QFY08 was order of Rs2.6b order from New Delhi Metro project and Rs7.3b from Bombay Municipal Corporation.

TREND IN ORDER BOOK COMPOSITION (RS M)



Source: Company

The composition of order backlog as of September 2007 stands as: Power – 44%, Transportation – 35% and Water Projects – 21%. The share of power sector in order backlog has increased to 44% vs 41% as at Mar 06 and 14% as at Mar 05.

#### **Bandra Worli Sealink project: negotiations on with government**

HCC is currently in talks with the government to sort out the issues related to the cost escalation, change in scope of work and payment of the under recoveries arising out of it. It has provided for an under recoveries of Rs2.3b Bandra Worli Sealink project till 1QFY08, which according to the management covers the expected losses on the project. Till date, the company has booked cumulative revenues of Rs2.5b on this project, and incurred cost of Rs4.8b, thus incurring cumulative under-recovery of Rs2.3b (loss in P/L account). The company expects to complete the project by March 2009.

#### **BANDRA-WORLI SEALINK: REVISED COST (RS M)**

Original Project Cost	3,920
Escalations, based on Index and variations to original work scope	3,400
<b>Revised project cost</b>	<b>7,320</b>

Source: Company

#### **We expect margin improvement during FY08 / FY09 driven by:**

- ✎ Increasing share of hydro power projects in revenues
- ✎ Several large hydro power projects crossing margin recognition threshold.
- ✎ Because several hydro power projects were awarded during FY07, they required quick mobilization in terms of enhancing the on-site equipments and manpower which in turn increased costs. Revenues from some of these projects started flowing in from mid FY07, and thus there was a mismatch in terms of revenue and cost recognition (operational, depreciation and interest). During FY08 and FY09, as these projects start contributing to revenues, we expect a much better cost apportionment.
- ✎ No impact from Bandra-Worli sealink project from 2QFY08 onwards as company has made sufficient provision for future losses (EBIDTA margin impact of ~300bp during FY07).

#### **BOT projects**

HCC has achieved the financial closure for the annuity road project of 30kms stretch, costing Rs2.7b in Andhra Pradesh with DER of 18:82. Concession period is 20 years (including construction period of 2 years). Semi annual annuity receipt is Rs238.5m, and expected RoE is 15%.

Apart from annuity projects in road sector, HCC is also bidding for BOT projects in power sector, and has targeted US\$50m as investments in this space. The company is already looking at hydro power projects in Uttar Pradesh, Uttaranchal, etc.

#### **Considerable Progress on Real Estate front**

Realty development is emerging as a key business vertical for HCC, and the company is seeking opportunities in township development through HCC Real Estate, 100% subsidiary. The company has a total developable area of 186m sq ft, of which HCC's share stands at 126m sq ft. HCC Real Estate (100% subsidiary of HCC) is also looking at various options for fund raising to finance the real estate initiatives. As at September 07, HCC has already invested Rs2.5b as equity in HCC Real Estate (100% subsidiary).

- ✎ **Update on Lavasa:** HCC has completed booking for 300 units of bungalows and apartments on offer in Phase 1 soft launch at a value ranging from Rs.1m to Rs.10m (average realization of Rs2,900/sq ft). The total revenue from the sale of the units stood at Rs3b and revenue booking for the project would start from 1QFY09. It has also signed various joint venture agreements viz. 1) GDCT (an education trust in Europe managing 27 institutes, including Oxford University) to set up an educational university at Lavasa, 2) A JV with Apollo Hospitals (51% stake by Apollo and 49% by Lavasa Corpn) to setup a Hospital and Wellness Centre with a 50 bed hospital on 200 acre to come up by Oct.'09, 3) Ecole Hotelier, Switzerland to run hospitality and culinary school from June 09 (first academic year). The total amount invested in the Lavasa project as of September 2007 stood at Rs7b (Equity of Rs2.5b and debt of Rs4.5b). The cost of development of the basic infrastructure and Phase I is estimated at

Rs12-13b and the company is in talks with various institution (private equity partners) to offload a part of stake (up to 10% depending on valuation) and raise Rs3b and land sale of Rs1.5b. Of the 12,500 acres, the company has already acquired 9,000 acres, of which titles have been registered in favour of the company.

