

# Hindustan Construction

## Phoenix Rises

**Poised to reclaim last glory: 10-year slog improves financial health**

Once the toast of India's infrastructure space, Hindustan Construction Company (HCC IN) saw its fortunes wither away post FY11 due to the policy paralysis and delayed decision-making by the government, which also dealt a serious blow to the construction industry. After a decade and a slew of measures, including debt restructuring, dispute settlement and non-core asset monetization, the company is ready to flex its muscles, as India bulks up on large infra opportunity. HCC's 10-decade-old experience of executing in-house complex & marquee projects, 26% of hydro power capacity and 60% share of India's civil nuclear power capacity positions it to capture on INR 1.5tn nuclear opportunity.

**Stars align for growth: debt burden starts to lessen**

Peak consolidated debt including accrued interest was INR 122bn in FY15, which reduced by 71% to INR 35bn in FY24. Peak standalone debt of INR 62bn in FY22 fell by 45% to INR 34bn in FY24 and stabilized. Standalone finance cost declined to INR 5.4bn in FY24 vs INR 9.5bn in FY22. We expect net worth to turn positive from FY26 (peak negative of INR 13bn in FY21). We are optimistic the company will move into a sustainable high growth phase thereafter. The *Vivaad Se Vishwas* Scheme to help in faster recovery of outstanding awards worth INR 23bn in favor of HCC. The historical average award to cash conversion time is four years with average collection at ~87% of claim amount.

**Pipeline trends: INR 100bn inflows in FY25; rising 15% thereafter**

Recent credit ratings upgrade and removal of restrictions on bank guarantee limits allow HCC to bid for new contracts. It is in L1 position on INR 45bn orders, bids under evaluation of INR 104bn, and pipeline of INR 464bn across power, hydro, roads, nuclear and transportation. We expect INR 90bn inflows in FY25E vs guidance of INR 100bn, increasing by 15% pa for the next two years. Partnerships with PE investors would help the firm bid for long-term PPP projects, leading to less strain on balance sheet.

## Valuation

Given past experience and large opportunity landscape, we remain hopeful of turnaround in financials from FY25 and further strengthening from FY26. We expect a standalone revenue and EBITDA CAGR of 20% each during FY24-27E with an earnings CAGR at 50%, due to lower interest cost. We initiate on HCC with a **Buy** rating and a TP of INR 63, implying 65% upside. Our TP is based on an SOTP valuation; we assign INR 42 for core construction business at 13x avg FY26-27E P/E (at a 10% discount to peer average), value of wholly owned subsidiaries, HICL and Steiner AG, at INR 10 based on equity invested, awards in favor of HCC at current value of INR 9 and a 49% stake in PRPL at INR 2 based on third-party valuation. Senior management leadership team has been strengthened to drive the next leg of growth and promoter stake sustained at ~18.6% post rights issue (INR 3.5bn for growth capital).

### Key financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA Margin (%)	PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
FY24	50,427	(3.4)	6,870	13.6	1,786	(29.5)	1.2	1.2	17.7	32.5	13.0
FY25E	50,635	0.4	5,950	11.8	1,174	(34.3)	0.7	12.7	12.5	54.9	13.7
FY26E	74,285	46.7	10,400	14.0	4,710	301.4	2.8	42.6	17.0	13.7	8.6
FY27E	87,707	18.1	12,279	14.0	6,039	28.2	3.6	39.8	17.2	10.7	7.4

Note: pricing as on 7 June 2024; Source: Company, Elara Securities Estimate

**Rating: Buy**

**Target Price: INR 63**

**Upside: 65%**

CMP: INR 38 (as on 7 June 2024)

### Key data

Bloomberg /Reuters Code	HCC IN/HCC BO
Current /Dil Shares O/S (mn)	1,680/1,744
Mkt Cap (INR bn/USD mn)	64/772
Daily Volume (3M NSE Avg)	21,146,077
Face Value (INR)	1

**1 USD = INR 83.4**

Note: \*as on 7 March 2024; Source: Bloomberg

### Price & Volume



Source: Bloomberg

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Promoter	18.6	18.6	18.6	18.6
Institutional Investor	17.4	15.1	17.3	17.0
Other Investor	13.7	12.9	11.3	11.1
General Public	50.3	53.4	52.9	53.4

Source: BSE

Price performance (%)	3M	6M	12M
Nifty	3.5	11.4	24.4
HCC	13.2	38.2	130.3
NCC	25.5	85.7	164.8
Patel Engineering	(5.3)	(2.8)	109.0
ITD Cementation	27.8	56.3	164.2

Source: Bloomberg

### Price performance



Source: Bloomberg

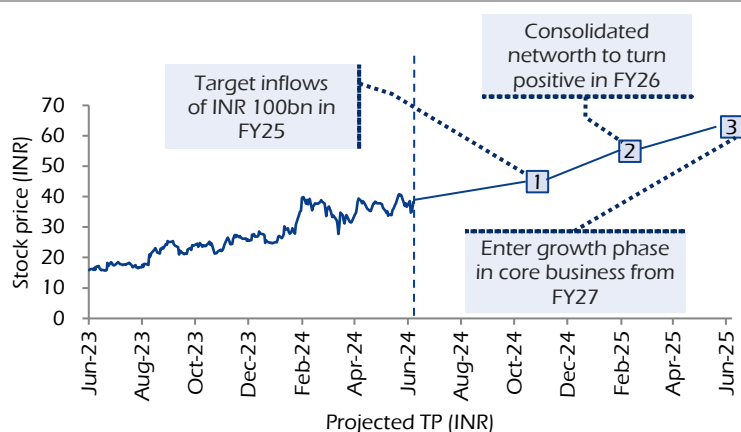
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Elara Securities (India) Private Limited

# Hindustan Construction

## Valuation trigger



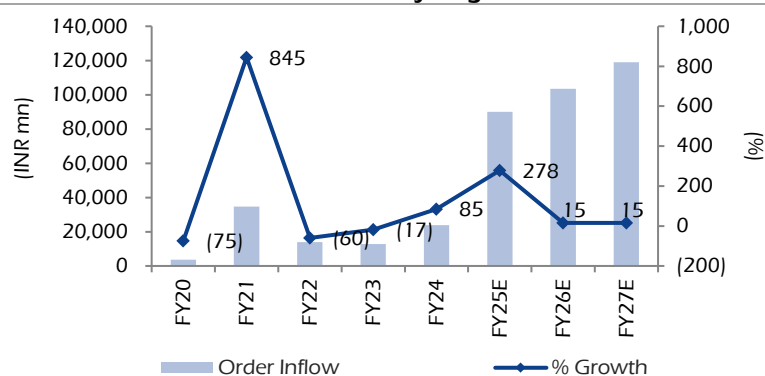
Source: Bloomberg, Elara Securities Estimate

## Valuation overview

(INR mn)		Value per share (INR)
PAT	Average FY26-27E	5,374
P/E (x)		13
Construction business		69,868 <b>42</b>
HICL - 100%	1.0x equity	12,940 <b>8</b>
Steiner - 100%	1.5x equity	3,485 <b>2</b>
Awards in favour of company		15,669 <b>9</b>
Prolific Resolutions - 49%		4,030 <b>2</b>
<b>Shares (mn)</b>		<b>1,680</b>
<b>Target price</b>		<b>63</b>

