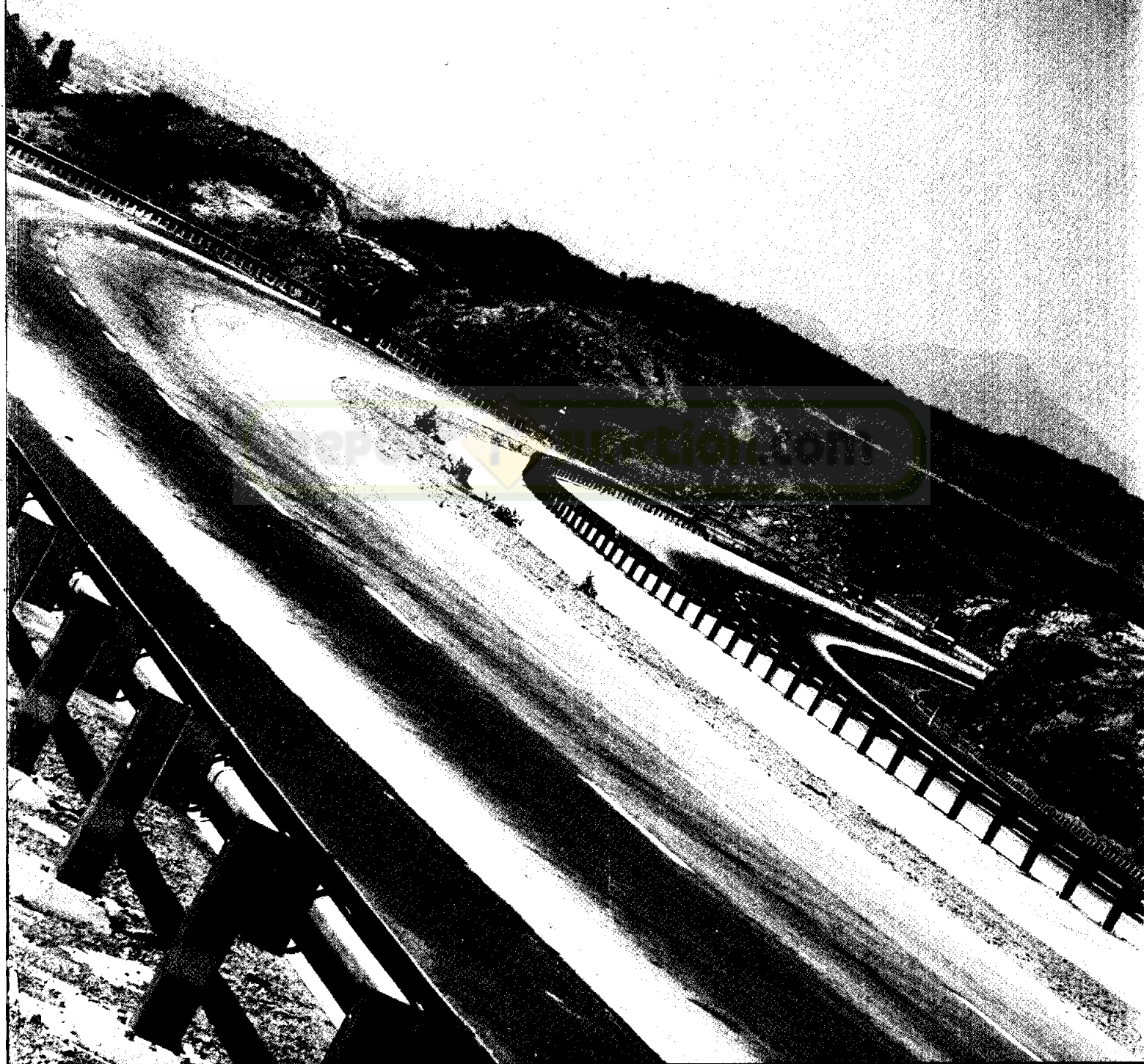


HCC

**2000
2001**

**75TH
ANNUAL
REPORT**



HINDUSTAN CONSTRUCTION CO LTD



*CENTRE Full faced
Tunnel Boring
Machine in action*

*INSET The Single
Shield Tunnel Boring
Machine used for
excavation for the
Ghatkopar High Level
Tunnel, Maharashtra*



HIGHLIGHTS ● Profit before tax increased by 74.4%

from Rs.24.60 crore to Rs.42.90 crore.

