Annual Report 2012-13

HCC









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Highlights 2012-13

- Group turnover at ₹ 8,510 crore
- HCC Standalone Turnover at ₹ 3,837 crore
- HCC E&C Orderbook at ₹ 14,935 crore
- UN Recognition for HCC's Sustainability Practices at the Rio+20 conferences organized by the United Nations at Brazil in June 2012, the only Indian company to be featured amongst ten global companies
- Steiner AG turnaround with three year consecutive profits since taken over by HCC
- Lavasa construction work commenced, around 5,000 workers on ground. Appx. 300 units handed over to the customers
- Lavasa Mugaon: New residential phase started
- Dhule Palesner Highway (NH3) operational, additional 13km phase of development readied for tolling two years in advance
- Incorporation of HCC Operations and Maintenance Ltd. to provide safe, reliable and world class O&M to road users

HCC's Projects at a Glance

ANDHRA PRADESH

01. Ramagundam Thermal Power Project
02. Vizag Monolith, West Wall Protection
03. Godavari Barrage at Rajahmundry
04. Papavinasam Dam
05. Chimney at Vijayawada
06. Railway Bridge over River Godavari
07. Vijayawada Tunnel Works
08. Godavari LIS Phase I
09. Godavari LIS Phase II
10. Polavaram Project Right Main Canal
11. North-South Corridor NHDP Phase II Package AP-8
12. Cavern for Crude Oil Storage, Vishakhapatnam
13. Rajiv Dummugudem LIS
14. Pula Subbaiah Veligonda Tunnel
15. JCR Devadula LIS Phase III
16. Pranahita Chevella LIS

ARUNACHAL PRADESH

17. Pare HEP

ASSAM

18. Brahmaputra Bridge
19. Bogibeel Bridge
20. Civil Works for Refinery at Guwahati
21. Four-laning of NH-54 (AS23)

BIHAR

22. Sone Barrage
23. Ganga Bridge at Mokameh
24. Barauni Thermal Power Plant
25. Panchet Powerhouse
26. Rail-cum-Road Bridge Munger
27. Muzaffarpur Thermal Power Plant

CHATTISGARH

28. Bhilai Steel Plant
29. Bailadila Project

DELHI

30. Water and Sewage Treatment Plants
31. DMRC - Vishwa Vidyalaya to ISBT
32. DMRC - Airport Metro Express Line Contract AMEL - C1
33. DMRC - Netaji Subhash Palace to Shalimar Bagh
34. DMRC - Janakpuri West to Palam Station
35. DMRC - Airport Metro Express Line Contract AMEL - C6
36. Delhi Faridabad Elevated Expressway

GOA

37. Goa Barge Berth at Marmugoa

GUJARAT

38. Kandla Oil Jetty
39. 180 m High Chimney at Wanakbori
40. Tapi Road Bridge
41. Kakrapar Atomic Power Project
42. Two Cooling Towers at Gandhinagar
43. Gujarat State Highways Project - Mehsana to Palanpur
44. Saurashtra Branch Canal Pumping Scheme
45. Kalol Mehsana Gas Pipeline Project
46. Limbdi Branch Canal
47. Swarnim Gujarat Kutch Water Grid, NC-31 Pipeline
48. Narmada Extra-dosed bridge
49. Pumped Water Supply Scheme from Kesaria to Sonari (NC-25)
50. Kachchh Branch Canal

HARYANA

51. Road Bridge at Palwai
52. Panipat Chimney
53. Hathnikund Barrage at Yamunanagar

HIMACHAL PRADESH

54. Chamera HEP, Stage I
55. Nathpa Jhakri HEP
56. Chamera HEP, Stage III
57. Kashang HEP
58. Sainj HEP

JAMMU & KASHMIR

59. Salal HEP
60. Udhampur - Srinagar - Baramulla Rail
61. Uri-II HEP
62. Pir Panjal Tunnel (Zone-VA)
63. Pir Panjal Tunnel (Zone-VB)
64. T-48 tunnel on Dharam-Qazigund section
65. Mughal Road
66. Chutak HEP
67. Nimmo Bazgo HEP
68. Kishanganga HEP