Source: Elara Securities Estimate

## Valuation driver – order inflows key to growth



Source: Elara Securities Estimate

## Investment summary

- In-house execution and 10-decade-long experience of completing complex and marquee projects offers an edge over peers
- Completion of debt restructuring resulting in significant reduction in consolidated debt and enhanced eligibility to bid for new projects
- Large market opportunity in key sectors, such as nuclear power, hydro power and transportation

## Valuation trigger

1. Target inflows of INR 100bn in FY25
2. Consolidated net worth to turn positive in FY26
3. Enter growth phase in core business from FY27

## Key risks

- Inability to bag order Inflows due to increased competition may curb growth
- Delay in recovery of arbitration awards and claims could derail repayment obligations
- Inefficient use of funds may impact working capital cycle and execution of current projects

## Our assumptions

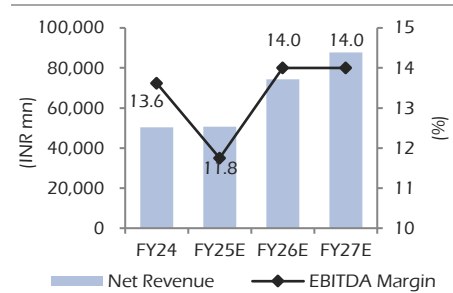
- Order inflows of INR 90bn in FY25E (guidance INR 100bn) and then growing by 15% pa for the next two years
- Average execution cycle of three years with a revenue CAGR of 20% during FY24-27E
- EBITDA margin expanding at 14% from FY26E once new projects hit execution threshold
- Debt to stabilize beyond FY24

**Standalone Financials (YE March)**

Income Statement (INR mn)	FY24	FY25E	FY26E	FY27E
Net Revenue	50,427	50,635	74,285	87,707
<b>EBITDA</b>	<b>6,870</b>	<b>5,950</b>	<b>10,400</b>	<b>12,279</b>
Add:- Non operating Income	1,250	875	892	910
OPBIDTA	8,120	6,825	11,292	13,189
Less :- Depreciation & Amortization	678	788	933	1,100
<b>EBIT</b>	<b>7,442</b>	<b>6,036</b>	<b>10,359</b>	<b>12,090</b>
Less:- Interest Expenses	5,429	4,597	4,580	4,680
Less:- Exceptional item	1,686	-	-	-
<b>PBT</b>	<b>327</b>	<b>1,440</b>	<b>5,780</b>	<b>7,409</b>
Less :- Taxes	1,913	266	1,069	1,371
<b>Reported PAT</b>	<b>1,786</b>	<b>1,174</b>	<b>4,710</b>	<b>6,039</b>
Adjusted PAT	100	1,174	4,710	6,039
Balance Sheet (INR mn)	FY24	FY25E	FY26E	FY27E
Share Capital	1,513	1,680	1,680	1,680
Reserves	7,698	7,626	11,149	15,857
<b>Net worth</b>	<b>9,211</b>	<b>9,306</b>	<b>12,829</b>	<b>17,537</b>
Borrowings	34,049	33,058	34,799	34,545
Other non-current liabilities	(1,723)	12,859	18,771	22,127
<b>Total Liabilities</b>	<b>41,537</b>	<b>55,223</b>	<b>66,399</b>	<b>74,209</b>
Net Block	2,288	3,539	4,726	6,057
Add:- Capital work in progress	8	2	2	2
Investments	16,321	11,942	11,442	10,942
Cash & bank balances	2,843	15,909	9,638	7,518
Net Working Capital	4,163	7,579	21,368	29,051
Other Assets	15,915	16,252	19,223	20,639
<b>Total Assets</b>	<b>41,537</b>	<b>55,223</b>	<b>66,399</b>	<b>74,209</b>
Cash Flow Statement (INR mn)	FY24	FY25E	FY26E	FY27E
Cash profit adjusted for non-cash items	6,642	5,683	9,331	10,908
Add/Less:- Working Capital changes	71	(3,476)	(13,789)	(7,683)
Operating Cash Flow	6,714	2,207	(4,458)	3,225
Less:- Capex	(25)	2,033	2,120	2,431
Free Cash Flow	6,739	174	(6,578)	795
Financing Cash Flow	(8,316)	7,975	1,887	(2,909)
Investing Cash Flow	1,787	4,917	(1,579)	(6)
<b>Net change in Cash</b>	<b>210</b>	<b>13,066</b>	<b>(6,271)</b>	<b>(2,120)</b>
Ratio Analysis	FY24	FY25E	FY26E	FY27E
<b>Income Statement Ratios(%)</b>				
Revenue Growth	(3.4)	0.4	46.7	18.1
EBITDA Growth	(3.6)	(13.4)	74.8	18.1
PAT Growth	(29.5)	(34.3)	301.4	28.2
EBITDA Margin	13.6	11.8	14.0	14.0
Net Margin	3.5	2.3	6.3	6.9
<b>Return &amp; Liquidity Ratios (%)</b>				
Net Debt/Equity (x)	3.39	1.84	1.96	1.54
ROE (%)	1.2	12.7	42.6	39.8
ROCE (%)	17.7	12.5	17.0	17.2
<b>Per Share data &amp; Valuation Ratios</b>				
Reported EPS (INR)	1.2	0.7	2.8	3.6
Adjusted EPS (INR)	0.1	0.7	2.8	3.6
EPS growth (%)	(29.5)	(40.8)	301.4	28.2
DPS (INR)	0.0	0.0	0.0	0.0
P/E (x)	32.5	54.9	13.7	10.7
EV/EBITDA (x)	13.0	13.7	8.6	7.4
EV/Sales (x)	1.8	1.6	1.2	1.0
Core Price/Book (x)	6.3	6.9	5.0	3.7

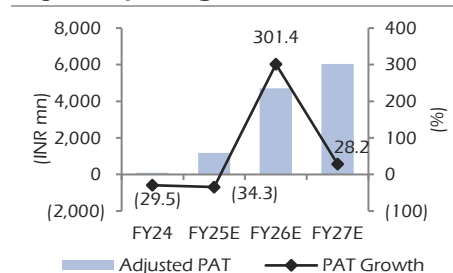
Note: pricing as on 7 June 2024; Source: Company, Elara Securities Estimate

**Revenue & margin trend**



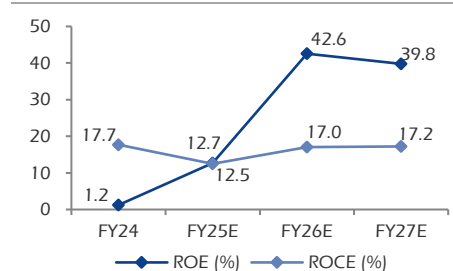
Source: Company, Elara Securities Estimate

**Adjusted profit growth trend**



Source: Company, Elara Securities Estimate

**Return ratios**



Source: Company, Elara Securities Estimate

## Poised to reclaim lost glory

- ❑ **From bad to worse: government policy paralysis leads to delay in decision-making**
- ❑ **Lost decade: circle of claims and arbitrations leading to debt pile-up**
- ❑ **Long road to health: restructuring, reorganization, asset sale and monetization**

### From bad to worse

During FY06-08 when India was clocking in 9% GDP growth, more than 35% was going into gross fixed capital formation (GFCF). Construction growth was in the double digits. But after FY08, the GFCF-GDP ratio fell sharply to 30%, due to Global Financial Crisis (GFC), leading to a drop in investment in power, highways, railways and ports. Construction growth declined to sub-5% in FY12. The industry was besieged with delays in decision-making during UPA 2.0 government, lack of clearances and policy paralysis. Apart from this, increased competition and unrealistically low pricing by peers to grab orders and

high interest rates dealt a serious blow to the industry and companies.