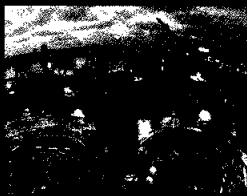
- Achieved a record net profit of Rs.26.54 crore, an increase of 24% over 1999-2000 ● Operating margin increased from 18.2% in 1999-2000 to 22.1%

- Completed two major projects, the Kurichu Dam at Bhutan and Naraj Barrage at Orissa, ahead of schedule.

- Secured new orders amounting to Rs.1312 crore during the year. Order book swells to nearly Rs.1900 crore

- Awarded two prestigious projects: a section of Delhi Metro Rail Project and the Bandra-Worli Sea Link Project at Mumbai.

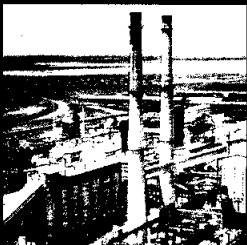
HCC'S CONTRIBUTION TO NATION BUILDING



BANDRA INFLUENT-EFFLUENT PLANT



FARAKKA BARRAGE



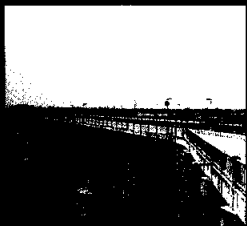
BHILAI STEEL PLANT



KOYNA HYDROELECTRIC POWER PROJECT



KHARGHAR AIR FORCE RESIDENTIAL COMPLEX



GOMTI AQUEDUCT

JAMMU & KASHMIR

1. Spillway, Dam and Powerhouse for Salal Hydel Project

PUNJAB

2. 140 M high Chimney at Ropar
3. Rail Coach Factory at Kapurthala

HARYANA

4. Road Bridge at Palwai
5. Panipat Chimney
6. Hathnikund Barrage at Yamunanagar

RAJASTHAN

7. Foundation, Structures and other civil works for Rajasthan Atomic Power Project, Kota, Units I & II
8. Chambal Bridge at Dholpur
9. Rajasthan Atomic Power Project Units 3 & 4

GUJARAT

10. Kandla Oil Jetty for Kandla Port Trust, Kandla
11. 180M high Chimney at Wanakbori
12. Narmada Drift Project
13. Tapi Road Bridge
14. Kakrapar Atomic Power Project
15. Natural Draught Cooling Towers at Kakrapar
16. Two Cooling Towers at Gandhinagar for Gujarat State Electricity Board
17. Gujarat State Highways Project – Mehsana to Palanpur

MAHARASHTRA

18. Gas Turbine Project and LPG Station at Uran
19. Bhandup Complex
20. Reactor Building, Main Building and other structures for BARC
21. SSSF Project at Tarapur
22. Sina Aqueduct
23. Panvel Creek Bridge
24. Barvi Expansion Project
25. Bridges over Vasai Creek at Western Railway
26. Bhorghat Tunnels for Central Railway
27. Factory civil works for Premier Automobiles Limited
28. Ambernath/Ulhasnagar STP
29. Water Treatment Plant, Pune
30. Underground Powerhouse for Koyna Project
31. Kolkewadi Dam
32. Bridge over River Ulhas
33. Trombay Chimney Works
34. Nhava Sheva WTP Works, Raigad
35. Tunnel between Sewri and Futka for MCGB
36. Koyna Stage IV Powerhouse Complex
37. Tunnel between E Moses Road and Ruparel College, Mumbai
38. Aerated Lagoons at Ghatkopar and Bhandup, Mumbai
39. Bandra Influent and Effluent Disposal Works, Mumbai
40. Housing Complex for Kharghar, Navi Mumbai
41. Construction of Concrete Spillway for Gosikhurd Spillway Dam, Nagpur
42. Construction of Mumbai-Pune Expressway, Section B, Chowk, Adoshi
43. Construction of High Level Tunnel at Ghatkopar, Mumbai
44. Construction of Water Supply Tunnel from Bhandup to Charkop, Mumbai