JHARKHAND

69. Chandil Dam
70. Icha Dam
71. Grand Trunk Road Improvement Project

KARNATAKA

72. Tunnel and Powerhouse at Sharavati
73. Dockwork for MPT at Mangalore
74. Kadra Dam
75. Karnataka State Highways Project
76. Cavern for Crude Oil Storage, Padur

KERALA

77. Tanker Terminal and Fertiliser Berth, Cochin
78. Dam across Kulamavu
79. Dam of Peppara
80. Dam across Idamalayar
81. Lower Periyar Tunnel
82. Dam across Moozhiyar and Veluthodu
83. Sebarigiri Dam
84. Wellington Bridge, Cochin
85. Lower Periyar Dam and Powerhouse
86. Brahmapuram Diesel Power Plant

MADHYA PRADESH

87. Satpura TPS
88. Tons Road Bridge
89. Tons HEP
90. Road Bridge over River Indravati

MAHARASHTRA

91. Uran Turbine and LPG Station
92. Bhandup Water Treatment Complex
93. BARC Civil Works
94. SSSF Project at Tarapur
95. Sina Aqueduct
96. Panvel Creek Bridge
97. Barvi Expansion Project
98. Railway Bridges over Vasai Creek
99. Bhorghat Tunnel

100. Factory Civil Works for Premier Automobiles Limited
101. Ambernath/Ulhasnagar STP
102. Water Treatment Plant, Pune
103. Underground Powerhouse, Koyna
104. Kolkewadi Dam
105. Bridge over River Ulhas
106. Trombay Chimney Works
107. Nhava Sheva WTP Works, Raigadh
108. Tunnel between Sewri and Futka
109. Koyna Stage IV Powerhouse Complex
110. Tunnel between E Moses Road and Ruparel College, Mumbai
111. Aerated Lagoons, Mumbai
112. Bandra Effluent and Influent Disposal, Mumbai
113. Housing Complex, Navi Mumbai
114. NH-3 MP/Maharashtra Border - Dhule
115. Ghatkopar High Level Tunnel, Mumbai
116. Mumbai-Pune Expressway
117. Vaitarna Dam
118. Satara Kolhapur Road, NH-4
119. Water Supply Tunnel from Bhandup to Charkop, Mumbai
120. Bandra-Worli Sea Link
121. Gosikhurd Spillway, Nagpur
122. Lavasa, Pune
123. Pune Paud BOT Road
124. Ghodazari Branch Canal
125. Water Supply Tunnel Maroshi Ruparel College, Mumbai
126. Middle Vaitarna Water Pipeline
127. DGNP Dry-Dock and Wharves, Mumbai
128. VAG Corridor, Mumbai

MANIPUR

129. Railway Tunnel No.1 between Dholakal and Kalmai
130. Railway Tunnel No. 3 between Jiribam and Tupul
131. Railway Tunnel No. 10 between Jiribam and Tupul
132. Railway Tunnel No. 12 between Jiribam and Tupul

ORISSA

133. Dam at Upper Kolab
134. Road Bridge across Mahanadi
135. Syphons at Kuakhai and Khushbhadra
136. Naraj Barrage, New Cuttack
137. Paradip Port Road
138. Aditya Aluminium Project

PUNJAB

139. 140 m High Chimney at Ropar
140. Rail Coach Factory at Kapurthala

RAJASTHAN

141. Rajasthan Atomic Power Project, Units 1 & 2
142. Chambal Bridge at Dholpur
143. Rajasthan Atomic Power Project, Units 3 & 4
144. Rajasthan Atomic Power Project, Units 5 & 6
145. East-West Corridor Project, Package-EW-II (RJ-7)
146. Rajasthan Atomic Power Project, Units 7 & 8