➤ **Development of Vikhroli land (Corporate Park):** Construction work on Vikhroli IT park has already commenced (developable area of 1.95m sq.ft) and it plans to offer offices for fit out by Dec 08 and occupation by Mar 09. The revenue booking from the project would start from 4QFY09.

➤ **Other real estate projects:** For Slum Rehabilitation projects in Vikhroli East (15 acres) and Powai (10 acres), the company is in the process of entering into agreements with the slum dwellers. Land acquisition for development of integrated townships in Thane (200 acres), Pune (300 acres) and Nashik (1000 acres) are in progress and HCC has already acquired ~150 acres, at cost of Rs500m. Till September 07, HCC has invested Rs2.5b in HCC Real Estate (100% subsidiary).

#### HCC'S REAL ESTATE PORTFOLIO

PROJECT	ACRES	M.SQ.FT.
Lavasa	12,500	150
Vikhroli West (IT Park)	11	2
Res. Project in Mumbai (SRS)	10	1
Vikhroli East	15	1
Township in MMR (Mumbai Metropolitan region)	200	6
SEZ/Township in Nashik	1,000	20
Township in Pune	300	6
<b>Total</b>	<b>14,036</b>	<b>186</b>

Source: Company

#### Valuations and view

We expect HCC to report net profit of Rs1.1b during FY08 (up 77.6% YoY) and Rs2.0b in FY09 (up 92.5% YoY). Based on SOTP, we arrive at price target of Rs200 comprising of core business at Rs111/sh (15FY09E), Lavasa at Rs55/sh (5,000 acres at Rs5m/acre), Vikhroli Corporate park Rs18/sh (NPV), Slum Rehab projects at Rs6/sh (NPV) and other Land Banks at Rs10/sh (book value of investments expected till Mar 08). At CMP of Rs201/sh, HCC quotes at reported PER of 52x FY08 and 27x FY09. Adjusted for value of real estate (Rs89/sh), stock quotes at 28.8x FY08 and 14.9x FY09. We maintain our Buy recommendation on the stock given significant value accretion possibility from the Lavasa project.

#### HCC SUM OF PARTS (RS/SH)

	BUSINESS SEG.	METHOD	VALUATION MULTIPLE	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
HCC Standalone	Construction	FY09E PER (x)	15	30,548	111	At par with industry average
<b>Real Estate</b>						
Lavasa	Township	Land Value (Rs m/acre)	5	15,118	55	Out of 12,500 acres of land, 5,000 acres will be developed, Realization Rs5m/acre on 5,000 acre
Vikhroli Land (11 acres)	Real Estate	NPV, Cost of Equity:15%		4,928	18	Based on NPV of expected rentals from office space
Vikhroli Land (Slum Rehabilitation - 15 acres)	Real Estate	NPV, Cost of Equity:15%		855	3	Based on NPV of expected cash flows
Powai Land (Slum Rehabilitation - 10 acres)	Real Estate	NPV, Cost of Equity:15%		695	3	Based on NPV of expected cash flows
Other Land Banks	Real Estate	Book Value		2,700	10	Book value of Investments as at March 2008
<b>Total</b>				<b>54,844</b>	<b>200</b>	

We do not factor in the land development profit at Lavasa

Source: Motilal Oswal Securities

### Key takeaways from Lavasa Site Visit; Extract from the company updated dated 22 August 2007

Lavasa Corp (60.5% subsidiary of HCC) has commenced soft launch of apartments and villas of Phase 1 at Lavasa project. The key takeaways are:

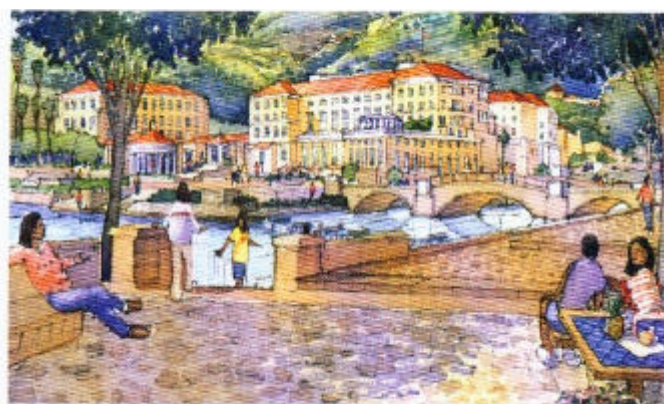
**1) Phase I soft launch booked fully:** HCC has completed booking for 300 units of bungalows and apartments on offer in Phase 1 soft launch at a value ranging from Rs.1m to Rs.10m (average realization of Rs2,900/sq ft). The total revenue from the sale of the units stood at Rs3b and revenue booking for the project would start from 1QFY09. The company is developing apartments with built up area of 528sq.ft to 2,223sq.ft and Villas ranging from 2,060 sq.ft to 4,679 sq.ft.