45. Bandra – Worli Sea Link Project – Construction of a cable stayed bridge.

GOA

46. Goa Barge Berth at Marmagao

KARNATAKA

47. Tunnel and Powerhouse at Sharavati
48. Dockwork for MPT at Mangalore
49. Kadra Dam

KERALA

50. Tanker Terminal and Fertiliser Berth at Cochin
51. Dam across Kulamavu
52. Dam of Peppara
53. Dam across Idamalayar
54. Double Curvature Arch Dam at Idukki and Dam across river Cheruthoni
55. Lower Periyar Tunnel Power Project
56. Dam across Moozhayar and Veluthodu, (Kakkad)
57. Sebarigiri Dam
58. Wellington Bridge Works, Cochin
59. Lower Periyar Dam and Powerhouse
60. Brahmapuram Diesel Power Plant

TAMIL NADU

61. Civil Works for Kadamparai Pumped Storage Project
62. Lower Mettur Barrages, Substructure and Powerhouse
63. Ore Berth, Oil Jetty, Trawler Wharf at Chennai
64. Sewage Treatment Plant at Koyambedu, Chennai
65. Upper Nirar Tunnel
66. Navamalai Tunnel
67. Ennore Port-Rock quarrying and Transportation works
68. Breakwater Construction for New Port at Ennore, Chennai
69. Mass Rapid Transit System, Chennai

ANDHRA PRADESH

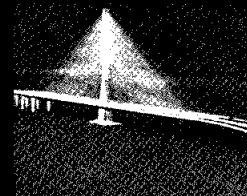
70. Civil works for Bhadrachalam Paper Board
71. Civil works, Earthen Dam and 225M high Chimney for Ramagundam Super Thermal Power Project
72. Vizag Monolith and West Wall Protection
73. Godavari Barrage at Rajahmundry
74. Papavinasam Dam
75. Chimney at Vijaywada
76. Environmental Engineering works at Hyderabad
77. Substructure of bridge over river Godavari, South Central Railway
78. Vijaywada Tunnel Works
79. Sileru Tunnel Works
80. D.B.K. Railway Project
81. Superstructure for Railway Bridge across Godavari

ORISSA

82. Dam at Upper Kolab
83. Road Bridge across Mahanadi
84. Syphons at Kuakhai and Khushbhada
85. Naraj Barrage, New Cuttack

WEST BENGAL

86. Farakka Barrage
87. Mahananda Barrage



BANDRA - WORLI SEA LINK PROJECT



IDUKKI DAM



TROMBAY CHIMNEY



MUMBAI - PUNE EXPRESSWAY



BREAKWATERS FOR NEW ENNORE PORT



GODAVARI BRIDGE

88. Kolkata Metro Railway Tunnel and Subway structures
89. Teesta Barrage
90. Haldia Docks Project
91. Environmental Engineering Works at Kolkata
92. Kalyani Bridge
93. Earthworks for Farakka STPP
94. Dauk Barrage
95. 220 M high RCC Chimney for Kolaghat TPS
96. Underwater cutting of protective shield and sheet piles for KTHP
97. Golden Quadrilateral road project - National highway from Kolaghat to Kharagpur

ASSAM

98. Brahmaputra Bridge at Amingaon and Tezpur
99. Civil works for Refinery at Guwahati

BIHAR / JHARKHAND

100. Sone Barrage
101. Ganga Bridge at Mokameh
102. Civil works for Barauni Thermal Power Plant
103. Chandil Dam
104. Crossing over river Ganga for BSEB
105. Panchet Powerhouse for DVC
106. Icha Dam

MADHYA PRADESH / CHHATTISGARH

107. Satpura TPS
108. Tons Road Bridge
109. Bhilai Steel Plant
110. Tons Hydel Project, Lot I & II
111. Road Bridge over Indravati River
112. Bailadila Project

UTTAR PRADESH / UTTARANCHAL

113. Maneri Bhali Hydel Project
114. Civil works for Narora Atomic Power Project
115. Rihand Dam
116. Civil works and Chimney for Rihand STPP
117. Sharda and Ghogra Barrages
118. Yamuna Hydel Project
119. Gomti Aqueduct
120. Sai Aqueduct
121. Varanasi Bridge
122. Malvika Steel Works
123. Dhauliganga Hydro-electric Project, Construction of underground powerhouse
124. Construction of a cable stayed bridge across Naini, Allahabad