SIKKIM

147. Teesta HEP Stage VI

TAMIL NADU

148. Kadamparai Pumped Storage
149. Lower Mettur Barrages, Substructure and Powerhouse
150. Chennai Ore Berth, Jetty, Wharf
151. Sewage Treatment Plant, Chennai
152. Upper Nirar Tunnel
153. Navamalai Tunnel
154. Ennore Port-Rock Quarrying
155. Ennore Breakwater
156. Mass Rapid Transit System, Chennai
157. Kudankulam Nuclear Power Project, Units 1 & 2
158. Tirupur Water Supply Project
159. Chennai Bypass, Package CBP2

UTTAR PRADESH

160. Maneri Bhali Hydel Project
161. Narora Atomic Power Project
162. Rihand Dam
163. Rihand STPP
164. Shards and Ghogra Barrages
165. Yamuna Hydel Project
166. Gomti Aqueduct
167. Sai Aqueduct
168. Varanasi Bridge
169. Malvika Steel Works
170. Naini Cable Stayed Bridge
171. Allahabad Bypass Road, Package ABP2
172. Lucknow-Muzaffarpur National Highway Project LMNHP-EW II (WB)

UTTARAKHAND

173. Dhauliganga HEP
174. Tehri Pumped Storage

WEST BENGAL

175. Farakka Barrage
177. Mahananda Barrage
178. Kolkata Metro
179. Teesta Barrage
180. Haldia Docks Project
181. Environmental Engineering Works at Kolkata
182. Kalyani Bridge
183. Earthworks for Farakka STPP
184. Dauk Barrage
185. RCC Chimney for Kolaghat TPS
186. Underwater works for KTPP
187. Golden Quadrilateral Road Project - Kolaghat to Kharagpur
188. Purulia Pumped Storage Project
189. Teesta Low Dam HEP Stage IV
190. Elevated Road from Park Circus to E.M. Bypass, Kolkata
191. Four-laning of Bahrampore-Farakka Section of NH-34
192. Four-laning of Farakka-Raiganj Section of NH-34
193. Four-laning of Raiganj-Dalkhola Section of NH-34

BHUTAN

194. Kurichhu Hydroelectric Dam Project
195. Tala Hydroelectric Project, Package C-1
196. Tala Hydroelectric Project, Package C-4
197. Punatsangchhu Hydroelectric Project - Powerhouse
198. Dagachhu Hydro Power Plant (Civil Works), 114 MW

■ Projects completed in the year
● Projects in progress
▲ New projects
★ BOT projects

Chairman's Letter

Dear Shareholder

This is the third consecutive year where I will share with you the distressing plight of infrastructure in India. It pains me to highlight this sad situation over and over again. Yet, I see how the lack of quality infrastructure is rapidly increasing the gap between the India 'that could have been' and the India 'that actually is'.

Let me start with something even more serious: the marked slowdown of the Indian economy. India's GDP has now fallen over 12 successive quarters — something that we have never seen earlier. GDP growth for 2012-13 is estimated to be down to 5% — a far cry from the 8% plus annual growth rate that we had got used to for most of the last decade. Growth in gross fixed capital formation (GCFC) has reduced to a paltry 2.5%. In this milieu, construction activity has reduced across the board, and growth of the construction sector was a mere 5.9% in 2012-13.

Three issues plague the infrastructure and construction industry today. These have been in force in the last two years and, unfortunately, have only intensified over time.

First, environmental clearances have been a major hurdle to new infrastructure projects. I say this not just because our prestigious Lavasa project was held up by the Ministry of Environment and Forests (MoEF). In fact, the judiciary on two separate occasions has subsequently upheld our view and most of the project is now cleared for development. But at a huge cost of delay.

The travails with the MoEF go well beyond Lavasa. As I write to you, some 441 projects with investments valued at well over ₹10 lakh crore (or ₹10 trillion) have been stalled due to reasons pertaining to environmental clearance.