**2) Lavasa Corp has entered into several tie-ups:** It has entered into tie-ups for setting up Hospitality, Educational institutions, Healthcare facilities for the Phase 1.

✍ **Hospitality:** (1) **Sheraton:** For managing 250-room Hotel with 150,000 sq. ft. Convention Centre and 200-room resort, (2) **Accor:** for managing mid scale hotel under brand Novotel (150 rooms) and upscale hotel under brand Grand Mercure (250 rooms), (3) **ITC** for managing 60 room hotel.

✍ **Educational Institutes:** (1) **Symbiosis** Educational Institute (60 acres) and (2) **Girls Day School Trust**, UK (which manages 27 schools in UK, including Oxford School).

LAVASA (PHASE 1): ARTIST'S IMPRESSION



Source: Company

PORTOFINO APARTMENTS (UNDER CONSTRUCTION)



Source: Motilal Oswal Securities

TOWN HALL (LEFT) AND ITC HOTEL (RIGHT) UNDER CONSTRUCTION



Source: Motilal Oswal Securities

✍ **Healthcare: Apollo Hospital** (200 acres) for setting up 150 bed hospital and medical research and training institute through a JV, where 51% is owned by Apollo and 49% by Lavasa Corpn.

**3) Basic Infrastructure largely in place, Phase I development to be completed by end CY09:** For development of Phase 1, most of the regulatory approvals and basic infrastructure like all weather approach road from Pune, internal roads within Phase 1, electrification, dams, water supply network including sewage treatment plants, etc is largely in place. Lavasa Corp has till date invested Rs6.5b in terms of infrastructure development on this project.

The apartments are conceived as four storey structures with ground and first floor reserved for commercial purpose (restaurants, retail, etc) and three floors for residential. As per the marketing plans, the company does not intend to sell plots, and thus all launches in future will be built up structures (apartments and villas).

The company has already completed sale of residential units in phase 1. Also, the various educational institutes (academics to begin in 2009), hotels, convention centres, healthcare facilities, etc would also start operations by 2009. Thus, the entire Phase 1 development is expected to be completed by end CY09.

