

HCC

Infrastructure Alive



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Cover Photograph: Tala Hydroelectric Project, Bhutan

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Highlights 2006-07

- Revenue from operations increased by 18% from Rs 2028 crore in 2005-06 to Rs 2395 crore in 2006-07
- Operating profits (PBDIT including profits from JV) increased by 29% from Rs 186 crore in 2005-06 to Rs 240 crore in 2006-07
- Profit before tax (without exceptional income) increased by 20% from Rs 98 crore in 2005-06 to Rs 118 crore in 2006-07
- Order backlog stood at Rs 9312 crore
- Successfully implemented SAP (ERP & Data Warehousing) at Corporate Office & majority of project sites



HCC's Contribution To Nation Building

ANDHRA PRADESH

1. Civil works, earthen Dam and 225M high chimney for Ramagundam Super Thermal Power Project
2. Vizag Monolith and West Wall Protection
3. Godavari Barrage at Rajahmundry
4. Papavinasam dam
5. Chimney at Vijaywada
6. Environmental Engineering works at Hyderabad
7. Substructure of railway bridge over river Godavari
8. Vijaywada Tunnel Works
9. Superstructure for Railway Bridge across Godavari
- 10. Godavari Lift Irrigation Scheme, Phase I
- 11. Godavari Lift Irrigation Scheme, Phase II
- 12. Polavaram Project Right Main Canal, Package-3
- ▲ 13. North South Corridor NHDP Phase II Package AP-8 on BOT (Annuity) basis

ASSAM

14. Brahmaputra Bridge at Amingaon and Tezpur
15. Civil works for Refinery at Guwahati
- 16. Four laning of NH-54, Package EWH-II (AS23)

BIHAR

17. Sone Barrage
18. Ganga Bridge at Mokameh
19. Civil works for Barauni Thermal Power Plant
20. Panchet Powerhouse
- 21. Rail cum road bridge across river Ganga at Munger.

DELHI

22. Water and sewage Treatment Plants.
23. Delhi Metro Rail Project from Vishwa Vidyalaya Station to ISBT station

GOA

24. Goa Barge Berth at Marmugos

GUJARAT

25. Kandla Oil Jetty for Kandla Port Trust, Kandla
26. 180M high Chimney at Wanakbori
27. Tapi Road Bridge
28. Kakrapar Atomic Power Project
29. Natural Draught Cooling Towers at Kakrapar
30. Two Cooling Towers at Gandhinagar for Gujarat State Electricity Board
31. Gujarat State Highways Project- Mahesana to Palanpur
- 32. Saurashtra Branch Canal Pumping Scheme.
- 33. Kalol Mehsana Gas Pipeline Project

HARYANA

34. Road Bridge at Palwai
35. Panipat Chimney
36. Hathnikund Barrage at Yamunansgar

HIMACHAL PRADESH

37. Underground Powerhouse & tunnel for Chamara Hydel Power Project, Stage I
38. Head Race Tunnel for Nathpa Jhakri Hydroelectric project.
- 39. Chamara Hydroelectric Project, Stage- III, Lot 1

JAMMU & KASHMIR

40. Spillway, Dam and Powerhouse for Salsi Hydel Project
- 41. Udhampur - Srinagar - Baramulla Rail Line project, Laola - Qazigund section
- 42. Adit and access shaft for Pir Panjal Tunnel
- 43. Uri-II Hydroelectric Project Lot 1
- 44. Pir Panjal Tunnel (Zone-VA)
- 45. Pir Panjal Tunnel (Zone-VB)
- 46. Mughal Road from Baffiaz (Poonch) to Shopian (Pulwama)
- 47. Sawalkote Hydroelectric Project
- ▲ 48. Chutak Hydroelectric Project, Lot 1
- ▲ 49. Nimoo Bazgo Hydroelectric Project, Lot 1

JHARKHAND

50. Chandli Dam
51. Icha Dam
- 52. Grand Trunk Road Improvement Project Package VB

KARNATAKA

53. Tunnel and Powerhouse at Sharavati
54. Dockwork for MPT at Mangalore
55. Kadra Dam
- 56. Karnataka State Highways Project, Phase I, Package U3

KERALA

57. Tanker Terminal and Fertiliser Berth at Cochin
58. Dam across Kulamavu
59. Dam of Peppara
60. Dam across Idamalayar
61. Double Curvature Arch Dam at Idduki and Dam across river Cheruthoni
62. Lower Periyar Tunnel Power Project
63. Dam across Moozhayar and Veluthodu, (Kakkad)
64. Sebarigiri Dam
65. Wellington Bridge Works, Cochin
66. Lower Periyar Dam and Powerhouse
67. Brahmapuram Diesel Power Plant

