

Debt reduction factored in

- Q3FY18 standalone revenue grew by 30.4% YoY to ₹12.3bn (6.9% above estimates) owing to ₹3.0 bn arbitration claims. Excluding claims of ₹ 3.0bn (₹ 340mn in Q3FY17), core revenue grew 2.3% YoY to ₹9.3 bn.
- EBITDA margin trimmed 375bps YoY to 13.3% (254bps below estimates) due to lower EBITDA margin of 18% vs. 47% on claims recovery. Excluding claims, core EBITDA margin declined 414bps YoY to 11.8%.
- Fall in interest cost to 22.6% YoY /7.5% QoQ to ₹1.5 bn. There was a massive jump in Reported PAT by 588.1% YoY to ₹313 mn (41.6% below estimates).
- HCC could reduce its debt by ₹6.5 bn during 9MFY18 despite arbitration cash flow of ₹12.7 bn due to encashment of ₹1.8 bn bank guarantee by IRCON and adjustment of ₹1.2 bn by NHPC.
- Our FY18E/ FY19E/ FY20E revenue ₹43.7 bn/ ₹50.2 bn/ ₹58.5 bn (up 4.2%/ 14.7%/ 16.5% YoY) includes ₹9.4 bn/ ₹8 bn/ ₹10 bn claims awards and 1.4%/ 15%/ 20% YoY growth on core revenue. We have considered 24% (earlier 35%) EBITDA margin on claims award and 12% (earlier 13%) on core EBITDA margin in FY18E/ FY19E/ FY20E.
- Interest cost will see a major decline in FY18E/ FY19E/ FY20E to ₹6.3 bn/ ₹4.6 bn/ ₹3.2 bn vs. ₹7.7 bn (FY17) owing to ₹27.4 bn debt reduction during FY18-20E. Hence, Adj. PAT is expected to post 80.6% CAGR over FY17-20E.
- We have lowered our debt reduction estimates to ₹27.4 bn over FY17-20E (₹30 bn over FY17-19E) due to delay in cash receipt against claims.
- We valued construction business based on FY20E core EV/ EBITDA as it does not contain any claims and is sustainable. However, due to limited upside potential, we maintain 'Accumulate' with a SOTP-based TP of ₹43.4 (Exhibit 1).

Q3FY18 Result (₹ Mn)

Particulars	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)
Total revenue	12,309	9,441	30.4	9,708	26.8
Operating expenditure	10,669	7,829	36.3	8,218	29.8
EBITDA	1,640	1,612	1.7	1,489	10.1
Depreciation	294	308	(4.8)	296	(0.6)
Operating profit	1,347	1,304	3.3	1,194	12.8
Other income	621	719	(13.7)	612	1.5
EBIT	1,967	2,023	(2.8)	1,806	9.0
Interest	1,508	1,947	(22.6)	1,631	(7.5)
EBT	460	76	505.4	175	162.6
Income Tax	146	30	381.6	59	148.1
Adj. Net income	313	45	588.1	116	169.9
			bps		bps
EBITDA Margin (ex. O.I.)	13.3	17.1	(375)	15.3	(202)
EBITDA Margin (in. O.I.)	18.4	24.7	(633)	21.6	(328)
NPM (%)	2.4	0.4	197	1.1	130
Tax/PBT (%)	31.9	40.1	(819)	33.7	(185)
Const. Cost/Rev. (%)	76.0	69.8	620	70.9	518

CMP	₹ 39
Target / Upside	₹ 43/10%
BSE Sensex	35,907
NSE Nifty	11,017

Script Details

Equity / FV	₹ 1,015mn/₹ 1/-
Market Cap	₹ 40bn
	USD 626mn
52-week High/Low	₹ 48/32
Avg. Volume (no)	15,994,694
NSE Symbol	HCC
Bloomberg Code	HCC IN

Shareholding Pattern Dec'17(%)

Promoters	27.7
MF/Banks/FIs	11.4
FIIIs	9.6
Public / Others	51.4

Valuation (x)

	FY18E	FY19E	FY20E
P/E	43.5	14.6	9.5
EV/EBITDA	12.2	9.0	6.9
ROE	3.4	9.3	12.8
ROCE	11.4	14.5	17.5

Estimates (₹ mn)