I am committed to preserving our environment in a responsible manner across every infrastructure project that we execute in the country. However, there should be well defined norms and mechanisms for obtaining environmental clearances. Unfortunately, the norms are often not defined in a clear and objective manner; there are significant differences in such norms between the level of the state and the MoEF; and there is too much centralisation which delays decision making. Add to that a huge increase in risk aversion within the civil service over the last couple of years — which I now turn to.

Second, a series of high profile scams has had an adverse effect on decision making in government corridors. In my last year's letter to you, I had written, "We have witnessed delays in taking decisions across government agencies, often driven by the fear of the Comptroller and Auditor General, the Central Vigilance Commission or the Supreme Court. The attitude is now one where many civil servants believe that it is better to do nothing than to take much needed executive decisions that may attract attention of these authorities." This scenario is even more prevalent today.

The sad part about corruption and scams is not the money which governments lose, but the public trust that is destroyed. Every time such trust is destroyed, each decision-maker wants to be seen to be absolutely above board. In today's India, taking an early decision that is helpful to the rapid execution of any major infrastructure project carries with it a high risk of censure from the country's executive and judicial watchdogs. Not taking a decision carries no such risk. Therefore, civil servants have found it expedient to hold back decision-making irrespective of the damage that such risk aversion causes to the infrastructural growth of the nation.

Quite honestly, our central and state governments will have to rework the rules of business to give comfort to decision makers, so that building infrastructure and ensuring good governance go hand in hand.

The third issue has to deal with prompt payment for infrastructure projects. All construction contracts involve changes of scope, variations, and delays due to one reason or the other. All over the world, when these instances occur, contractors put in place claims to recover the extra costs so incurred. The universal global practice is that such claims are settled on the recommendation of the officially appointed and bilaterally recognised 'Engineer to the Contract'. In rare cases of genuine dispute, these are referred to a Dispute Resolution Board — and failing that to arbitration. In either of these two case, the matter is usually settled in six to nine months.

> "In today's economic limbo and political uncertainties, most of us have become pessimists. Yet, the demand for infrastructure is greater than ever before."



This is not so in India. Every decision on deciding upon such claims is referred to a third party for decision-making to avoid the risk of being censured in this prevalent atmosphere of mistrust. Thereafter, the contracting party will invariably appeal against every such third party decision that goes against it all the way to the highest court in the land.

In the meanwhile, with the costs having already been incurred and funded by borrowings from banks, it is not surprising that construction and infrastructure building companies incur large debts — which make it difficult for them to meet their interest and repayment obligations. The financial travails then engulf even the banking sector as it has to restructure the loans that they have given.

Let me give an example. HCC built the Bandra-Worli Sealink in Mumbai. There are some ₹ 600 crore worth of claims

on account of this prestigious project. These are still being discussed — years after the Sealink became operational.

Today, the estimated unpaid dues to contractors on account of national highways is at almost ₹ 22,000 crore. Your Company alone is owed some ₹ 2,500 crore across its various highway construction projects. For hydro-electric, the total outstanding is approximately ₹ 7,500 crore, of which dues to your Company are around ₹ 2,500 crore.

There are no easy solutions to these issues, except to say that these all stem from bad governance. Having said so, it is imperative for all stakeholders in the infrastructure space to come to a common platform and work towards finding answers. Such a collaborative approach with a common will to sort out the mess is vital.

There are odd bits of good news. The Finance Minister has recently taken it on himself to re-start stalled infrastructure projects and create mechanisms for releasing the held back payments to industry.

It is moot whether such a task is feasible at a time when the present government is reaching the end of its term and when all political players are getting into election mode. In the meanwhile, India's infrastructure just does not get its dues; and the country remains bereft of what it needs to fuel higher growth.

In this unfortunate atmosphere, HCC's revenues in FY2013 were in line with those of FY2012. However, the order book has reduced to around ₹ 14,935 crore and the Company continued to generate losses. These results were further exacerbated by the large quantum of claims and receivables on the books.