MADHYA PRADESH

68. Setpura TPS
69. Tons Road Bridge
70. Tons Hydel Project, Lot I & II
71. Road Bridge over Indravati River

CHATTISGARH

72. Bhilai Steel Plant
73. Bailadila Project

MAHARASHTRA

74. Gas Turbine Project and LPG Station at Uran
75. Bhandup Complex
76. Reactor building, main building and other structures for BARC
77. SSSF Project at Tarapur
78. Sina Aqueduct
79. Parvel Creek Bridge
80. Barvi Expansion Project
81. Bridges over Vasai Creek at Western Railway
82. Bhorghat Tunnel for Central Railway
83. Factory civil works for Premier Automobiles Limited
84. Ambarnath/Uhasnagar STP
85. Water Treatment Plant, Pune
86. Underground Powerhouse for Koyas Project



- 87. Kolkewadi Dam
- 88. Bridge over River Ulhas
- 89. Trombay Chimney Works
- 90. Nhava Sheva WTP Works, Raigadh
- 91. Tunnel between Sewri and Futka for MCGB
- 92. Koyna Stage IV Powerhouse Complex
- 93. Tunnel between E Moses Road and Ruparel College, Mumbai
- 94. Aerated Lagoons at Ghatkopar and Bhandup, Mumbai
- 95. Bandra Effluent and Influent Disposal Works, Mumbai
- 96. Housing Complex for Kharghar, Navi Mumbai
- 97. Ghatkopar High level tunnel, Mumbai
- 98. Construction on Mumbai-Pune Expressway, Section B, Chowk to Adoshi
- 99. Vaitarna Dam
- 100. Setara Kolhapur Maharashtra State border section of NH- 4, Package V.
- 101. Water Supply Tunnel from Bhandup to Charkop, Mumbai
- 102. Bandra - Worli Sea Link Project
- 103. Gosikhurd Spillway, Nagpur
- 104. Lavasa Project, Pune
- 105. Improvement to Pune Paud Road (SH 60) and Pirangut Mutha Road (SH 57) on BOT basis
- 106. Gosikhurd Project Ghodazari Branch Canal

ORISSA

- 107. Dam at upper Kolab
- 108. Road Bridge across Mahanadi
- 109. Syphons at Kuakhai and Khushbhadra
- 110. Naraj Barrage, New Cuttack
- 111. 4-laning of Chandikhole-Paradip section of NH-5A, Package : OR (Paradip)

PUNJAB

- 112. 140 M high chimney at Ropar
- 113. Rail Coach factory at Kapurthala

RAJASTHAN

- 114. Foundation, structures and other civil works for Rajasthan Atomic Power Project, Kota Units I & II.
- 115. Chambal Bridge at Dholpur
- 116. Rajasthan Atomic Power Project Units 3 & 4

- 117. Rajasthan Atomic Power Project, Units 5&6
- 118. East-West Corridor Project, Package-EW-II (RJ-7)

TAMIL NADU

- 119. Civil Works for Kadamparai Pumped Storage Project
- 120. Lower Mettur Barrages, substructure and powerhouse
- 121. Ore Berth, Oil Jetty, Trawler Wharf at Chennai
- 122. Sewage Treatment Plant at Koyambedu, Chennai
- 123. Upper Ninar Tunnel
- 124. Navamalai Tunnel
- 125. Ennore Port-rock quarrying and transportation works
- 126. Breakwater Construction for New Port at Ennore, Chennai
- 127. Mass Rapid Transit System, Chennai
- 128. Kudankulam Nuclear Power Project, Units 1 & 2 Package III
- 129. Kudankulam Nuclear Power Project, Units 1 & 2 Package C8
- 130. Tirupur Water Supply Project
- 131. Chennai Bypass, Package CBP2

UTTAR PRADESH

- 132. Maneri Bhali Hydel Project
- 133. Civil works for Narora Atomic Power Project
- 134. Rihand Dam
- 135. Civil works and Chimney for Rihand STPP
- 136. Sharda and Ghogra Barrages
- 137. Yamuna Hydel Project
- 138. Gomti Aqueduct
- 139. Sai Aqueduct
- 140. Varanasi Bridge
- 141. Malvika Steel Works
- 142. Cable stayed bridge across Naini, Allahabad
- 143. Allahabad Bypass project, Package ABP2
- 144. Lucknow - Muzaffarpur National Highway Project Package LMNHP- EW II (WBI-1)
- 145. Lucknow - Muzaffarpur National Highway Project Package LMNHP- EW II (WBI-2)
- 146. Lucknow - Muzaffarpur National Highway Project Package LMNHP- EW II (WBI-3)
- 147. Lucknow - Muzaffarpur National

Highway Project Package LMNHP- EW II (WBI-4)