### Impact on HCC

HCC's small orderbook, low revenue growth & operating margin and high interest burden led to losses. The company's receivables from various projects were pushed to handle claims and arbitrations. Delay in realization of awards dragged its cash position and debt-servicing ability. This forced management to seek debt restructuring corporate debt restructuring (CDR) in FY13, Scheme for Sustainable Structuring of Stressed Assets (S4A) in FY17 and a Resolution Plan in FY23.

### Exhibit 1: Major events

Year	Major events
CY11-12	<ul style="list-style-type: none"> <li>▪ Government delay in decision-making pushed large receivables into claims and arbitration of INR 20bn forcing the company into debt restructuring</li> <li>▪ Reported net loss</li> </ul>
CY12-13	<ul style="list-style-type: none"> <li>▪ Implemented CDR - consortium of 27 banks agreed to restructure debt</li> <li>▪ Focus shifts to cost-cutting</li> </ul>
CY13-14	<ul style="list-style-type: none"> <li>▪ NDA government comes to power</li> <li>▪ Focus on inventory management and better operational efficiency</li> </ul>
CY14-15	<ul style="list-style-type: none"> <li>▪ HCC Concessions signed a definitive agreement to sell its stake in two SPV – Dhule Palesner in Maharashtra and Nirmal BOT in Andhra Pradesh</li> <li>▪ Raised INR 4bn through QIP, which was oversubscribed and utilized proceeds for cash flow and working capital requirement</li> </ul>
CY15-16	<ul style="list-style-type: none"> <li>▪ Sold stake in office space - 247 Park to Blackstone for INR 1.6bn</li> <li>▪ Realigned business strategy to focus on capital conservation, improve productivity and increase cash generation</li> </ul>
CY16-17	<ul style="list-style-type: none"> <li>▪ NDA government managed to break chokehold of stalled projects by giving faster clearances</li> <li>▪ New S4A (scheme for sustainable restructuring of stressed assets) introduced in 2016 and HCC became the first company to adopt it</li> <li>▪ Started to get new orders</li> </ul>
CY17-18	<ul style="list-style-type: none"> <li>▪ Arjun Dhawan (President at HICL) and part of promoter group takes over as Group CEO</li> <li>▪ New Arbitration and Conciliation Act, 2015 facilitates faster time-bound, decision-making in arbitration. This helped in reduction in debt and interest cost burden</li> </ul>
CY18-19	<ul style="list-style-type: none"> <li>▪ Rights issue of INR 4.9bn</li> <li>▪ HCC Concessions agreed to sell a 100% stake in Farakka Raiganj Highways (BOT project) to Cube Highways for INR 3.7bn</li> <li>▪ Sold 100% stake in the non-core business of Charosa Wineries to Quintela Assets and Grover Zampa Vineyards</li> <li>▪ Company writes off investment of INR 14bn in Lavasa with initiation of IBS proceedings under NCLT. Total tax adjusted impact of write-offs is INR 15bn, which adversely affected profit and net worth</li> <li>▪ Won Mumbai Coastal Road – package II in JV with Hyundai Development Corporation for INR 21bn (HCC share of 51%)</li> </ul>
CY19-20	<ul style="list-style-type: none"> <li>▪ COVID-19 struck worldwide which affected execution</li> <li>▪ Lenders of HCC initiated a carve out of INR 28bn of debt to a third-party controlled SPV (Prolific Resolution) along with arbitration and claims</li> </ul>
CY20-21	<ul style="list-style-type: none"> <li>▪ Debt carve-out resolution plan reached final stage</li> <li>▪ Completed sale of 100% stake in Farakka Raiganj to Cube Highways for EV of INR 15bn (equity value is INR 6bn, 1.85x equity invested of INR 3.2bn)</li> </ul>
CY21-22	<ul style="list-style-type: none"> <li>▪ HCC Concessions executed binding terms to sell Bahrapore Farakka Highways to Cube Highways at an EV of INR 13bn (Equity value of 6.7bn, 3.04x equity invested of INR 2.2bn)</li> <li>▪ Government launches National Infrastructure Pipeline</li> <li>▪ Ongoing reorganization of debt with lenders has received shareholders' approval</li> </ul>
CY22-23	<ul style="list-style-type: none"> <li>▪ Highest-ever turnover with improved performance across key parameters</li> <li>▪ HCC completed debt carve-out, supported by 23 banks and financial institutions</li> </ul>