DELHI

125. Water and Sewage Treatment Plants
126. Delhi Metro Rail Project from Vishwa Vidyalaya Station to ISBT station

HIMACHAL PRADESH

127. Power Tunnel and Underground Powerhouse for Chamera Hydel Power Project
128. Head Race Tunnel for Nathpa Jhakri Joint Venture

BHUTAN

129. Construction of Concrete Dam and appurtenant works for Kurichu Hydro-electric Project
130. Construction of Dam, Intake, Desilting Chamber and part Head Race Tunnel for Tala Hydro-electric Project, (Package C-1)
131. Construction of part Head Race Tunnel (Package C-4) for Tala Hydro-electric Project.

NEW PROJECTS

KOLKATA METRO
RAILWAY

BRAHMAPUTRA BRIDGE

SALAL DAM

BMC WATER TUNNEL

RAJASTHAN ATOMIC
POWER PROJECT

HATHNIKUND BARRAGE

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HINCON INTERNATIONAL LTD

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HCC INFOTECH LTD



DEAR SHAREHOLDERS,

If you ask concerned citizens of India what are the reasons for our country's inability to achieve and sustain a GDP growth rate of 8 per cent per year, most of them will point to the sad state of physical infrastructure.

As a nation, we constantly talk about the need for greater investment in infrastructure. Unfortunately, it remains exactly that — talk, without necessary action. In my letter to you in the previous year's annual report, I had said, "Despite numerous policy pronouncements and statements of lofty intent, infrastructure is perhaps the most neglected area of economic activity in India." Sadly for our country, that sentence remains true a year later. If anything, our infrastructure has become even worse.

In the past year, we have often heard of the economic threat from China — the other one billion plus country in the world. Soon to be a member of the World Trade Organisation, China is expected to use its cost advantages to aggressively enter the Indian market and further increase its share of world trade. Moreover, while virtually every country is suffering from a global slowdown, China continues to post a GDP growth in excess of 7.5 per cent per year. At \$940, China's per capita income is more than double that of India. In the next six years, it is expected to double to \$1,880. If we continue plodding at our present growth rate of under 6 per cent, our per capita income in 2007 will be around \$680 — or a little over a third of China's per capita GDP. Unless we quickly get our act together, we are going to comprehensively lose this race.

Why has China succeeded in notching an average GDP growth of 7 per cent in the 1980s and over 9 per cent in 1990s, compared to our 5.5 per cent over the same period? The answer is to be found in infrastructure. Every important city and town in eastern and northern China is linked by concrete six-to-eight lane superhighways. The port of Shanghai is soon going to challenge Singapore as the most sophisticated facility in Asia. In the last five years, the average infrastructure spend in China on roads and major dams alone has been in excess of \$70 billion (Rs.329,000 crore). One big dam project — the Three Gorges on the River Yangtze — is budgeted at over \$3 billion. Add to that China's spectacular growth in telecommunications. Today, China has over 117 million mobile phone subscribers, and their monthly growth in mobile telephony is greater than the annual growth in India. With such a concerted effort at building world class infrastructure, it is hardly surprising that China is set to grow at more than 8 per cent throughout the first decade of this new century.

The contrast with India couldn't be starker. Public as well as private investment in infrastructure continue to remain at unacceptably low levels. According to the Rakesh Mohan Committee Report, the economy requires infrastructure investments of 7 to 8 per cent of GDP, or an investment of Rs.400,000 crore to

Rs.450,000 crore in 2000-01 and 2001-02. We have not even spent Rs.50,000 crore — and even that is an optimistic estimate.

Why is this so? As far as public investment is concerned, much has to do with the growing fiscal crisis of the central government and the bankruptcy of almost all state governments. Today, the most conservative estimate of the combined fiscal deficit of the central and state governments is around 11 per cent of GDP. If we add the burden of bankrupt state and central institutions like public sector undertakings, state electricity boards, various municipalities and other non-corporate, off-balance sheet bodies, the amount is estimated in excess of 13 per cent of GDP. Revenue deficits are far worse. Simply put, the revenues collected by the central and state governments are insufficient to cover basic government expenditure such as wages and salaries and interest obligations.