ENTRY GATE AT LAVASA



INTERNAL ROADS



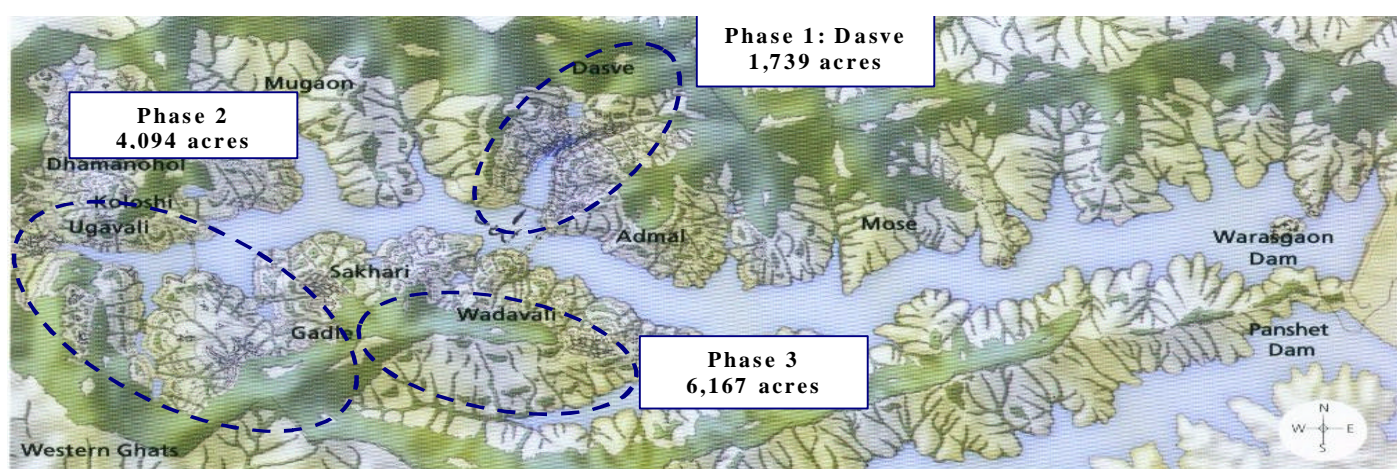
Source: Motilal Oswal Securities

**4) Phase 2 development expected to start from 2010:**

Development of Lavasa township is planned to be done in three phases, with Phase II development expected to start from 2010 onwards. Phase I involves development of 1,739 acres of land at Dasve as education, tourist and business destination. Phase II and III includes development of 4,094 acres and 6,167 acres of land respectively.

Of the 12,500 acres of land, the company has already acquired and registered ~8,500 acres in the name of Lavasa Corporation, while balance 4,000 acres has been contracted and is under various stages of acquisition. On completion of all phases, the project expects a permanent resident population of 100,000 and floating population (tourists) of 1m per annum.

LAVASA: DEVELOPMENT PLAN



Source: Company

**Lavasa to attain self financing post Phase 1 development**

Lavasa Corporation has spent Rs7b till September 2007 on the development of the basic infrastructure facilities. The investment has been financed through debt Rs4.5b, equity Rs2.5b.

The total investment for phase 1 is estimated at Rs12b, which is likely to be funded through debt of Rs4.5b, equity Rs2.5b, land sale Rs1.5b and through strategic investor Rs3b. HCC is currently evaluating various options including private equity to raise financing.

**Significant valuation upside exists**

We have currently valued Lavasa project assuming development of 5,000 acres (out of 12,500 acres, FSI of 0.4x) at Rs5m/acre. We thus arrive at a value of Rs25b, which based on development area of 150msf, translates into an NPV of Rs167/sq ft. However, there exists significant upside potential, given the current price of Rs2,950/sq ft and construction cost of ~Rs1,500/sq.ft (including land acquisition cost). This entails a gross profit of Rs1,000/sq ft+, and net profit at Rs700/sq ft+.

## Hindustan Construction: an investment profile

### Background

Established in 1926 by the Walchand Hirachand group, HCC is one of the oldest and largest construction companies in India with pre-qualification skills and proven execution capabilities across sectors like power, roads, bridges, ports, water irrigation and supply, urban infrastructure and pipelines. HCC specializes in the construction of technologically complex and long-gestation period projects. HCC has successfully and gradually transformed from a civil engineering contractor to an integrated EPC executor.

### Key investment arguments

- ☞ Possesses pre-qualifications and proven execution capabilities across sectors; will benefit from large ticket sized orders in hydro and nuclear sectors
- ☞ Has the youngest fleet of specialized equipments, skilled manpower, in-house fabrication facility and EPC execution capabilities
- ☞ Lavasa project could be value accretive, and 10% increase in FSI can enhance shareholder returns by 100%.

### Key investment risks

- ☞ Focus on key large projects increases the project specific risks
- ☞ Retention of experienced manpower is a challenge

#### COMPARATIVE VALUATIONS

		HIND.CON.	PATEL	NCC
P/E (x)	FY08E	52.1	35.5	37.7
	FY09E	27.0	25.9	25.4
P/BV (x)	FY08E	3.8	5.6	3.9
	FY09E	3.4	4.7	3.5
RoE (%)	FY08E	8.9	15.3	13.3
	FY09E	13.2	18.0	14.5

#### SHAREHOLDING PATTERN (%)

	SEP-07	JUN-07	SEP-06
Promoter	47.0	47.0	47.0
Domestic Inst	17.3	13.3	11.7
Foreign	15.2	16.4	21.0
Others	20.5	23.3	20.3

### Recent developments

- ☞ Completed the sale of 300 units launched for Phase 1 soft launch at Lavasa, Total revenues of Rs3b.

