

**COMPANY'S INSIGHT**
**Approval to New Arbitration Measures: Augurs Well:**

Niti Aayog's cabinet has approved measures to review construction sector seems to be in favor of HCC. Under the measures approved by the Cabinet Committee on Economic Affairs, Government agencies would pay 75% of the arbitral award amount to the contractors in those cases where the award is challenged. The company has claims receivables of INR 31.8bn in its favor of which the company expects to get 75% of the amount i.e. approx INR 24bn in near terms. It is expected that the gross debt of approx INR 49bn will come down ahead on account of debt restructuring & claim settlement. This will boost the liquidity in the construction sector & will help in revival of stalled projects as the release of claim amount would reduce the debt & will be used for working capital requirement.

**Order Book Standing Strong: 5x TTM Sales:**

The total orders inflow during FY16 stood at INR 57.6bn. The total order book post Q1FY17 stood at Rs 174.6bn in which orders worth INR 44.3bn received during July'2016 of which order of INR 25.2bn for Mumbai Metro Line-3. The total order book is expected to cross INR 230bn post conversion of L1 orders which will provide strong revenue visibility.

**Valuation Outlook:**

We are expecting the earnings for FY17E/18E as 15%/86%, which is on account of reduction in interest cost. The order backlog which include L1 stood at 5x of TTM sales which provides better visibility over the medium term. It is expected that better clarity on the core construction business will be led by increase in profitability and reduction in debt during FY16-18E, where net D/E is expected to decline to 1.4x in FY18E from 2.6x in FY15, which seems well for HCC. The payment of the arbitration awarded claims by the government will be a one of the major key driver of reduction in debt going ahead. We maintain a 'BUY' with a SOTP target price of Rs 46.

**KEY FINANCIALS:**

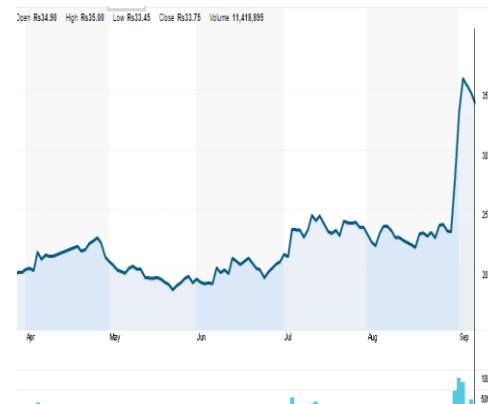
Particular (INR mn)	FY14	FY15	FY16	FY17E	FY18E
Revenue	40,395	41,267	40,661	44,402	49,447
EBITDA	6,407	7,737	8,112	7,637	7,947
EBITDA margin (%)	15.9	18.7	19.9	17.2	16.1
Adj. Net profit	806	816	850	856	2,090
EPS (Rs)	1.0	1.0	1.1	1.1	2.7
RoE (%)	6.6	6.2	5.2	4.5	10.2
P/E (x)	26.6	26.2	25.2	25.0	10.3
P/BV (x)	1.7	1.5	1.2	1.1	1.0
EV/EBITDA (x)	10.5	9.0	8.6	8.5	7.1

**07/09/2016**
**SECTOR: CIVIL CONSTRUCTION &  
CONTRACTING**
**Stock Summary:**

Particular	
CMP (INR)	33.90
<b>Target Price (INR)</b>	<b>46</b>
Potential Upside	35%
O/S No. of Shares (cr.)	77.92
Market Cap. (cr.)	2703.68
Equity Cap. (cr.)	77.92
52 Week High	37.85
52 Week Low	16.55
Face Value	1
NSE Code	HCC
BSE Code	500185

**Share Holding Pattern:**

Particular	Mar-16
Promoters	36.07%
Public (FII+DII)	63.93%
Others	0.00%
<b>TOTAL</b>	<b>100.00%</b>

**Stock Snippet:**


### PAT is Expected to Jump 2.5x Over the Year's i.e. FY 16-18E:

The order backlog which stands at 5x of TTM sales, which includes L1 project will provide a better visibility over the medium term. It is expect that revenues are to grow by a CAGR of 10% during FY16-18E which is led by the strong order backlog and pick-up in execution in EPC projects. It is also expected that EBITDA margin will stand at 17.2%/16.1% for FY17E/18E. The PAT is expected to have a growth which is significantly up by 2.5x over FY16-18E, which is led by sharp decline in interest cost on account of debt reduction.

### Improving Balance Sheet, Key Trigger:

The company is having claims receivables of INR 31.8bn in its favor up to Aug 2016. The payment of these claims by the government will stand to be the key driver of reduction in debt going ahead. We expect the standalone gross debt to come down to INR 30.8bn in FY18E from INR 49bn in FY16. The debt reduction would help in reduction in interest cost for the company going ahead. The interest coverage ratio is expected to improve from 1.2x in FY16 to 1.64x by FY18E.