As I mentioned earlier, the double impact of losses and a large quantum of unresolved claims adversely affected your Company's cash flows. Consequently, we could not service the debt obligations that we had built in the last few years of rapid growth. Therefore, we opted for a formal method of loan restructuring with the consortium of 27 banks, and referred their total debt to your Company of around ₹ 3,300 crore along with working capital fund based and non-fund based limits of ₹ 6800 crore to the Corporate Debt Restructuring (CDR) cell under the regulatory framework of the Reserve Bank of India.

This exercise has been implemented in 2012-13. It involves re-calibrating the debt in terms of payback period, deferring certain interests on term loans, providing concessional rate of interest, and advancing further need-based working capital. I am thankful that the financers have shown faith in our long term capability to deliver good returns and provided breathing space to streamline the business.

Given the changed business environment, we at HCC have focused on cost management. We have collapsed the different business units created in the growth phase into just one vertical. We have succeeded in making our organisation leaner. We are approaching projects in a focused manner and concentrating on improving bid success ratio rather than increasing the number of bids. The focus is back to securing large projects. We are saving costs by optimising our engineering and, hence, machinery and capital deployment. We are also sharpening our cash flow management.

In a nutshell, we are focusing on fewer but larger projects, expanding more into the private sector and doing the same things in better and more efficient ways.

Let me now share some of the good news.

First, Lavasa is back on track. The requisite environment clearances for the development of the two principal towns — Dasve and Mugaon — are now firmly in place. Through bilateral dialogue with the banks, we have restructured the debt and by the end of 2012-13 Lavasa has again become a regular, or standard, account. In fact, the banks have provided some extra line of credit as well. Confidence is back for Lavasa; and the next phase of development is well on its way.

Second, Steiner AG, the Swiss company that we acquired in 2010-11, has turned around and generated profits at both operational and net profit level. We are promoting its high technology skills and hope to develop business in the Indian market as well.

How do I see the fate of infrastructure in the next few years? On paper, the Government of India has set a massive target for doubling investment in infrastructure from ₹ 20.5 trillion to ₹ 40.9 trillion during the Twelfth Plan (2012–2017). The total investment in infrastructure is proposed to be increased to more than 10.5% of GDP by the end of the plan period. If even three-fourths of this planned investment is actually realised, it can propel India's economic growth back to a higher trajectory and, with it, significantly improve the fortunes of infrastructure contractors and service providers. The message is simple: focus and get it done.

Will that happen? In today's economic limbo and political uncertainties, most of us have become pessimists. Yet, the demand for infrastructure is greater than ever before. I can't predict whether there will be an upturn in 2013-14, but I can say with certainty that infrastructure will bounce back in the medium term. In the meanwhile, a Company such as your's needs to focus, be efficient, cut out all inessentials, do what it does well and ride out the storm.

HCC must rise to the occasion. It must become leaner and more productive, stress on engineering as a major source of competitive advantage, learn to forge partnerships to promote business, be more price competitive in the market and have stronger client relations to improve collections.

HCC is a long term player and has been an integral part of infrastructure development in India. It is now overcoming a dip in its performance, while continuing to build long term value for India and its shareholders.

My thanks for the faith that you have reposed on your Company, and I urge you to continue to do so. India needs better infrastructure and HCC will deliver for the nation and its shareholders.

With best regards,



Ajit Gulabchand
Chairman & Managing Director

Company Information

BOARD OF DIRECTORS

Ajit Gulabchand
Chairman & Managing Director

Y. H. Malegam

K. G. Tendulkar

Rajas R. Doshi

Ram P. Gandhi

Prof. Fred Moavenzadeh

D. M. Popat

Sharad M. Kulkarni

Nirmal P. Bhogilal

Anil C. Singhvi

Dr. Ila Patnaik

Rajgopal Nogja
Group Chief Operating Officer & Whole-time Director
(w.e.f. May 3, 2013)

Arun V. Karambelkar
President & Whole-time Director

COMPANY SECRETARY

Vithal P. Kulkarni

AUDITORS

K.S. Aiyar & Co., Chartered Accountants

ADVOCATES & SOLICITORS

Mulla & Mulla & Craigie Blunt & Caroe

Amarchand & Mangaldas &

Suresh A Shroff & Co.