### Valuations and view

- ☞ At CMP of Rs201/sh, HCC quotes at reported PER of 52x FY08 and 27x FY09. Adjusted for value of real estate (Rs89/sh), stock quotes at 28.8x FY08 and 14.9x FY09. Maintain **Buy**.

### Sector view

- ☞ Increased government commitment towards infrastructure projects has led to several large projects taking off the ground
- ☞ We notice a trend of margin expansion, driven by changing composition of order book and higher margins at bidding stage

#### EPS: MOST FORECAST VS CONSENSUS (RS)

	MOST FORECAST	CONSENSUS FORECAST	VARIATION (%)
FY08	3.9	3.8	1.7
FY09	7.4	6.1	21.5

#### TARGET PRICE AND RECOMMENDATION

CURRENT PRICE (RS)	TARGET PRICE (RS)	UPSIDE (%)	RECO.
201	200	-	Buy

#### STOCK PERFORMANCE (1 YEAR)





INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
<b>Net Sales</b>	<b>14,873</b>	<b>19,870</b>	<b>23,576</b>	<b>32,642</b>	<b>44,425</b>
Change (%)	40.6	33.6	18.7	38.5	36.1
Construction Exps.	11,814	16,011	18,370	24,772	33,713
Staff Cost	954	1,314	2,087	2,744	3,550
Office and Site Establish. Exps	546	716	967	1,420	1,538
<b>EBITDA</b>	<b>1,559</b>	<b>1,829</b>	<b>2,153</b>	<b>3,707</b>	<b>5,624</b>
% of Net Sales	10.5	9.2	9.1	11.4	12.7
Depreciation	453	524	797	923	1,188
Interest	395	414	620	1,300	1,481
Other Income	56	461	199	421	6
Share of turnover in JV	-17	31	244	45	80
<b>PBT</b>	<b>750</b>	<b>1,383</b>	<b>1,179</b>	<b>1,950</b>	<b>3,041</b>
Tax	10	135	386	474	1,003
Rate (%)	13	9.7	32.8	24.3	33.0
<b>Reported PAT</b>	<b>740</b>	<b>1,248</b>	<b>793</b>	<b>1,476</b>	<b>2,037</b>
Extra-ordinary Income (net of e)	82	404	247	418	1
<b>Adjusted PAT</b>	<b>658</b>	<b>844</b>	<b>595</b>	<b>1,058</b>	<b>2,037</b>
Change (%)	84.3	28.3	-29.4	77.6	92.5

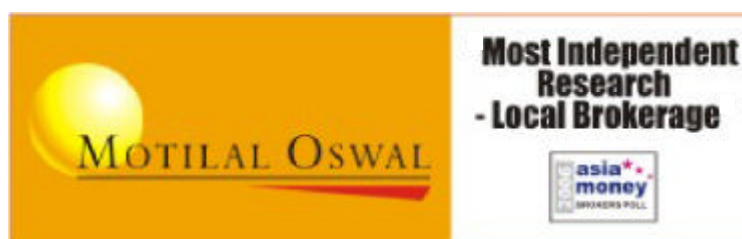
BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
Share Capital	229	256	256	274	274
Reserves	3,300	8,642	8,785	14,364	15,937
<b>Net Worth</b>	<b>3,530</b>	<b>8,898</b>	<b>9,041</b>	<b>14,638</b>	<b>16,211</b>
Loans	4,257	11,959	15,511	11,484	16,296
Deferred Tax Liability	725	677	855	855	855
<b>Capital Employed</b>	<b>8,511</b>	<b>21,535</b>	<b>25,407</b>	<b>26,978</b>	<b>33,362</b>
Gross Fixed Assets	6,208	7,728	11,012	13,775	16,275
Less: Depreciation	2,305	2,807	3,550	4,473	5,661
<b>Net Fixed Assets</b>	<b>3,903</b>	<b>4,921</b>	<b>7,462</b>	<b>9,301</b>	<b>10,613</b>
Capital WIP	478	1,074	1,513	750	750
Investments	1,899	1,265	2,286	5,162	7,162
<b>Curr. Assets</b>	<b>7,721</b>	<b>22,387</b>	<b>23,062</b>	<b>23,523</b>	<b>30,999</b>
Inventory	5,833	10,307	17,386	16,992	23,125
Debtors	31	28	5	7	10
Cash & Bank Balance	875	10,060	2,084	1,600	1,202
Loans & Advances	982	1,991	3,476	4,813	6,550
Other Current Assets	0	1	111	111	111
<b>Current Liab. &amp; Prov.</b>	<b>5,489</b>	<b>8,112</b>	<b>8,916</b>	<b>11,758</b>	<b>16,162</b>
Creditors	4,039	5,910	6,796	9,162	12,469
Other Liabilities	1,167	1,830	1,643	2,000	2,500
Provisions	283	372	477	596	1,193
<b>Net Current Assets</b>	<b>2,232</b>	<b>14,275</b>	<b>14,146</b>	<b>11,764</b>	<b>14,837</b>
<b>Application of Funds</b>	<b>8,511</b>	<b>21,535</b>	<b>25,407</b>	<b>26,978</b>	<b>33,362</b>