Source: Company, Elara Securities Research

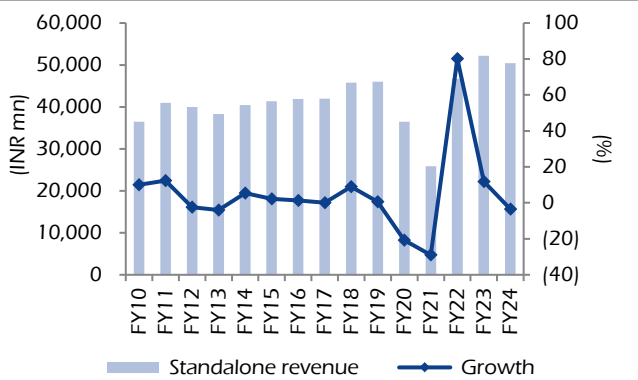
**Story in charts**

**Exhibit 2: Riding through peaks and troughs**



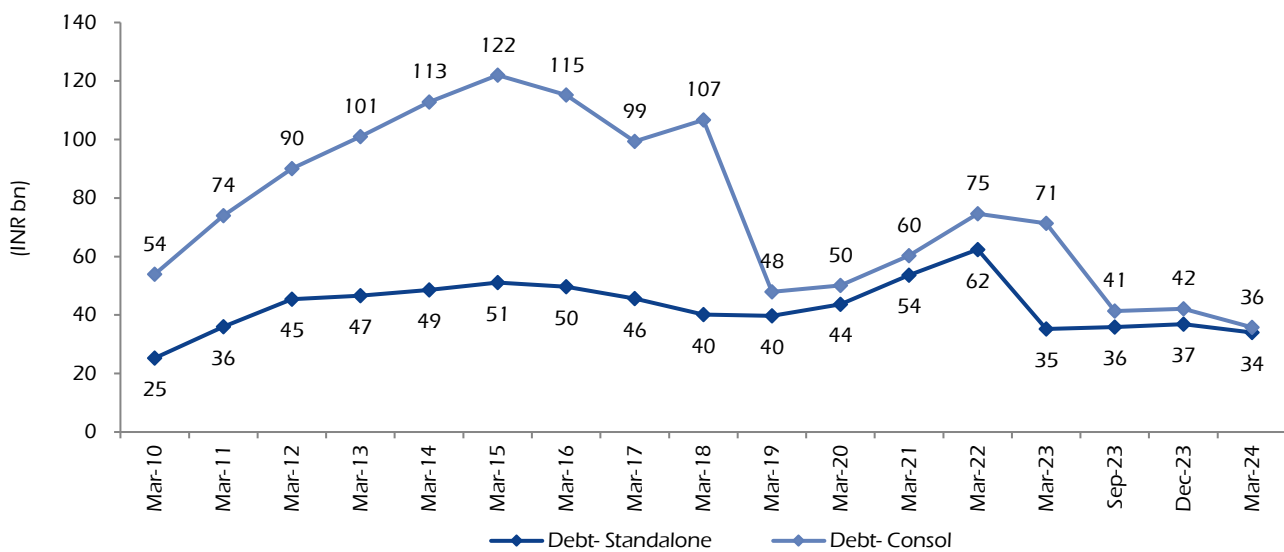
Source: Bloomberg, Company, Elara securities Research

**Exhibit 3: Revenue CAGR of 2% during FY10-24**



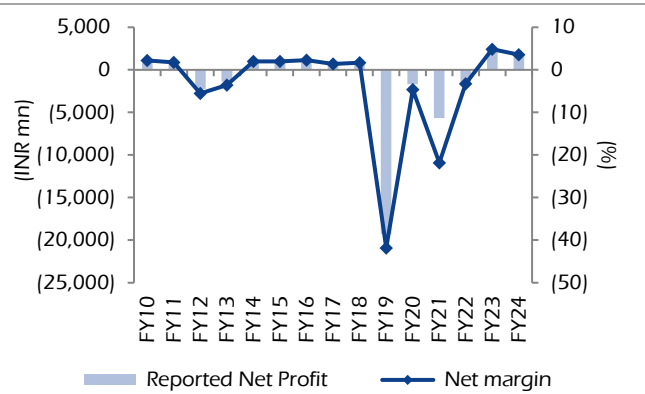
Source: Company, Elara Securities Research

**Exhibit 4: Improving historical debt trajectory**



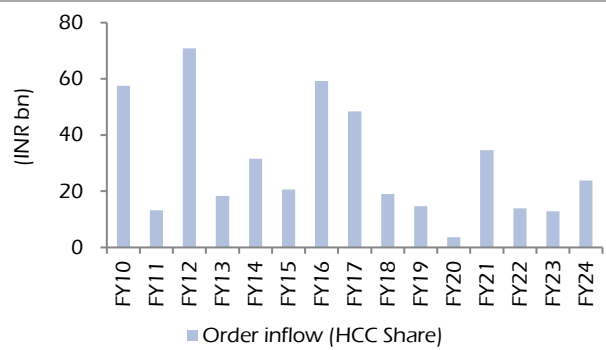
Source: Company, Elara Securities Research

**Exhibit 5: Muted earnings and losses due to high interest**



Source: Company, Elara Securities Research

**Exhibit 6: Patchy share of HCC order inflows**



Source: Company, Elara Securities Research



## Lost decade

### FY13 – restructuring plan – CDR

Post FY12, a slowdown in the construction industry and delay led to mounting arbitrations and claims, resulting in liquidity mismatch and default on dues. Thus, HCC entered into a master restructuring agreement (MRA) with lenders to restructure its existing facilities.

- Through the restructuring package, existing debt of INR 76bn was restructured and made repayable in 31 quarterly instalments
- Further, working capital exposure enhanced by INR 5bn to INR 15bn and non-fund based exposure was enhanced by INR 10bn to INR 53bn
- Furthermore, a funded term interest loan of ~INR 1.8bn for servicing term loans was sanctioned

### FY17 – restructuring plan – S4A

The corporate debt restructuring (CDR) was primarily dependent on realization of awards and claims money. However, continued delay in providing clearances led to low and non-realization of accumulated receivables. Due to challenges in debt servicing, lenders invoked the Scheme for Sustainable Structuring of Stressed Assets (S4A) to restructure HCC's existing facilities.

- Existing debt as on October 2016 of INR 51bn was bifurcated into sustainable funds-based debt of INR 27bn and unsustainable funds-based debt of INR 24bn, which was converted into equity shares and optionally convertible debentures (OCD) to lenders.

Management changes with Mr. Arjun Dhawan taking over as a Group CEO

### FY23 – resolution plan

Under S4A, additional non-funds-based limits of INR 15.5bn were sanctioned to revitalize business; however, a mere INR 3.3bn was released, resulting in stress on liquidity. Also, dispute resolution via commercial courts did not prove to be effective, leading to delay in realization of awards and claims. HCC came up with a resolution plan in June 2021 in accordance with the RBI directives to revise terms of its existing facilities and address the asset-liability timing.

- Through the resolution plan, HCC transferred lenders' liability aggregating to INR 28bn along with beneficial economic interest in arbitration awards and claims aggregating to INR 65bn with carrying value of INR 29bn as consideration to Prolific Resolution, an erstwhile subsidiary of the company
- Pursuant to such transfer, standalone debt on the books stood reduced to INR 35bn in FY24 from INR 62bn in FY22. Along with this, a significant reduction

in outstanding interest to ~INR 5.4bn from ~INR 9.5bn

- Unlike the earlier resolution plans, the present one is not dependent on awards and claims

## Long road to health

### Strategic investor onboarded in Prolific Resolution

Jadeja Investments, a part of the Ashapura Group based out of Ahmedabad, took a controlling stake of 51% in PRPL in FY24 and the rest is held by HCC. Debt repayments are back-ended and will commence from FY27, providing satisfactory pay-in and pay-out gap between realization of award proceeds and debt obligations. In 8MFY24, PRPL has already realized awards of INR 510mn.

### OCD conversion pushed to FY29

Post implementation of S4A and the current resolution plan, HCC lenders took approval from the Securities and Exchange Board of India (SEBI) to extend option of conversion of the optionally convertible debentures (OCD) until redemption, which was granted by the SEBI extending the period of conversion up to March 2029.

### No pending liability on account of Lavasa

The resolution plan also provides relief in terms of lenders liabilities and corporate guarantee against Lavasa (erstwhile subsidiary). The Lavasa Group (Lavasa and its subsidiary) had a debt of INR 60bn for which HCC had provided corporate guarantee and put option for INR 11.8bn of debt borrowed by it. HCC settled its corporate guarantee and put option for INR 11.8bn and INR 7.5bn respectively under the resolution plan implemented in September 2022 and issued non-convertible debentures (NCD), which is payable in 10 Years. Post this, the company has no liability on account of Lavasa debt.

### Credit rating upgrade

In December 2023, ICRA upgraded credit rating to BB (Stable) from B (Stable). CareEdge maintains BB (Stable) rating as on October 2023.