### Order Inflows & Order Backlog:

Particular (INR Mn)	3QFY15	4QFY15	1QFY16	2QFY16	3QFY16	4QFY16	1QFY17
Order backlog	143,070	144,510	139,200	169,880	162,900	181,230	174,650
YoY (%)	6.9	1.4	0.2	24.2	13.9	25.4	25.5
Order inflow	9,128	8,631	0	27,080	9,860	20,700	1,590
YoY (%)	-58.0	-17.4	-100.0	350.6	8.0	139.8	

**FINANCIAL STATEMENTS:**
**Profit & Loss Statement:**

Particular (INR mn)	FY14	FY15	FY16	FY17E	FY18E
Net Sales	40,395	41,267	40,661	44,402	49,447
% growth	5.3	2.2	(1.5)	9.2	11.4
Operating expenditure	33,988	33,530	32,549	36,765	41,500
<b>EBITDA</b>	<b>6,407</b>	<b>7,737</b>	<b>8,112</b>	<b>7,637</b>	<b>7,947</b>
% growth	67.1	20.8	4.8	(5.9)	4.1
Depreciation	1,446	1,503	1,359	1,545	1,604
Other income	2,028	1,551	1,741	1,710	1,677
<b>EBIT</b>	<b>6,989</b>	<b>7,785</b>	<b>8,494</b>	<b>7,802</b>	<b>8,020</b>
Interest	6,079	6,511	6,899	6,525	4,900
Exceptional items	-	-	(265)	-	-
<b>PBT</b>	<b>910</b>	<b>1,273</b>	<b>1,331</b>	<b>1,277</b>	<b>3,120</b>
Tax	103	457	481	422	1,030
<b>Reported PAT</b>	<b>806</b>	<b>816</b>	<b>850</b>	<b>856</b>	<b>2,090</b>
Extra-ord (inc)/exp	-	-	-	-	-
Adjusted PAT	806	816	850	856	2,090
% growth	-	1.3	4.1	0.7	144.3

**Balance Sheet:**

Particular (INR mn)	FY14	FY15	FY16	FY17E	FY18E
Cash & cash equivalents	1,470	964	908	966	671
Trade receivables	16,929	24,169	26,687	17,317	10,878
Inventories	36,587	35,678	36,205	38,603	40,670
Loans & advances	13,969	14,804	19,965	21,008	22,428
Other assets	4,291	5,809	3,103	2,971	3,160
Investments	6,900	6,929	5,924	5,647	6,247
Fixed Assets	9,204	7,910	6,708	6,807	6,053
<b>Total assets</b>	<b>89,348</b>	<b>96,263</b>	<b>99,500</b>	<b>93,318</b>	<b>90,107</b>
Current liabilities & provisions	15,707	17,121	15,630	16,395	18,200
Other liabilities	12,600	14,477	15,040	15,871	18,015
Deferred tax liabilities (net)	237	681	1,162	1,264	1,513
Debt	48,170	50,109	49,040	40,304	30,804
Total liabilities	76,714	82,388	80,871	73,834	68,533
Shareholders' equity	607	646	779	779	779
Reserves & surpluses	12,027	13,229	17,849	18,705	20,795
Shareholders' funds	12,634	13,875	18,628	19,484	21,574
<b>Total Equity and Liabilities</b>	<b>89,348</b>	<b>96,263</b>	<b>99,500</b>	<b>93,318</b>	<b>90,107</b>

**Cash flow Statement:**

Particular (INR mn)	FY14	FY15	FY16	FY17E	FY18E
<b>PBT</b>	<b>910</b>	<b>1,273</b>	<b>1,331</b>	<b>1,277</b>	<b>3,120</b>
Depreciation	1,446	1,503	1,359	1,545	1,604
Interest/Financial Charges	6,079	6,511	6,899	6,525	4,900
Other income	(1,231)	(1,220)	(1,768)	(1,690)	(1,656)
Other non-cash adjustments	(805)	(267.3)	112.20	-	-
Tax paid	1,128	(123)	(29)	(319)	(780)
<b>Change in working capital</b>	<b>(2,497)</b>	<b>(3,844)</b>	<b>(4,194)</b>	<b>7,657</b>	<b>6,711</b>
<b>Cash flow from operating activities</b>	<b>5,031</b>	<b>3,833</b>	<b>3,710</b>	<b>14,995</b>	<b>13,900</b>
(Incr) / decr in capital expenditure	(317)	(296)	(237)	(850)	(850)
(Incr) / decr in investments	18	(205.2)	(173)	277	(600)
Others	13	(451)	1,151	1,690	1,656
<b>Cash flow from investing activities</b>	<b>(286)</b>	<b>(952)</b>	<b>740</b>	<b>1,117</b>	<b>206</b>
Incr / (decr) in borrowings	1,862	4,422	2,787	(8,736)	(9,500)
Issuance of equity	-	(26.4)	3,903	-	-
Dividend paid	(1)	(1.6)	(1.30)	-	-
Interest paid	(5,997)	(5,874)	(7,243)	(6,525)	(4,900)
Others	(130)	(1,907)	(3,951)	(793.80)	-
<b>Cash flow from financing activities</b>	<b>(4,266)</b>	<b>(3,386)</b>	<b>(4,506)</b>	<b>(16,055)</b>	<b>(14,400)</b>
<b>Net change in cash</b>	<b>478</b>	<b>(506)</b>	<b>(56)</b>	<b>57</b>	<b>(294)</b>
<b>Opening Cash</b>	<b>991</b>	<b>1,470</b>	<b>964</b>	<b>908</b>	<b>966</b>
<b>Closing Cash</b>	<b>1,470</b>	<b>964</b>	<b>908</b>	<b>966</b>	<b>671</b>

**Ratios:**

Particular (%)	FY14	FY15	FY16	FY17E	FY18E
EBITDA margin	15.9	18.7	19.9	17.2	16.1
EBIT margin	17.3	18.9	20.9	17.6	16.2
Net profit margin	1.9	1.9	2.0	1.9	4.1
Dividend payout ratio	0.0	0.0	0.0	0.0	0.0
Net debt: equity (x)	3.7	3.5	2.6	2.0	1.4
RoCE	11.7	12.4	12.7	12.0	14.0
RoE	6.6	6.2	5.2	4.5	10.2

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