

EVENT UPDATE

 Bloomberg: HCC IN
 Reuters: HCNS.BO

BUY
QIP – step in the right direction

HCC has successfully raised Rs4 bn through QIP at a price of Rs30 (Rs29 premium) per share and issued 133.3 mn new shares to the qualified institutions. Post the QIP, the company's equity shares increased to 779.2 mn which resulted in 20.6% equity dilution. We expect the entire proceeds of the QIP would be used to reduce its debt. Thus, we expect not only improvement in profitability by way of savings in interest costs but also de-leveraging balance sheet by way of lower debt:equity ratio. The ongoing improvement in fundamentals of the company and the QIP would enhance investor interest. We reiterate our BUY recommendation on the stock with revised SOTP target price of Rs55 (earlier Rs61).

Order book status

As on Q3FY15, HCC's order book stood at Rs143 bn (3.4x TTM sales, up 6.9% YoY and 4.6% QoQ). Currently, HCC is L1 in projects worth Rs43.4 bn. Robust order book (Rs143 bn) and expected fresh inflow of Rs48 bn/Rs55 bn in FY16E/FY17E, respectively will improve its revenue visibility.

Outlook and Valuation

We maintain our revenues and EBITDA margin for FY15E/FY16E/FY17E. Adj. PAT would be higher by 19.7%/21.5% for FY16E/FY17E due to savings in interest cost led by expected reduction in debt post QIP. However, change in EPS estimates by -17.1%/-0.8%/0.7% for FY15E/FY16E/FY17E is due to increase in number of equity shares to post QIP. HCC's improving claims recovery from its clients, focus on de-leveraging its balance sheet through sale of non-core assets (such as its 26% stake in 247 Park and a few mature road BoTs) will auger well for the company. Raising of equity amounting to Rs7.5 bn through an IPO of its subsidiary Lavasa coupled with QIP of Rs4 bn, will reduce its debt and improve profitability. Accordingly, we expect HCC's standalone debt to decline by Rs9 bn/Rs4.5 bn during FY16E/FY17E, respectively. Moreover, we expect an improvement in the company's net working capital days to 322 days by FY17E from 400 days in FY14/FY15E. Hence, we estimate HCC's net profit to surge to Rs2.1 bn in FY17E from Rs806 mn in FY14. Lavasa IPO will act as a key catalyst for re-rating of the stock. Hence, we maintain our 'BUY' rating on the stock with a revised SOTP target price of **Rs55** (Exhibit 1).

Key Financials

Y/E March (Rsmn)	FY13	FY14	FY15E	FY16E	FY17E
Revenue	38,371	40,395	43,708	45,423	49,032
EBITDA	3,834	6,407	8,064	7,145	7,678
EBITDA margin (%)	10.0	15.9	18.5	15.7	15.7
Adj. net profit	(1,532)	806	949	1,223	2,071
EPS (Rs)	(2.0)	1.0	1.2	1.6	2.7
RoE (%)	(12.4)	6.6	7.2	7.5	10.4
RoCE (%)	5.6	11.7	12.9	11.5	13.0
P/E (x)	NA	34.7	29.5	22.9	13.5
P/BV (x)	2.4	2.2	2.1	1.5	1.3
EV/EBITDA (x)	19.3	11.5	9.4	10.0	8.4

Source: Company, Karvy Stock Broking

Recommendation

CMP:	Rs36
Target Price:	Rs55
Previous Target Price:	Rs61
Upside (%)	53%

Stock Information

Market Cap. (Rs bn / US\$ mn)	23/373
52-week High/Low (Rs)	49/18
3m ADV (Rs mn /US\$ mn)	293/4.7
Beta	1.7
Sensex/ Nifty	28,885/8,778
Share outstanding (mn)	646

Stock Performance (%)

	1M	3M	12M	YTD
Absolute	1.8	25.1	90.5	21.7
Rel. to Sensex	1.7	18.9	49.7	15.9

Performance


Source: Bloomberg

Earning Revision

(%)	FY15E	FY16E	FY17E
Sales	-	-	-
EBITDA	-	-	-
EPS	↓7.1%	↓0.8%	↑0.7%

Source: Karvy Stock Broking

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Exhibit 1: SOTP valuation summary

Component	Valuation Method	Rs per share	%
Standalone construction business	9.5x FY17E EPS	25.3	45.9
Lavasa	20% discount to indicative IPO valuation	13.5	24.5
Road BoTs	1x BV	11.0	19.9
Steiner AG	1x FY14 BV	4.1	7.4
26% stake in 247 Park		1.3	2.3
Total		55.0	100.0
CMP		35.9	
Potential Up/ (Down) side (%)		53.3	

Source: Company, Karvy Stock Broking

Upside risk to our valuation

We have not factored in the company's land sale at Vikhroli and a higher valuation for the Lavasa IPO (we have considered 25% equity dilution and a 20% discount to the indicative IPO valuation) into our estimates.

Downside risk to our valuation

Failure of Lavasa IPO: If HCC is unable to successfully complete the Lavasa IPO, there could be a negative impact on investor confidence, as well as the company's profitability.

Stretched working capital: If HCC's working capital continues to be stretched, the company's revenue and profitability could be impacted, going forward.

Execution delays: Project delays due to any delay at the client's end or other regulatory bottlenecks could adversely affect HCC's revenue and profitability.

Delay in order intake: Any capex delay by the private and government sectors will lead to a delay in awarding of orders to HCC, thus negatively impacting its revenue and profitability.