	FY18E	FY19E	FY20E
Net Sales	43,726	50,164	58,461
EBITDA	6,385	7,696	8,718
PAT	920	2,746	4,200
EPS	0.9	2.7	4.1

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Robust order book enhances revenue visibility

HCC bagged fresh orders worth ₹2.5 bn/₹20.3 bn in Q3FY18 / 9MFY18 (down 35.4%/59.5% YoY). Post Q3FY18, it became L1 in a project worth ₹2.5 bn, taking YTD FY18 order inflow to ₹22.8 bn. HCC's order book stands at ₹202.7 bn (5.5x TTM core revenue). Thus, we believe HCC's current order book (₹202.7 bn) and fresh inflows of ₹41.7 bn/ ₹50 bn in FY19E and FY20E will not only enhance its revenue visibility but will also drive the revenue growth.

Update on Lavasa

The Joint Lenders' Forum invoked SDR on 20 September, 2017 for conversion of part debt into equity. Due diligence is under process with few investors. If after successful restructuring, HCC derives some equity value for Lavasa then it would act as positive for HCC stock price. Currently, we have not assigned any value for Lavasa.

Exhibit 1: SOTP Valuation

Component	Valuation Method	₹/sh	%
Standalone cons business	8x FY20E core EV/EBITDA	34.9	83.8
Road BOTs	1xBV	5.0	11.6
Steiner AG	1xBV	3.5	8.1
Total		43.4	100.0
CMP		39.5	
Potential upside		10.0%	

Source: Company, DART

Downside risk to our Valuation

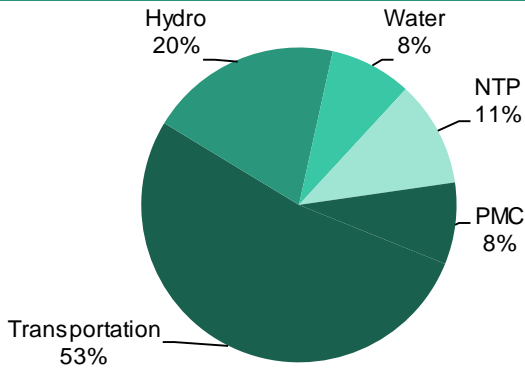
Delay in arbitration cash receipt: Further delay in getting money for arbitration awards vs. our estimates with lower than 50% success for claims under arbitration will strain HCC's working capital and will have a negative impact on the company's revenue and profitability.

Execution delays: Delay in project due to hindrance at the client's end or other regulatory bottlenecks could adversely affect the company's revenue and profitability.

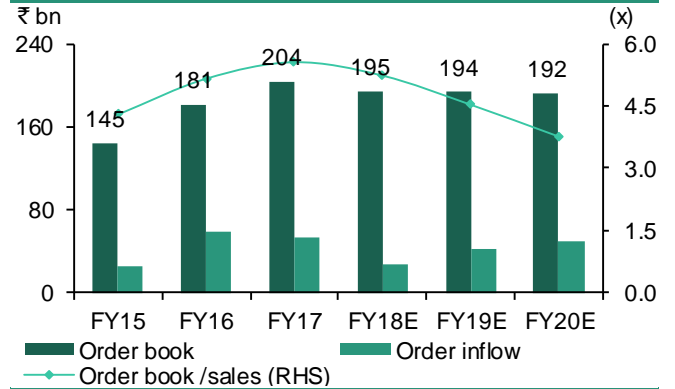
Exhibit 2:Q3FY18 Performance (Standalone)