BANKERS/FINANCIAL INSTITUTIONS

ICICI Bank Ltd.
Punjab National Bank
State Bank of India
IDBI Bank Ltd
Indian Bank
Oriental Bank of Commerce
The Jammu & Kashmir Bank
Canara Bank
State Bank of Patiala
Union Bank of India
Bank of Baroda
Vijaya Bank
DBS Bank Ltd
The Federal Bank Ltd
Standard Chartered Bank
Exim Bank of India
Toronto Dominion (Texas) LLC
LIC of India
Central Bank of India
Axis Bank Ltd
Bank of Maharashtra
State Bank of Travancore
Syndicate Bank
State Bank of Mysore
United Bank of India
Indian Overseas Bank
State Bank of Hyderabad
NABARD

REGISTRAR & SHARE TRANSFER AGENTS

TSR Darashaw Private Ltd.
6-10 Haji Moosa Patrawala Industrial House,
20, Dr. E. Moses Road, Near Famous
Studio,Mahalaxmi, Mumbai - 400 011.

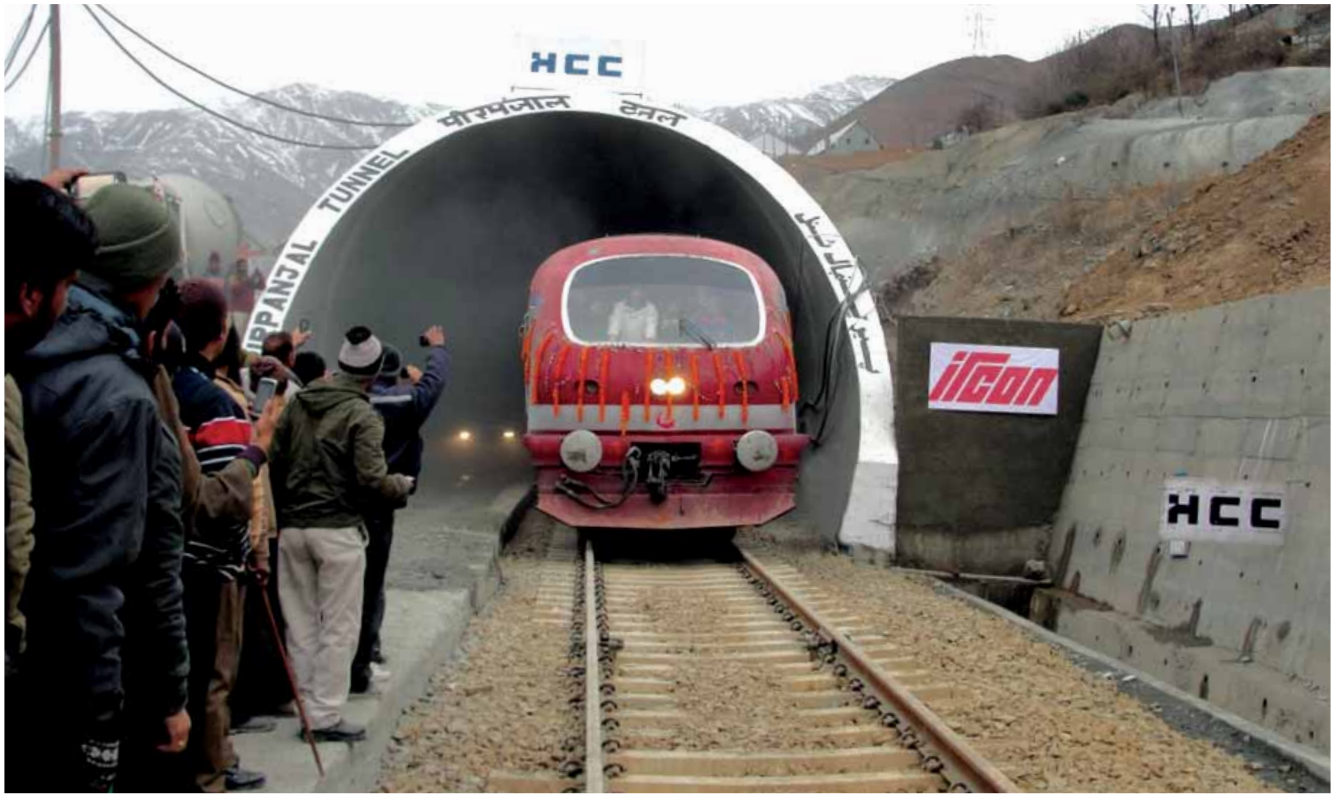
REGISTERED OFFICE

Hincon House, 11th Floor,
247Park, Lal Bahadur Shastri Marg,
Vikhroli (West), Mumbai - 400 083.



Nimoo Bazgo Hydel Power Project, Jammu & Kashmir

The (3 X 15 MW) Nimoo Bazgo Hydel Power Project, located on the confluence of River Indus with River Zanskar, around 70 kms from Leh, Jammu and Kashmir, was commissioned in December 2012. Built at a height of over 11,000 feet, in winter temperatures of –39°C, the project team had to overcome significant logistical and inventory challenges including a six month road closure during winter. The Project won the Construction Industry Development Council (CIDC) Vishwakarma Achievement Award 2013 for Best Project.



Pir Panjal Tunnel, Jammu & Kashmir

On December 28, 2012, a trial run of train services was successfully carried out through the 10.96 km long, newly constructed Pir Panjal Tunnel. This is India's longest rail tunnel and Asia's second longest. Stretching between Qazigund town in the Kashmir Valley and Banihal town in the Jammu region –. the tunnel is part of the 202 km Udhampur – Srinagar – Baramulla rail link project of the Northern Railways and has been built using the New Austrian Tunneling Method (NATM).



Mughal Road, Jammu & Kashmir