### Monetized non-core assets

- HCC concluded the sale of Baharampore-Farakka Highways to Cube Highways and Infrastructure in FY23 at an enterprise valuation of INR 13.2bn, which includes SPV debt of 6.4bn
- Steiner AG (subsidiary) signed a share purchase agreement with French company Demathieu Bard to sell its entire stake in Steiner Construction SA for ~INR 9.2bn. The transaction concluded in FY24 and proceeds will be utilized to strengthen its balance sheet and capitalize on various development projects

- Land sale for INR 950mn at Panvel in Maharashtra
- Conciliation and settlement of awards of INR 8bn during FY21-23
- Outstanding investments and inter-corporate deposits of INR 18.4bn in FY24, are set to reduce gradually once new business develops

**Strategic reorganization of subsidiaries**

- During FY23, HCC concluded the strategic reorganization of HCC Infrastructure (subsidiary), which included a merger scheme of HCC Concessions, HCC Power, HCC Energy, Dhule Palesnar Operations & Maintenance and HCC Infrastructure, thereby consolidating businesses

**Exhibit 7: Subsidiaries merged into HICL in FY23**

HCC Concessions
HCC Power
HCC Energy
Dhule Palesnar Operations & Maintenance

Source: Company, Elara Securities Research

- Currently, there are two key subsidiaries in the company: HCC Infrastructure (HICL) and Steiner AG

**HCC Infrastructure (wholly owned)**

HCC Infrastructure is entrusted with investment and development in the Public Private Partnership (PPP) mode under the BOT, BOOT and HAM models. It is debt-free company, which includes revenue from overloading at BFHL, FRHL and pending claim awards from RDHL.

**Steiner AG (wholly owned)**

Steiner AG is incorporated in 1915. It is a real estate developer which specializes in residential (48%) and commercial projects (52%) in Switzerland with headquarters in Zurich. The company operates an asset-light business model with a project pipeline across Switzerland. In CY21, it embarked on a reorganization, and, in 2023, it sold its construction business.

**Vivaad Se Vishwas – positive government initiative**

In September 2023, to address issues caused on account of backlog of old litigation cases, the Ministry of Finance introduced the *Vivad se Vishwas – II* (Contractual Disputes) Scheme with an aim to expedite dispute resolution, prevent significant financial loss for parties, encourage potential investors, bolster contract enforcement and establish a business-friendly environment. This is likely to be positive for the company.

Under this scheme, the Central government aims to resolve 500 cases with an estimated value of INR 1tn.

**Exhibit 8: Claims filed and awards in favor of HCC**

(INR bn)	FY24
Claims filed by HCC	59
Awards in favour of HCC	24

Source: Company, Elara Securities Research

**Raises INR 3.5bn via rights issue**

Recently, HCC undertook a rights issue of INR 3.5bn at a price of INR 21 per share, which was oversubscribed 250%. The number of shares increased 167mn from 1,513mn to 1,679mn and paid-up share capital rose by INR 170mn from INR 1.5bn to INR 1.7bn.

Funds are to be utilized for long-term working capital requirements and growth opportunities. Working capital requirement as on FY23 was INR 5.7bn and is set to increase to INR 21bn by FY25 as per the rights issue document.

The promoter group shareholding has been retained at ~18.6%.

## Focus shifts to core business

- ❑ Long tenure repayment schedule improves debt servicing ability
- ❑ 10 decades of experience in complex, marque projects in difficult terrain to provide an edge
- ❑ Large addressable market opportunity; guidance for INR 100bn inflows in FY25

## Core business strengthening

Peak consolidated debt, including accrued interest, was INR 122bn in FY15, which reduced by 71% to INR 35bn in FY24. Peak standalone debt of INR 62bn in FY22 fell 45% to INR 34bn in FY24 and stabilized thereafter. Standalone finance cost also declined to INR 5.0bn in FY24 vs INR 9.5bn in FY22.

### Exhibit 9: Debt as on FY24 at sustainable level

(INR bn)	March 2024
Standalone	33.5
Subsidiary	4.1
Consolidated	37.6

Source: Company, Elara Securities Research

### Exhibit 10: Guidance for standalone debt repayment schedule (principal plus interest)

FY25	FY26	FY27	FY28	FY29	FY30	FY31	FY32
5.3	9.4	6.6	7.3	11.0	3.8	2.8	2.8

Note: Figures in INR bn, the exhibit lists scheduled repayment and does not consider likely prepayment of up to INR 12bn through court bank guarantee transactions; Source: Company, Elara Securities Research

### Sources of cash for debt servicing

- Proceeds of rights issue
- Internal accruals
- Prepayment of debt through court bank guarantees
- Realization of awards
- Settlement of claims
- Planned equity fund raise

## Ten decades in EPC contracting

With nearly 10 decades of experience, HCC has completed marquee projects, such as the Bandra Worli Sea Link, the Mumbai Pune Expressway, and the Mumbai Metro. It has expertise in undertaking projects across complex terrains. Apart from this, other key projects underway include Mumbai's Coastal Road project and multiple corridors along the Chennai Metro, which are under execution.

Exhibit 11: 4.9-km-long Bogibeel Bridge in Assam



Source: Company annual report, Elara Securities Research

Exhibit 12: A 11.25km-long Pir Pranjal Railway Tunnel in Jammu



Source: Company annual report, Elara Securities Research

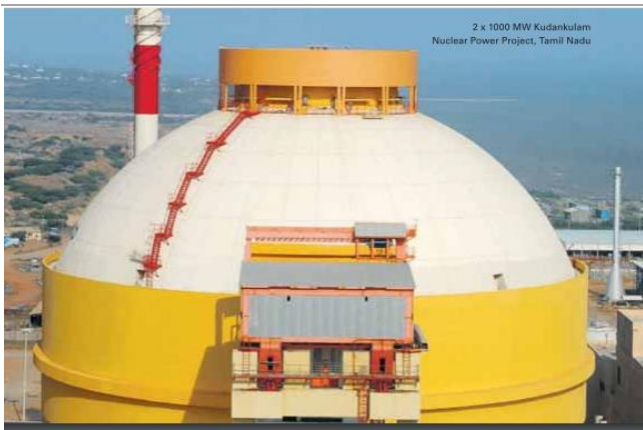
Exhibit 13: Bandra-Worli Sea Link



Source: Company annual report, Elara Securities Research



**Exhibit 14: Kudankulam Nuclear Power Plant**



Source: Company annual report, Elara Securities Research

**Exhibit 15: Asia's Longest Breakwater at Ennore in Tamil Nadu**



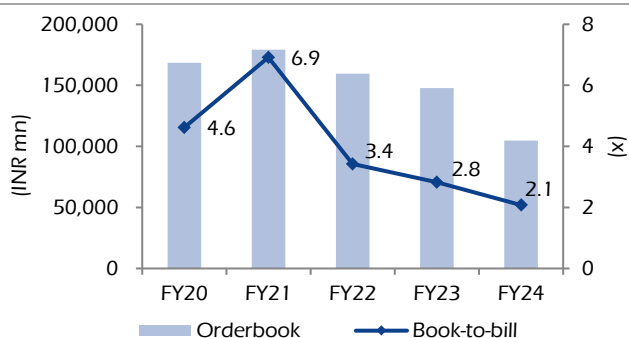
Source: Company annual report, Elara Securities Research

**Current orderbook provides 2x revenue visibility**

Orderbook as on March 2024 stands at INR 105bn with a book-to-bill visibility of 2.1x and slow-moving projects forming a mere 12% of orderbook.