E: MOSt Estimates

RATIOS					
Y/E MARCH	2005	2006	2007	2008E	2009E
<b>Basic (Rs)</b>					
<b>Adjusted EPS</b>	<b>2.9</b>	<b>3.3</b>	<b>2.1</b>	<b>3.9</b>	<b>7.4</b>
Growth (%)	610	14.7	-35.3	810	92.5
Cash EPS	4.8	5.3	5.2	7.2	11.8
Book Value	15.4	34.7	35.3	53.4	59.1
DPS	0.6	0.7	0.7	1.1	1.5
Payout (incl. Div. Tax.)	212	16.4	28.4	22.8	22.8
<b>Valuation (x)</b>					
P/E (standalone)		610	94.2	52.1	27.0
Cash P/E		37.6	38.3	27.8	17.1
EV/EBITDA		29.2	30.1	17.5	12.5
EV/Sales		2.7	2.8	2.0	1.6
Price/Book Value		5.8	5.7	3.8	3.4
Dividend Yield (%)		0.3	0.4	0.5	0.7
<b>Profitability Ratios (%)</b>					
RoE	25.5	13.6	6.1	8.9	13.2
RoCE	15.4	11.8	6.6	12.2	14.7
<b>Turnover Ratios</b>					
Debtors (Days)	1	1	0	0	0
Inventory (Days)	143	189	269	190	190
Creditors. (Days)	125	135	135	135	135
Asset Turnover (x)	2.0	1.3	1.0	1.2	1.5
<b>Leverage Ratio</b>					
Debt/Equity (x)	1.2	1.3	1.7	0.8	1.0

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2005	2006	2007	2008E	2009E
<b>PBT before Extraordinary Items</b>	<b>750</b>	<b>1,383</b>	<b>1,179</b>	<b>1,950</b>	<b>3,041</b>
Add : Depreciation	453	524	797	923	1,188
Interest	395	414	620	1,300	1,481
Less : Direct Taxes Paid	10	135	386	474	1,003
(Inc)/Dec in WC	639	-2,858	-7,847	1,898	-3,470
<b>CF from Operations</b>	<b>2,226</b>	<b>-672</b>	<b>-5,638</b>	<b>5,597</b>	<b>1,236</b>
(Inc)/Dec in FA	-1,139	-2,139	-3,776	-2,000	-2,500
(Pur)/Sale of Investments	-1,413	634	-1,022	-2,876	-2,000
<b>CF from Investments</b>	<b>-2,552</b>	<b>-1,504</b>	<b>-4,798</b>	<b>-4,876</b>	<b>-4,500</b>
(Inc)/Dec in Networth	1,284	4,278	-247	4,458	0
(Inc)/Dec in Debt	61	7,702	3,551	-4,026	4,812
Less : Interest Paid	395	414	620	1,300	1,481
Dividend Paid	157	205	225	337	464
<b>CF from Fin. Activity</b>	<b>794</b>	<b>11,362</b>	<b>2,460</b>	<b>-1,205</b>	<b>2,866</b>
<b>Inc/Dec of Cash</b>	<b>468</b>	<b>9,186</b>	<b>-7,976</b>	<b>-484</b>	<b>-398</b>
Add: Beginning Balance	407	875	10,060	2,084	1,600
<b>Closing Balance</b>	<b>875</b>	<b>10,060</b>	<b>2,084</b>	<b>1,600</b>	<b>1,202</b>

E: MOSt Estimates



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**Hindustan Construction**

1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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