The Mughal Road is a historic route through the Himalayan mountain peaks that connects the Shopian district of Kashmir valley with the border districts of Poonch and Rajouri. In 1586, Emperor Akbar had used this mountainous track to enter the Kashmir valley. This ancient route is now all set to come alive again as a double-lane road spanning 83.9 km, whose construction has now been completed. The revitalised Mughal Road will shorten the distance between Poonch and Srinagar by 67%, and reduce 25 hours of travel time.



Kishanganga Hydel Power Project, Jammu & Kashmir

The HCC project team at the 330 MW Kishanganga Hydel Power accomplished a tunneling progress of 816 m during November 2012. This is an Indian record for the highest progress ever achieved in a complex Himalayan geology. This feat was achieved by the tunnel boring machine (TBM) crew of HCC and Seli in harsh Himalayan winter conditions where the temperature dips to – 10°C during Dec, Jan and Feb. Of the total length of 23.4 km of the head race tunnel, 14.6 km will be done by TBM, of which 9.2 km has been completed till date.



Hospital Hirslanden, Zürich

Hirslanden Private Hospital, in Zürich, built by Steiner AG, involved the execution of an annex building through a work schedule, wherein operations continued uninterrupted for the hospital and the adjacent car park during the construction period. The new building offers state-of-the- art areas for doctors' practices and surgery as well as attractive patient rooms in a high-end fitting, enabling a most agreeable stay.



Faculty for Bioengineering EPFL, Lausanne, Switzerland

Steiner AG has executed the new building extension for the Faculty for Bioengineering EPFL – one of Europe's most highly rated technical universities, which draws students, professors and staff from over 120 nations. The new building consists of the transformation and extension of an old part and the makeover of the former library into offices and laboratories. The new complex has been designed by the renowned French Architect Dominique Perrault.