UTTARAKHAND

- 148. Dhauliganga Hydroelectric Project, Stage I, Lot 2
- 149. Loharinag Pala Hydroelectric project

WEST BENGAL

- 150. Farakka Barrage
- 151. Mahananda Barrage
- 152. Calcutta Metro Railway Tunnel and subway structures
- 153. Teesta Barrage
- 154. Haldia Docks Project
- 155. Environmental Engineering Works at Calcutta
- 156. Kalyani Bridge
- 157. Earthworks for Farakka STPP
- 158. Dauk Barrage
- 159. One 220 M high RCC Chimney for Kolaghat TPS
- 160. Underwater cutting of protective shield and sheet piles in front of intake gates for KTHP
- 161. Golden Quadrilateral road project - National highway from Kolaghat to Kharagpur
- 162. Purulia Pumped Storage Project, West Bengal
- 163. Teesta Low Dam HEP Stage IV, Lot I

BHUTAN

- 164. Kurichu Hydroelectric Dam Project
- 165. Tala Hydroelectric Project, Package C-1
- 166. Tala Hydroelectric Project, Package C-4

SAUDI ARABIA

- 167. Restoration of Piers, King Abdul Aziz Naval Base

- Projects completed in the year
- Projects in progress
- ▲ New projects

Chairman's Letter

Dear Shareholders,

If you will recollect, last year your Company's income from operations crossed the Rs.2,000 crore mark - closing at Rs.2,028 crore. The growth continues. For 2006-07, revenue from operations of HCC has touched Rs.2,395 crore, which translates to a growth of 18 per cent over the previous year.

In my letter to you last year, I had expressed the hope that your Company's revenues would cross Rs.2,500 crore this year. Unfortunately, that has not happened. But it does not worry me too much. Let me explain why.

The infrastructure business is 'lumpy' in nature. All it requires is a few large projects coming on-stream for any construction company's revenues to shoot up. In the case of HCC, several large projects were in the process of being finalised during the last quarter of 2006-07, but was not completed by the end of the year. For many of them, your Company has offered the most attractive technical-cum-financial tender (called L1 in the business). I am, therefore, hopeful that we will secure some large value contracts fairly soon. Thus, in all likelihood, the dip in revenue growth in 2006-07 over the previous year will be a thing of the past - and that your Company's top line will surge in 2007-08.



Equally, I need to share with you my belief that variations in year-on-year revenue growth may become the norm for all the key players in the construction industry. While there has been substantial growth in infrastructure spend in India over the last two years, it has been accompanied by an equally significant rise in competition. A decade ago, while the market was much smaller, the number of major players in the construction space was limited - and each could carve out assured business. Today, the market is larger as is the number of competitors. It is an environment where, in some years, a company will grab a larger share of the business and grow faster than its peers; and at other times the pole position will be taken by a competitor. Thus, while every major construction company will enjoy healthy double digit growth in foreseeable future, the rate of growth for any company will vary across the years, depending upon who has captured larger business in any given accounting cycle. That is healthy competition. And it is very much a part of changing infrastructure-construction landscape of today's India.

In such an environment, how does one ensure predictability of significant double digit growth? This is the task that has been the prime focus for me and the senior management of your Company. Let me share with you, what HCC is in the process of doing, and needs to do, with single minded determination in order to achieve predictable high growth.

First, and foremost, your Company has to spend significantly greater time, effort and money to build on three forms of capital that drive growth: human, organisational and physical capital i.e. machinery.

Of these three, the greatest challenge facing every company in India is the rapid ramping up of human capital. Simply put, the economy and the corporate sector are growing much faster than the supply of trained and skilled people; and this is true for any sphere of business activity in India. This supply shortage can only be partly addressed through significant increases in compensation - something that your Company is doing and will continue to do over time. More importantly, it requires on-the-job training and upgrading of skills, especially for project managers, site engineers and skilled construction workers. HCC has started several initiatives in this regard; and more are to follow.

Upgrading human capital must go hand-in-hand with significant improvements in the organisational structure. The size, scale and breadth of activities that any construction major must engage in today, requires a flat, nimble, empowered and proactive

organisation, where everything is linked in real time through data and information flows. Your Company is actively engaged in this task. We believe that scaling up occurs when there is an optimal match between processes and systems. HCC, therefore, is putting company-wide processes in place and backing these up with a state - of - the - art ERP under the SAP R/3 platform, coupled with Business Information Warehousing which provides end-to-end visibility of every business operation, any time anywhere. I believe that your Company's on - going initiatives in the HR, organisational and IT fronts will create a significantly more robust growth engine for the future.