Small wonder then that virtually no municipality or state government has the ability to financially close any major infrastructure project. Consequently, companies engaged in infrastructure face four negative fallouts. First, while there is talk on infrastructure, there is a virtual freeze on infrastructure spending by all government departments, both at the central and state levels. Second, there is overall inefficiency in policy-making and implementation regarding infrastructure projects. Thus, even when projects are announced, they often do not achieve financial closure. Third, when projects are announced and sanctioned, there is a considerable and unnecessary time lag between allocation and commencement of work. The reasons for delays are well known: time consuming bureaucratic procedures; dysfunctional state-level laws and procedures that create multiple bottlenecks; severe fiscal constraints; and the lack of long and medium term debt instruments that can finance private sector projects. And fourth, there are longer delays between completion of a project and final payment by the concerned authority — resulting in growth of needless and expensive receivables for any major construction company.

These factors have once again affected your company's top-line. Despite efforts at bagging several new projects, Hindustan Construction Company's (HCC's) gross operational income has increased by a modest 6.6 per cent, from Rs.530.8 crore in 1999-2000 to Rs.565.9 crore in 2000-01. I say modest because, if the economy was growing at over 7 per cent per year, infrastructure spend would have increased by almost 20 per cent.

Given this rather subdued top-line scenario, your company has done very well to increase profits. During 2000-01, HCC has posted its highest ever profits. Profit before tax has increased by 74.4 per cent — from Rs.24.6 crore to Rs.42.9 crore. Post-tax profit also rose by 24 per cent — from Rs.21.4 crore in 1999-2000 to Rs. 26.5 crore in 2000-01. I'm sure that you will agree with me that having net profits rise almost four times more than gross turnover is a creditable achievement.

Your company's net profit margin (net profit as a percentage of net operational income) has increased from 4.6 per cent in 1999-2000 to 6.1 per cent in 2000-01. Its pre-tax profit margin has done better — up from 5.2 per cent to 9.8 per cent over the same period.

This rise in profits is mostly due to improvements in internal efficiency. Your company's construction expenses have reduced by 16.2 per cent, from Rs.310.7 crore in 1999-2000 to Rs.260.4 crore in 2000-01. This is the third successive year where construction expenses as a percentage of income has come down — from 77 per cent in 1998-99 to 66 per cent in 1999-2000 to under 60 per cent in 2000-01. The absolute and relative fall in construction expenses have been achieved by increasing on-site productivity and reducing the construction cycle. Optimising procurement efficiencies has also helped. Your company has an effective centralised procurement division that handles purchases of key inputs and capital goods as well as controls inventory and sub-contracting. HCC is now implementing a fully automated supply chain management system, which should be fully operational by March 2002.



In addition to improved operational efficiencies, your company has succeeded in reducing interest costs. Total secured debt has been brought down from Rs.186.8 crore in 1999-2000 to Rs.142.7 crore in 2000-01. Moreover, HCC has taken advantage of falling interest rates and replaced high cost loans with low cost ones. Consequently, interest costs have decreased from Rs.39.1 crore in 1999-2000 to Rs.29.7 crore in 2000-01, a decline of 24 per cent.

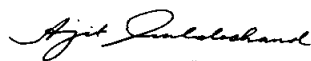
Information Technology (IT) is another area where your company is placing great emphasis. The company is currently in the process of automating and integrating the business processes of all its departments to enable access of quicker and more reliable information to the management for more effective decision-making. The integrated system will then be transformed into a web-based construction enterprise resource planning package (ERP). Moreover, your company has also floated a subsidiary called HCC Infotech Limited. Its objective is to design and develop software solutions and to provide software engineering services to the construction industry worldwide.

I now move to return on capital employed (ROCE). Despite a 13.9 per cent rise in profits before interest and taxes (PBIT), your company has posted lower ROCE — 14.3 per cent this year versus 15.5 per cent in 1999-2000. This is primarily due to the growth in advances from various projects, which get classified as unsecured loans. For the coming year, HCC will do all that is needed to bring the ROCE up to at least the 1999-2000 level.