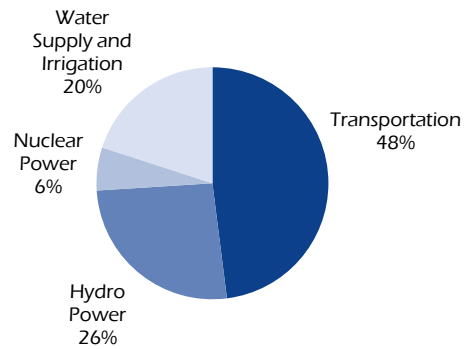
The company's key business development strategy is to consolidate orderbook in existing geographies and focus on high-value projects in less competitive sectors. Post the debt resolution plan in FY23, banks also have released bank guarantees, and the company is technically pre-qualified to bid for projects.

**Exhibit 16: Orderbook provides 2x revenue visibility**



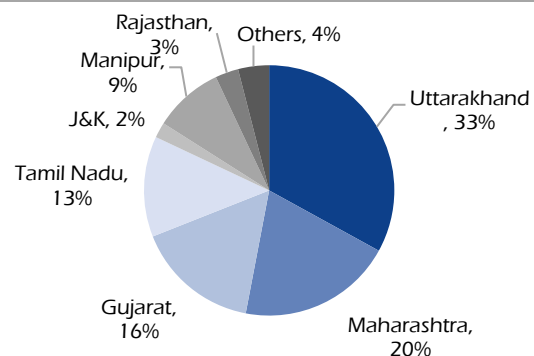
Source: Company, Elara Securities Research

**Exhibit 17: Diversified orderbook with focus on transportation**



Note: as on March 2024; Source: Company, Elara Securities Research

**Exhibit 18: Experience in executing projects pan-India**



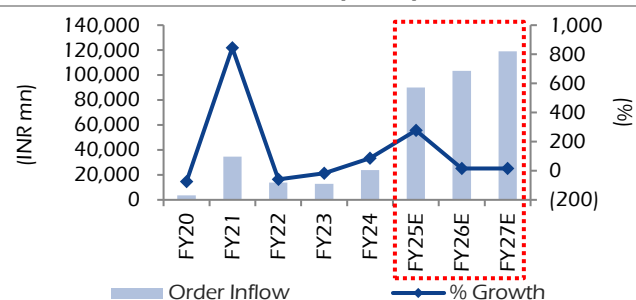
Note: as on March 2024; Source: Company, Elara Securities Research

**Inflow target INR 100bn in FY25**

In FY23, the company entered into a joint venture with Megha Engineering (Unlisted) won INR 36bn order (HCC 34% stake at INR 12bn) to construct underground station at BKC from the National High Speed Rail Corporation. As on FY24, the company has L1 position on orders worth INR 45bn in the hydro and transport sector, has submitted bids worth INR 104bn which are under evaluation, and has identified a pipeline of INR 464bn for future projects.

Management has an inflow target of INR 100bn for FY25 across railways, roads, metro and urban infrastructure. Recently, HCC has been exploring partnerships with private equity partners to bid for road PPP projects. It has set a target EBITDA margin of 13-14% for new orders.

**Exhibit 19: Order inflows to pick up**



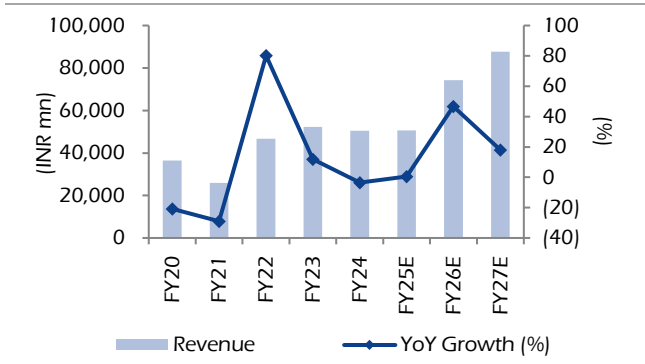
Source: Company, Elara Securities Estimate

# Hindustan Construction

## Strong in-house execution capacity

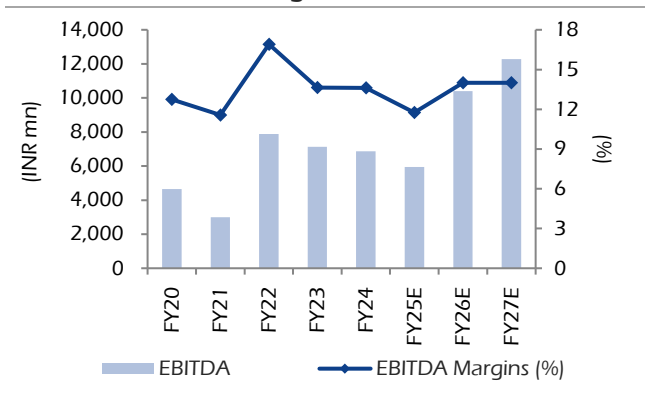
As on September 2023, the company has a fleet of 1,604 major construction equipment, including 45 hydraulic drilling rigs and eight tunnel-loading machines, worth INR 1.9bn. Key clients largely includes government agencies, such as NHAI, NHPC, IRCON, MORTH and DMRC. The Top 5 customers accounted for 29% of revenue as on FY23.

**Exhibit 20: Revenue CAGR of 20% during FY24-27E**



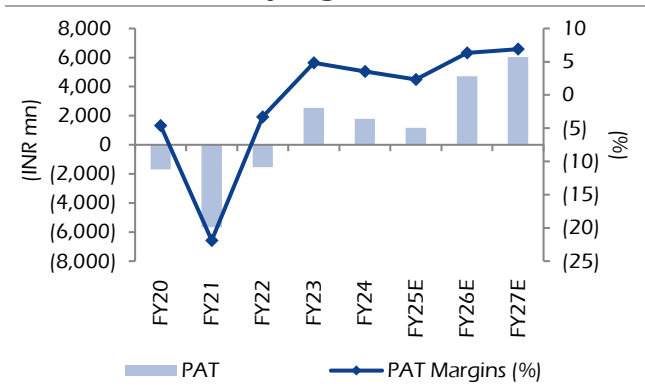
Source: Company, Elara Securities Estimate

**Exhibit 21: EBITDA margin to remain stable**



Source: Company, Elara Securities Estimate

**Exhibit 22: Profitability to grow on lower finance cost**



Source: Company, Elara Securities Estimate

## Large opportunity pipeline

Currently, the company has adequate bank funding limits available for new order inflows of INR 80-100bn. Incrementally, it has approached lenders to enhance bank guarantee limits to undertake new orders of INR 200bn, which is considered positive by lenders. Capex requirement for new projects is likely to be a mere 1.0-1.5% of new inflows.

### Large pipeline of NHAI road projects

For FY24, MORTH awarded 8,581km of projects (35% short of the target of 13,290km). The year FY25 is likely to witness strong awarding by MORTH, unveiling an ambitious 100-day plan to award 3,000km of highway projects.