Y/E Mar (₹ mn)	Q3FY18	Q3FY17	YoY (%)	Q2FY18	QoQ (%)	9MFY18	9MFY17	YoY (%)
Revenue	12,309	9,441	30.4	9,708	26.8	31,323	28,377	10.4
Consumption of materials	2,582	1,972	30.9	1,945	32.8	7,550	5,893	28.1
Staff cost	1,080	935	15.5	1,103	(2.0)	3,221	2,855	12.8
Construction expenses	6,779	4,622	46.7	4,935	37.4	14,931	13,427	11.2
Other expenses	228	300	(23.9)	236	(3.6)	791	912	(13.2)
Total expenditure	10,669	7,829	36.3	8,218	29.8	26,494	23,087	14.8
EBITDA	1,640	1,612	1.7	1,489	10.1	4,830	5,290	(8.7)
Depreciation	294	308	(4.8)	296	(0.6)	878	970	(9.5)
Operating profit	1,347	1,304	3.3	1,194	12.8	3,952	4,320	(8.5)
Other income	621	719	(13.7)	612	1.5	1,837	1,922	(4.4)
EBIT	1,967	2,023	(2.8)	1,806	9.0	5,789	6,242	(7.3)
Interest	1,508	1,947	(22.6)	1,631	(7.5)	4,960	5,644	(12.1)
EBT	460	76	505.4	175	162.6	829	598	38.7
Provision for current tax	146	30	381.6	59	148.1	255	213	19.8
Net income	313	45	588.1	116	169.9	574	385	49.1
EPS (₹)	0.3	0.04	588.1	0.1	169.9	0.6	0.4	49.1
			<i>bps</i>		<i>bps</i>			<i>bps</i>
EBIDTA Margin (excl. O.I.)	13.3	17.1	(375)	15.3	(202)	15.4	18.6	(322)
EBIDTA Margin (incl. O.I.)	18.4	24.7	(633)	21.6	(328)	21.3	25.4	(413)
NPM (%)	2.4	0.4	197	1.1	130	1.7	1.3	46
Tax/PBT (%)	31.9	40.1	(819)	33.7	(185)	30.8	13.0	1,778
Construction cost/sales (%)	76.0	69.8	620	70.9	518	71.8	68.1	369