In addition to people and organisation, your Company needs to invest even more on construction equipment. Unlike the developed world, India does not have any major, diversified construction equipment company that leases these assets to various service providers and moves them from site to site. Therefore, all major construction companies in India must invest in their own machinery; and with the growth in the infrastructure spend, these investments are bound to rise. While this necessarily increases a company's capital stock and therefore affects the return on capital employed, there is really no choice on the matter. Without these investments, one cannot execute more projects. In the coming years, therefore, you will see HCC investing significantly larger amount on equipment and machinery - but in doing so, always balancing growth opportunities with the return on capital employed.

Second, your Company needs to expand its business space. Infrastructure is about three pillars: Develop, Build and Operate. In most parts, HCC is located in the 'Build' space as a major contractor for projects. We have considerable experience in this domain across the entire gamut of construction activities; and it has served us well in terms of revenues, profits and shareholder value. Going forward however, we need to be in the other two spaces as well i.e. being Developers and Operators.

An obvious extension is to be in the Build-Operate-Transfer (BOT) space especially for stretches of dual carriage, restricted access, toll roads on national highways. You will see considerable activity on this front in the future. The other aspect is development of infrastructure, especially real estate and townships. The group as a whole is consciously moving in this direction. Your Company has entered into a development rights agreement with HCC Real Estate Ltd, a wholly owned subsidiary, for a portion of its land in Vikhroli, Mumbai, and is exploring various development options for this property. Moreover, HCC Real Estate Ltd holds 63 per cent equity stake in Lavasa Corporation Limited, which is developing a 12,500 acre integrated township in Warasgaon, located between Pune and Mumbai.

Let me now move on to some wider macro economic issues, as I have done in my previous letters to you.

The first deals with the withdrawal of Section 80-IA benefit under the Income Tax Act for construction companies, which was announced with retrospective effect in the Union Budget of 2007-08. As we all know, India is in desperate need for more infrastructure; and this requirement will continue unabated for the next decade if not more. Section 80-IA gave tax relief to infrastructure projects and thus attracted greater investments and more public private partnership (PPP) in infrastructure. Construction is the soul of physical infrastructure. The removal of Section 80-IA benefit has significantly affected the bottom line of all construction companies, and HCC is no exception. Despite a 20 per cent growth in your Company's profits before tax and exceptional items, its post-tax profits have fallen, thanks largely to the withdrawal of Section 80-IA.

The withdrawal of Section 80-IA is retrograde. If we as a nation want greater PPP in infrastructure - which is the only way to go given the fiscal constraints of the Union government - then we have to make construction financially attractive. Section 80-IA did precisely that. To remove it for short term revenue gains is penny-wise, pound-foolish. The government would have gained much more tax revenue in the long run with Section 80-IA, than without.

My wider concern relates to international competitiveness and the quality of India's engagement with, and place in, the global economy. Let me try and explain it in terms of a few key propositions.

- India cannot grow at 8.5-9 per cent on a sustained basis without being globally competitive in everything that it does
- Across-the-board global competitiveness cannot occur without significant increases in capacity on the supply side
- Major supply side enhancements will not happen without significant build up of physical infrastructure - be it roads, power, ports, airports, telecoms, special economic zones and the like
- Sustained growth in infrastructure activity driven largely by the private sector cannot occur without a globally competitive interest and exchange rate environment, backed up by suitable long-term fiscal incentives

Therefore, if we as a nation have to be globally engaged, we must concentrate on creating and sustaining a macroeconomic policy and regulatory environment that achieves competitive interest and exchange rates, avoids dysfunctional case-by-case interventions as we did pre-1991, and sustains a healthy investment climate for rapid build up of physical infrastructure and manufacturing capacities. That is what can generate 9 per cent growth for a long enough period to lift a large cross section of our people above the poverty line.

While there are many promises about reforms, I don't see enough urgency to create the infrastructure that builds the supply side which can sustain 9 per cent growth. We are so delighted with the compound annual growth rate in excess of 8 per cent over the last four years, and 9 per cent-plus growth in the last two, that we think such things happen almost automatically. They don't. And the defining moment for India will be if we can rapidly refocus our energies in doing the things that we need to do to achieve 9 per cent growth over the next decade.

That will be a truly great achievement for India. And therefore, we must never take our eyes off that target.

To recap: 2006-07 was a good year for your Company, but it could have been better. Internally, we are doing all the things that are required to again raise the revenue growth rate and achieve higher profits for the future. If the investment climate for infrastructure remains positive, I am confident that the initiatives that your Company has taken to optimise its operations and widen its business footprints will yield better results.

Like you, I look forward to it.

Thanks once again for your support. We, the HCC management and employees, value it more than anything else.

With best wishes,

Yours sincerely



Ajit Gulabchand
Chairman & Managing Director

Gosikhurd Spillway Project
Maharashtra

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Godavari Lift Irrigation Project
Andhra Pradesh