NHAI too has a strong current pipeline of more than 150 projects worth INR 1.5tn. Additionally, it has identified 53 BOT projects worth INR 2tn and 35 TOT projects with approx. INR 1trn opportunity are likely to be floated over next 12-15 months.

### Nuclear power opportunity of INR 1.5tn

India's nuclear power capacity increased from 4,780MW during FY13-14 to 7,480MW currently; the government is planning to increase nuclear power capacity by 2.5x to 22,480MW by FY31-32. Demand for nuclear power is on an uptrend as it is a clean and environment-friendly source of electricity generation and available 24x7. It also has a role in meeting energy transition goal of net zero economy by CY70. Currently, the government is coming up with a large project – the Kaiga Nuclear Power – which has a civil construction portion of INR 50bn; HCC is hopeful of winning the project in FY25.

Currently, there are 23 nuclear power reactors are installed in India. Construction and commission of 10 reactors of 8,000MW is underway. In addition, pre-project activities of 10 reactors accorded sanction by the government has been initiated. These are scheduled for completion by FY31-32.

**Exhibit 23: Nuclear power reactors with approval and financial sanction**

State	Location	Project	Capacity (MW)	Sanctioned cost (INR bn)
Haryana	Gorakhpur	GHAVP 3&4	2 x 700	1,050
Rajasthan	Mahi-Banswara	Mahi Banswara 1&2	2 x 700	
		Mahi Banswara 3&4	2 x 700	
Karnataka	Kaiga	Kaiga 5&6	2 x 700	496
Madhya Pradesh	Chutka	Chutka 1&2	2 x 700	
Tamil Nadu	Kudankulam	KKNPP 5&6	2 x 1,000	

Source: Department of Atomic Energy, Elara Securities Research

## Beginning of a new journey

- ❑ **New order inflows key for growth; forecast inflows of INR 90bn in FY25E**
- ❑ **Consolidated net worth erosion to end and turn positive in FY26**
- ❑ **Initiate with Buy and a TP of INR 63, implying 65% upside**

### Fresh order inflows crucial

We expect order inflows of INR 90bn in FY25E with a growth rate of 15% beyond FY25E, given that debt restructuring is over and increased focus on strengthening the core business. We expect a revenue CAGR of 20% during FY24-27E with average EBITDA margin sustained at 14% for new projects. We expect an earnings CAGR at 50% during FY24-27E, because of healthy growth in operational performance and low interest burden.

### Net worth to turn positive in FY26

Consolidated net worth has been negative since FY16 and reduced from a peak erosion of INR 13.2bn in FY21 to INR 1.6bn in FY24. With Steiner AG construction business spin off, the sale of non-core assets in subsidiaries and ramp-up in the core business, consolidated net worth is likely to turn positive from FY26.

#### Exhibit 24: Consolidated net worth to turn positive in FY26

	FY19	FY20	FY21	FY22	FY23	FY24	FY25E	FY26E
Equity share capital	1,513	1,513	1,513	1,513	1,513	1,513	1,680	1,680
Other equity	(11,513)	(9,105)	(14,689)	(8,105)	(8,657)	(3,198)	(2,024)	2,686
<b>Net worth</b>	<b>(10,000)</b>	<b>(7,592)</b>	<b>(13,176)</b>	<b>(6,592)</b>	<b>(7,144)</b>	<b>(1,685)</b>	<b>(345)</b>	<b>4,366</b>

Source: Company, Elara Securities Estimate

### Initiate with Buy and TP of INR 63

We initiate on HCC with a **Buy** rating and a TP of INR 63, implying 65% upside. Our TP is based on an SOTP valuation:

- We value the core construction business at INR 42 which is on P/E multiple of 13x on average FY26-27E earnings, which is at ~10% discount to peer average
- HCC Infrastructure Company (HICL – 100% subsidiary) earns revenue in terms of overloading charges at two BOT road assets (FY23 revenue at INR 247mn and total recovery to date of INR 3.7bn), which are already monetized to Cube Highways. The entity would be bidding for road projects on a PPP mode. We value the entity on 1x equity invested basis at INR 8 per share
- Another 100% owned subsidiary – Steiner AG (real estate development) – has a portfolio of CHF 5.5bn with 57 projects under development. We value the business at 1.5x equity invested basis at INR 2 per

share, which is conservative compared to peer valuation in the European Union markets

- Awards in favor of the company worth INR 23bn are valued at a net present value (NPV) of INR 16bn i.e., INR 9 per share, assuming recovery of cash over next 5 years and discounted at the rate of 12%
- The company owns a 49% stake in Prolific Resolution (PRPL) where post repayment of debt obligation, equity returns for Jadeja Investments (a 51% partner) is capped at an internal rate of return (IRR) of 32.5%. Incremental surplus cashflow in terms of receipts from arbitration and claims will accrue to HCC. We value HCC stake based on third-party valuation report on the entity dated May 2024 at INR 4.0bn which is INR 2 per share

#### Further scope for asset monetization

- Two land parcels in prime locations in Mumbai

#### Exhibit 25: SOTP valuation

(INR mn)		Value Per share (INR)
PAT	Average FY26-27E	5,374
P/E (x)		13
<b>Construction business</b>		<b>69,868</b>
HICL - 100%	1.0x equity	12,940
Steiner - 100%	1.5x equity	3,485
Awards in favour of company		15,669
Prolific Resolution - 49%		4,030
<b>Shares (mn)</b>		<b>1,680</b>
<b>Target price</b>		<b>63</b>

Source: Elara Securities Estimate

### Key risks to our call

- As on March 2024, promoter shareholding is ~18.6% and ~85.3% is pledged with banks & financial institutions for loans availed by the company
- The company has contingent liabilities of INR 4.7bn
- Inability to bag order Inflows due to increased intensity may restrict growth
- Delay in recovery of arbitration awards and claims
- Inefficient use of funds may impact the working capital cycle and execution of current projects

## Exhibit 26: Shareholding structure as on 31 March 2024

Shareholding (%)	Q1FY24	Q2FY24	Q3FY24	Q4FY24
Promoter	18.6	18.6	18.6	18.6
Institution	17.4	15.2	17.2	17.0
India Insight Value Fund	1.3	1.3	1.3	1.4
Vanguard Total index fund	-	1.1	1.3	1.2
HDFC Multi Cap Fund	-	2.0	2.0	1.9
Public	64.0	66.3	64.1	64.4

Source: BSE, Elara Securities Research

## Exhibit 27: Peer valuation

Company	BB ticker	Rating#	MCap	CMP#*	TP	Upside	Sales (INR mn)			EBITDA (INR mn)			PAT (INR mn)		
			(INR bn)	(INR)	(INR)		FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
NCC	NJCC IN	Accumulate	204	325	302	(7)	1,83,144	2,06,274	2,26,822	16,481	20,215	23,590	6,315	10,042	12,647
ITD Cementation*	ITCE IN	Not Rated	75	437	NA	NA	77,179	93,069	1,08,194	7,451	9,427	11,406	2,737	3,844	5,153
HCC	HCC IN	Buy	64	38	63	65	50,427	50,635	74,285	6,870	5,950	10,400	1,786	1,174	4,710