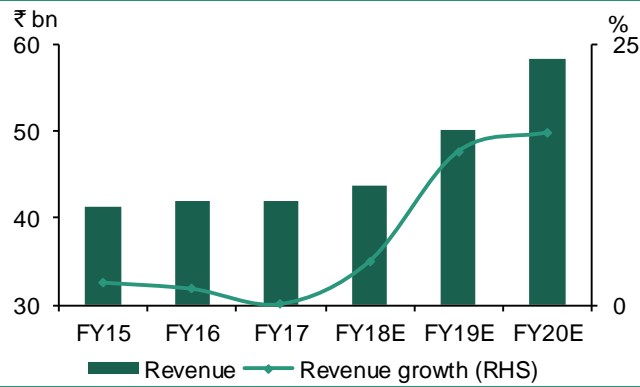
Source: Company, DART

Exhibit 3: Order book (₹203 bn) break-up


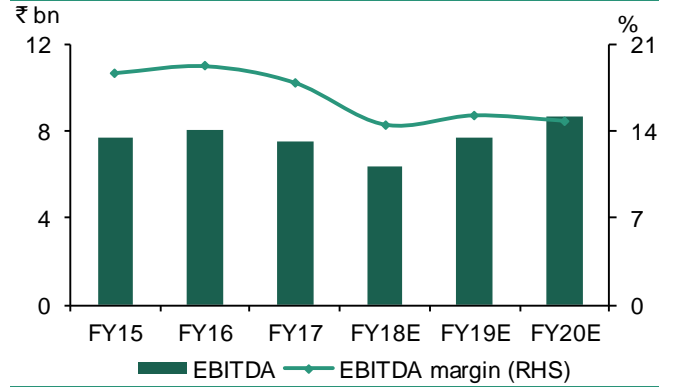
Source: DART, Company

Exhibit 4: Order book trend


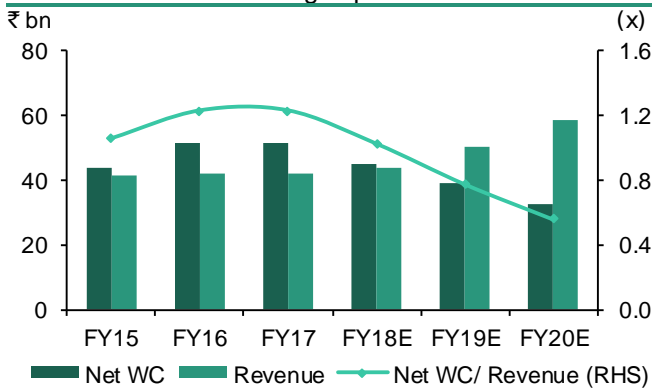
Source: DART, Company

Exhibit 5: Revenue CAGR of 11.7% over FY17-20E


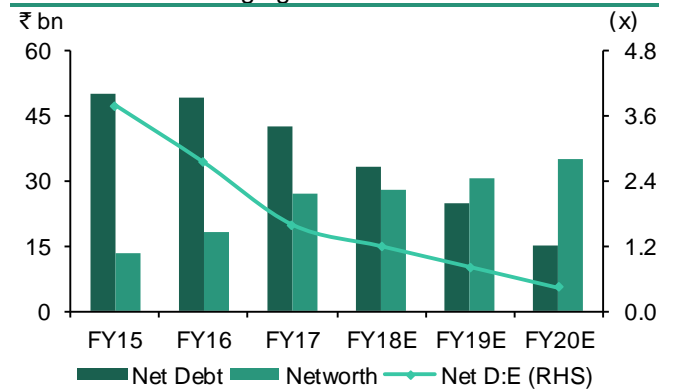
Source: DART, Company

Exhibit 6: EBITDA Margin trend


Source: DART, Company

Exhibit 7: Ease in working capital


Source: DART, Company

Exhibit 8: Deleveraging balance sheet


Source: DART, Company

Income Statement (Standalone) (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Revenue	41,959	43,726	50,164	58,461
Growth (%)	0.1	4.2	14.7	16.5
Total Expenditure	34,423	37,341	42,468	49,743
Consumption of materials	8,690	10,413	11,632	14,030
Construction Exp	20,577	21,426	24,830	29,028
Staff Cost	3,968	4,365	4,801	5,281
Other Expenses	1,188	1,137	1,204	1,403
Other Income	2,622	2,448	2,326	2,210
EBIDTA (Excl. OI)	7,536	6,385	7,696	8,718
Growth (%)	(6.8)	(15.3)	20.5	13.3
EBIDTA (Incl. OI)	10,158	8,833	10,022	10,928
Depreciation	1,253	1,179	1,272	1,328
EBIT	8,905	7,654	8,749	9,599
Interest	7,724	6,260	4,590	3,240
Exceptional items	(212)	0	0	0
Profit Before Tax	970	1,394	4,159	6,359
Tax	376	474	1,414	2,161
Net Profit	594	920	2,746	4,200
Adjustments	119	0	0	0
Adj. Net Profit	713	920	2,746	4,200
Growth (%)	(33.8)	29.0	198.5	52.9

Balance Sheet (Standalone) (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Sources of Funds				
Equity Capital	1,011	1,015	1,015	1,015
Reserves	25,889	27,002	29,747	33,943
Net Worth	26,900	28,018	30,762	34,958
Long Term Loans	32,481	24,820	18,820	12,320
Short Term Loans	11,486	9,780	7,780	4,280
Loan Funds	43,967	34,600	26,600	16,600
Deferred Tax Liability	232	385	468	595
Total Capital Employed	71,099	63,003	57,831	52,153
Applications of Funds				
Gross Block	19,899	22,221	23,221	24,221
Less: Accumulated Dep	13,944	15,123	16,396	17,724
Net Block	5,955	7,097	6,825	6,496
Capital Work in Progress	1,872	50	50	50
Investments	7,964	8,164	8,364	8,564
Current Assets, Loans & Advances				
Inventories	2,333	2,446	2,985	3,581
Sundry Debtors	35,156	33,923	32,761	35,901
Cash and Bank Balance	1,196	1,119	1,585	1,660
Loans and Advances	51,851	39,023	36,423	32,723
Other Current Assets	5,714	6,116	7,036	8,441
<i>sub total</i>	96,250	82,628	80,791	82,306
Less: Current Liabilities & Provisions				
Current Liabilities	39,411	33,246	36,439	43,502
Provisions	1,530	1,690	1,760	1,760
<i>sub total</i>	40,941	34,936	38,199	45,262
Net Current Assets	55,309	47,692	42,592	37,044
Total Assets	71,099	63,003	57,831	52,153