The good news is that return on net worth (RONW) has increased significantly. In 1999-2000, it stood at 21.8 per cent. This year, your company's RONW has increased to 22.1 per cent — which is a very healthy ratio for any company, especially one in the construction industry. We will strive to maintain, if not better, this return on shareholder funds in the coming year.

To sum up, in a gloomy infrastructure scenario, your company has managed to do quite well. HCC won 7 new contracts in 2000-01, whose total value is Rs.1,312 crore. Consequently, the total balance work on hand of your company as on 30 June 2001 stands at Rs.1,902 crore. Decisions are awaited for tenders submitted by HCC for 19 projects amounting to Rs.4,536 crore. Your company has been pre-qualified for 5 projects amounting to about Rs.825 crore; and has submitted pre-qualification bids for 12 projects worth Rs.1,757 crore. Thus, HCC's order book should be bigger and healthier in the coming years. That, along with sustained operational efficiencies and cost cutting, should result in higher profits.

However, let me end in a sombre note. By not focusing adequately on infrastructure, we are missing the bus. As a nation, we have to substantially increase our infrastructure spend. This has to be the number one priority for India. All of us must make enough political noise to create the will to build infrastructure throughout this nation. It is the only way that we can be globally competitive.



AJIT GULABCHAND

BOARD OF DIRECTORS

Ajit Gulabchand
Chairman & Managing Director

Y H Malegam
Rajas R Doshi
Bhalchandra R Sule
D M Popat
D M Savur
Ram P Gandhi
Dr N A Kalyani
Fred Moavenzadeh
Sharad M Kulkarni (w.e.f.10.8.2001)
Nirmal P Bhogilal (w.e.f.10.8.2001)
K G Tendulkar (Executive Director, Operations)
M D Khattar (Executive Director, Technical & Business Development)

COMPANY SECRETARY

Vithal P Kulkarni

AUDITORS

K S Aiyar & Co, Chartered Accountants

ADVOCATES & SOLICITORS

Mulla & Mulla & Craigie Blunt & Caroe
Kanga & Co

BANKERS

State Bank of India
Indian Bank
State Bank of Patiala
Union Bank of India
Bank of Baroda
Dena Bank
The Vysya Bank Ltd
Global Trust Bank Ltd
ICICI Banking Corporation Ltd
IDBI Bank Ltd
Punjab National Bank
Federal Bank Ltd

**REGISTRAR & SHARE
TRANSFER AGENT**

MCS Ltd, Sri Venkatesh Bhawan
Plot No 27, Road No 11, Andheri East, Mumbai 400 093

SUBSIDIARY COMPANIES

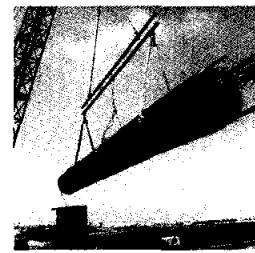
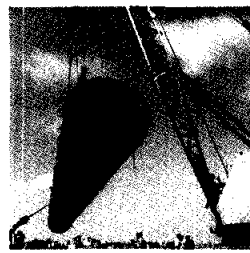
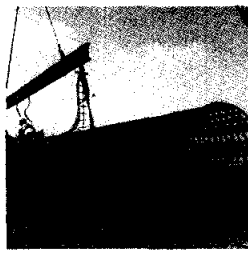
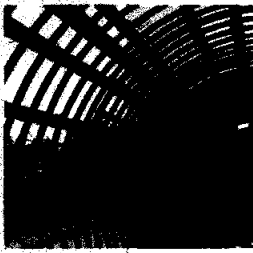
Hincon Technoconsult Ltd
Ucchar Investment Ltd
Western Securities Ltd
Hincon International Ltd
HCC Infotech Ltd

REGISTERED OFFICE

Hincon House
Lal Bahadur Shastri Marg
Vikhroli (West)
Mumbai 400 083

Surge shaft constructed for the
Nathpa Jhakri Joint Venture Project,
Himachal Pradesh

*Simulated 3D view
of the Bandra-Worli
Sealink.*



*The Osterberg Cell
Load Test being
conducted at the
site of the Bandra-
Worli Sealink. The
test is designed to
assess the load
capacity of pile
foundations, and
has been pioneered
in India by HCC*