Company	P/E (x)			P/B (x)			EV/EBITDA (x)			ROE (%)		
	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E	FY24	FY25E	FY26E
NCC	30.7	19.3	15.4	3.0	2.6	2.3	12.4	10.3	8.4	10.9	13.7	14.9
ITD Cementation*	27.5	19.6	14.6	5.0	4.0	3.1	10.1	8.0	6.6	20.0	21.9	24.0
HCC	32.5	54.9	13.7	6.3	6.9	5.0	13.0	13.7	8.6	1.2	12.7	42.6

Note: \*#pricing as on 7 June 2024, Source: Company, \*Bloomberg for Not Rated companies, Elara Securities Estimate



## Company Description

Hindustan Construction Company (HCC IN), incorporated in 1926, is engaged in engineering and construction of infrastructure projects with core competency in design, engineering and execution of large & complex projects of national importance in transportation, power, marine, water and industrial. The company has contributed to 26% of India's hydro power capacity, 60% of nuclear power capacity (civil), 4,036 lane km of roads and expressways, 395 bridges and 360km of complex tunnelling as on FY24.

### Exhibit 28: Board of Directors and Management

Management	Designation	Experience
Ajit Gulabchand	Non-Executive Chairman & Mentor effective 1 April 2023	Chairman & Managing Director for the past four decades until CY23. Ex-Chief Executive Officer of Indian Hume Pipe and Managing Director of Ravalgaon Sugar Farm
Arjun Dhawan	Executive Vice Chairman effective 1 December 2022	HCC Group's ex-Chief Executive Officer and President & CEO of HCC Infrastructure. MBA from Harvard Business School and BA in Mathematics & Economics from Middlebury College
Jaspreet Singh Bhullar	Managing Director & Chief Executive Officer effective 1 April 2023	Bachelor's degree in Civil Engineering from Punjab Engineering College, Chandigarh & GDM (Technology Management) Degree from Deakin University, Melbourne
Girish Gangal	Chief Financial Officer	36 years of experience in the financial domain. Associated with HCC for the past 13 years in senior positions. Prior to this role, CFO for HCC E&C. Chartered Accountant and Law Graduate
Santosh Rai	Chief Business Officer	21 years of experience in the construction sector, with focus on business development, construction management, planning and execution of infrastructure projects. Post Graduate Diploma in Advance Construction Management from the National Institute of Construction Management and Research (NICMAR), Pune

Source: Company, Elara Securities Research

## Key subsidiaries

### HCC Infrastructure (wholly owned)

HCC Infrastructure is entrusted with investment and development in the Public Private Partnership (PPP) mode under the BOT, BOOT and HAM models. It is debt-free company, which includes revenue from overloading at BFHL, FRHL and pending claim awards from RDHL

### Exhibit 29: HICL financials

(INR mn)	FY20	FY21	FY22	FY23	FY24
Turnover	150	22	626	91	950
PAT	649	-524	4,512	1,718	1,070

Source: Company, Elara Securities Research

### Steiner AG (wholly owned)

Steiner AG is incorporated in 1915. It is a real estate developer which specializes in residential (48%) and commercial projects (52%) in Switzerland with headquarters in Zurich. The company operates an asset-light business model with a project pipeline across Switzerland. In CY21, it embarked on a reorganization, and, in 2023, it sold its construction business.

### Exhibit 30: Steiner AG financials

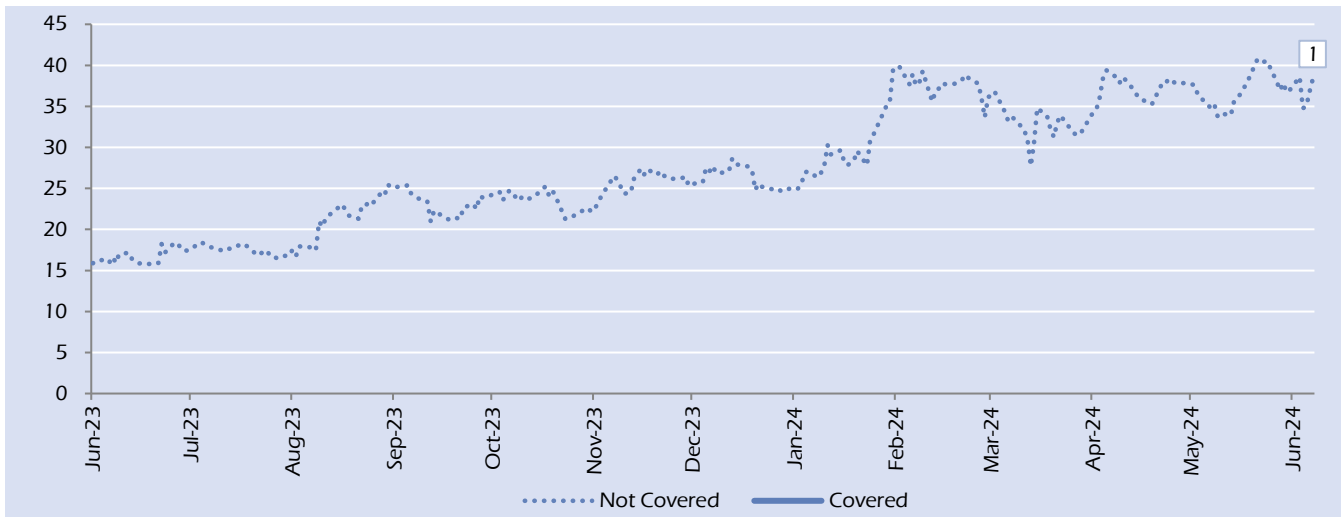
(INR mn)	FY20	FY21	FY22	FY23	FY24
Turnover	577,90	56,550	59,470	43,794	16,790
PAT	2,020	300	3,120	(3,520)	2,040
Order inflow	50,800	44,540	44,320	39,360	NA
Closing orderbook	95,840	1,02,250	80,410	85,720	41,437

Source: Company, Elara Securities Research

## Acronym and abbreviation

Abbreviation & Acronym	Description
BOT	Built operate & transfer
HAM	Hybrid annuity model
BOOT	Built own operate and transfer
TOT	Toll-Operate-Transfer
PPP	Public private partnership
CDR	Corporate debt restructuring
RP	Resolution plan
S4A	Scheme for Sustainable Structuring of Stressed Assets
GFC	2008 Global Financial Crisis
OCD	Optionally Convertible Debentures
MRA	Master restructuring agreement
NCD	Non-convertible debentures
IRR	Internal Rate of Return
NPV	Net Present Value
DMRC	Delhi Metro Rail Corporation
IRCON	Indian Railway Construction International Ltd
NHPC	National Hydroelectric Power Corporation
MORTH	Ministry of Road Transport & Highways
NHAI	National Highway Authority of India
MSIDC	Maharashtra State Industrial Development Corporation
MSRDC	Maharashtra State Road Development Corporation
SEBI	Securities and Exchange Board of India

### Coverage History



Date	Rating	Target Price	Closing Price
1 7-Jun-2024	Buy	INR 63	INR 38

### Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

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