E – Estimates

Cash Flow (Standalone) (₹ mn)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
Profit before tax	970	1,394	4,158	6,357
Depreciation	1,253	1,179	1,272	1,328
Finance cost	7,724	6,260	4,590	3,240
Other income	(2,205)	(2,448)	(2,326)	(2,210)
Others	193	0	0	0
Direct taxes paid	(185)	(321)	(1,331)	(2,034)
Change in Working Capital	(1,355)	7,539	5,567	5,623
(A) CF from Operations	6,395	13,604	11,931	12,305
Capex	(1,956)	(500)	(1,000)	(1,000)
Free Cash Flow to Firm	4,439	13,104	10,931	11,305
Inc./ (Dec.) in Investments	168	(200)	(200)	(200)
Others	3	2,448	2,326	2,210
(B) CF from Investments	(1,785)	1,748	1,126	1,010
Issue of Equity/ Preference	8,086	198	0	0
Inc./ (Dec.) in Debt	(6,762)	(9,367)	(8,000)	(10,000)
Interest exp net	(5,692)	(6,260)	(4,590)	(3,240)
Dividend Paid (Incl. Tax)	(2)	0	0	0
Other	3	0	0	0
(C) CF from Financing	(4,368)	(15,429)	(12,590)	(13,240)
Net Change in Cash	242	(77)	467	75
Opening Cash balances	954	1,196	1,119	1,585
Closing Cash balances	1,196	1,119	1,585	1,660

Important Ratios (Standalone)

Particulars	Mar17	Mar18E	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	18.0	14.6	15.3	14.9
EBIDTA Margin (incl. O.I.)	24.2	20.2	20.0	18.7
EBIT Margin	21.2	17.5	17.4	16.4
Interest/EBIT	86.7	81.8	52.5	33.8
Tax/PBT	38.7	34.0	34.0	34.0
Net Profit Margin	1.7	2.1	5.5	7.2
(B) As Percentage of Net Sales				
Raw Material	20.7	23.8	23.2	24.0
Construction Expenses	49.0	49.0	49.5	49.7
Employee Expenses	9.5	10.0	9.6	9.0
Other Expenses	2.8	2.6	2.4	2.4
(C) Measures of Financial Status				
Debt / Equity (x)	1.6	1.2	0.9	0.5
Interest Coverage (x)	1.3	1.4	2.2	3.4
Average Cost of Debt (%)	16.4	15.9	15.0	15.0
Debtors Period (days)	306	283	238	224
Closing stock (days)	20	20	22	22
Working Capital (days)	383	459	312	183
Fixed Assets Turnover (x)	2.1	2.0	2.2	2.4
(D) Measures of Investment				
Diluted EPS (₹)	0.7	0.9	2.7	4.1
CEPS (₹)	1.8	2.1	4.0	5.5
DPS (₹)	0.0	0.0	0.0	0.0
Book Value (₹)	26.6	27.7	30.4	34.6
RoANW (%)	3.2	3.4	9.3	12.8
RoACE (%)	12.8	11.4	14.5	17.5
RoAIC (%)	14.6	13.2	17.2	21.4
(E) Valuation Ratios				
CMP (₹)	39	39	39	39
P/E (x)	56.1	43.5	14.6	9.5
Market Cap. (₹ Mn)	39,872	40,060	40,060	40,060
MCap/ Sales (x)	1.0	0.9	0.8	0.7
EV (₹ Mn)	85,956	78,186	69,308	60,037
EV/Sales (x)	2.0	1.8	1.4	1.0
EV/EBDITA (x)	11.4	12.2	9.0	6.9
P/BV (x)	1.5	1.4	1.3	1.1
FCFE Yield (%)	(20.2)	(6.3)	(4.1)	(4.8)
Dividend Yield (%)	0.0	0.0	0.0	0.0

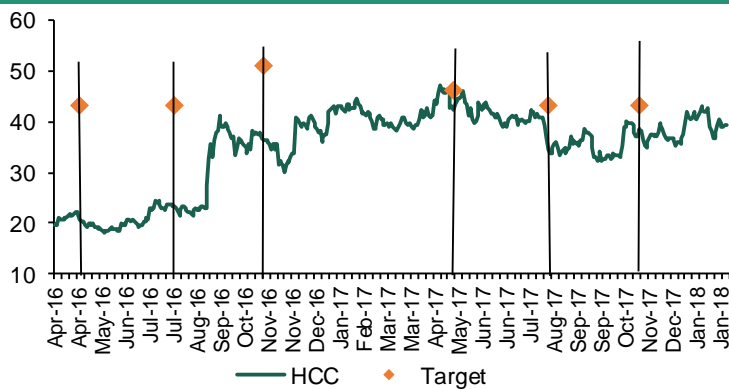
E – Estimates

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	Price (₹) *
Jul-16	Buy	43	23
Oct-16	Buy	51	36
May-17	Accumulate	46	43
Aug-17	Accumulate	43	40
Nov-17	Accumulate	43	39

* As on Recommended Date

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