Exhibit 2: Change in Estimates

Y/E March (Rs. mn)	FY15E			FY16E			FY17E		
	New	Old	% change	New	Old	% change	New	Old	% change
Net revenues	43,708	43,708	-	45,423	45,423	-	49,032	49,032	-
EBIDTA	8,064	8,064	-	7,145	7,145	-	7,678	7,678	-
EBIDTA margin (%)	18.5	18.5	-	15.7	15.7	-	15.7	15.7	-
Adj. Net Profit	949	949	-	1,223	1,022	19.7	2,071	1,704	21.5
EPS (Rs.)	1.2	1.5	(17.1)	1.6	1.6	(0.8)	2.7	2.6	0.7

Source: Company, Karvy Stock Broking

Exhibit 3: Profit and Loss Statement

Y/E Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Net Sales	38,371	40,395	43,708	45,423	49,032
<i>% growth</i>	(3.9)	5.3	8.2	3.9	7.9
Operating expenditure	34,537	33,988	35,643	38,278	41,353
EBITDA	3,834	6,407	8,064	7,145	7,678
<i>% growth</i>	38.6	67.1	25.9	(11.4)	7.5
Depreciation	1,634	1,446	1,463	1,516	1,584
Other income	1,150	2,028	1,370	1,390	1,410
EBIT	3,349	6,989	7,971	7,018	7,505
Interest	5,441	6,079	6,550	5,100	4,400
Exceptional items	156	-	-	-	-
PBT	(1,936)	910	1,421	1,918	3,105
Tax	(559)	103	472	696	1,034
Reported PAT	(1,376)	806	949	1,223	2,071
Extra Ordinary (inc)/exp	(156)	-	-	-	-
Adjusted PAT	(1,532)	806	949	1,223	2,071
<i>% growth</i>	-	-	17.6	28.9	69.4

Source: Company, Karvy Stock Broking

Exhibit 4: Balance Sheet

Y/E Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
Cash & cash equivalents	991	1,470	649	690	877
Trade receivables	12,358	16,143	19,825	19,532	19,368
Inventories	36,722	32,936	33,327	35,216	36,391
Loans & advances	18,878	19,243	20,911	17,773	16,617
Other assets	103	64	71	71	71
Investments	6,012	6,900	6,900	6,600	6,100
Fixed Assets	10,227	9,204	8,291	7,524	6,890
Total assets	85,291	85,959	89,973	87,405	86,313
Current liabilities & provisions	10,389	10,208	9,318	10,527	12,238
Other liabilities	16,851	14,710	17,846	18,106	17,733
Deferred tax liabilities (net)	143	237	260	-	-
Debt	46,280	48,170	48,927	39,927	35,427
Total liabilities	73,663	73,325	76,351	68,560	65,397
Shareholders' equity	607	607	646	779	779
Reserves & surpluses	11,021	12,027	12,976	18,065	20,136
Shareholders' funds	11,628	12,634	13,622	18,845	20,916
Total Equity and Liabilities	85,291	85,959	89,973	87,405	86,313

Source: Company, Karvy Stock Broking

Exhibit 5: Cash Flow Statement

Y/E Mar (Rs mn)	FY13	FY14	FY15E	FY16E	FY17E
PBT	(1,936)	910	1,421	1,918	3,105
Depreciation	1,634	1,446	1,463	1,516	1,584
Interest/Financial Charges	5,441	6,079	6,550	5,100	4,400
Other income	(1,058)	(1,231)	(1,280)	(1,293)	(1,306)
Other non-cash adjustments	(103)	(805)	-	-	-
Tax paid	(184)	1,128	(450)	(955)	(1,034)
Change in working capital	(379)	(2,497)	(3,501)	3,011	1,482
Cash flow from operating activities	3,416	5,031	4,204	9,298	8,232
(Incr) / decr in capital expenditure	(785)	(317)	(550)	(750)	(950)
(Incr) / decr in investments	(165)	18	-	300	500
Others	1,208	13	1,280	1,293	1,306
Cash flow from investing activities	258	(286)	730	843	856
Incr / (decr) in borrowings	1,548	1,862	756	(9,000)	(4,500)
Issuance of equity	-	-	-	4,000	-
Dividend paid	(1)	(1)	-	-	-
Interest paid	(5,970)	(5,997)	(6,550)	(5,100)	(4,400)
Others	141	(130)	39	-	-
Cash flow from financing activities	(4,282)	(4,266)	(5,754)	(10,100)	(8,900)
Net change in cash	(608)	478	(821)	41	187
Opening Cash	1,600	991	1,470	649	690
Closing Cash	991	1,470	649	690	877

Source: Company, Karvy Stock Broking

Exhibit 6: Key Ratios

Y/E Mar (%)	FY13	FY14	FY15E	FY16E	FY17E
EBITDA margin	10.0	15.9	18.5	15.7	15.7
EBIT margin	8.7	17.3	18.2	15.5	15.3
Net profit margin	(3.9)	1.9	2.1	2.6	4.1
Net debt: equity	3.9	3.7	3.5	2.1	1.7
RoCE	5.6	11.7	12.9	11.5	13.0
RoE	(12.4)	6.6	7.2	7.5	10.4

Source: Company, Karvy Stock Broking

Exhibit 7: Valuation Parameters

Y/E Mar	FY13	FY14	FY15E	FY16E	FY17E
EPS (Rs)	(2.0)	1.0	1.2	1.6	2.7
DPS (Rs)	-	-	-	-	-
Book value per share (Rs)	14.9	16.2	17.5	24.2	26.8
P/E (x)	NA	34.7	29.5	22.9	13.5
P/BV (x)	2.4	2.2	2.1	1.5	1.3
EV/EBITDA (x)	19.3	11.5	9.4	10.0	8.4
EV/Sales (x)	1.9	1.8	1.7	1.6	1.3

Source: Company, Karvy Stock Broking

Stock Ratings		Absolute Returns	
Buy	:	>	15%
Hold	:	5-	15%
Sell	:	<	5%

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Disclosures Appendix

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