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ANNUAL REPORT 2002·03

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HIGHLIGHTS

- **Gross income** from operations has gone up from Rs 463.9 crore (9 months) to an all time high of Rs 789.2 crore

- **Income from operations** (excluding income from integrated joint ventures) has gone up from Rs 394.8 crore (9 months) to Rs 677.2 crore.

- **Profit before tax** (PBT) excluding extraordinary income has increased from Rs 38 crore (9 months) to Rs 45.2 crore. **Post tax profit** excluding extraordinary income has gone up from Rs 22.8 crore to Rs 28.7 crore.

- **Balance work in hand** as on 31st March 2003 is Rs 3346 crore, the highest ever since inception and 27% higher than previous year.

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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
10. ● Rajasthan Atomic Power Project, Units 5&6

GUJARAT

11. Kandla Oil Jetty for Kandla Port Trust
12. 180M high Chimney at Wanakbori
13. Narmada Drift Project
14. Tapi Road Bridge
15. Kakrapar Atomic Power Project
16. Natural Draught Cooling Towers at Kakrapar
17. Two Cooling Towers at Gandhinagar for Gujarat State Electricity Board
18. ▶ Gujarat State Highways Project, Phase I, Package 2 – Mehsana to Palanpur
19. Reconstruction of bridge on Mehsana - Radhanpur Road and Bhuj - Bhachau Road.
20. ● Civil and Associated works for all pumping stations of Saurashtra Branch Canal Pumping Scheme.
21. ▶ Gujarat State Highways Project, Phase IIA, Package GSHP- 6 – Mehsana to Palanpur

MAHARASHTRA

22. Gas Turbine Project and LPG Station at Uran
23. Bhandup Complex
24. Reactor building, main building and other structures for BARC
25. SSSF Project at Tarapur
26. Sina Aqueduct
27. Panvel Creek Bridge
28. Barvi Expansion Project
29. Bridges over Vasai Creek at Western Railway
30. Bhorghat Tunnel for Central Railway
31. Factory civil works for Premier Automobiles Limited
32. Ambernath/Ulhasnagar STP
33. Water Treatment Plant, Pune
34. Underground Powerhouse for Koyna Project
35. Kolkewadi Dam
36. Bridge over River Ulhas
37. Trombay Chimney Works
38. Nhava Sheva WTP Works, Raigadh
39. Tunnel between Sewri and Futka for MCGB
40. Koyna Stage IV Powerhouse Complex
41. Tunnel between E Moses Road and Ruparel College, Mumbai
42. Aerated Lagoons at Ghatkopar and Bhandup, Mumbai
43. Bandra Effluent and Influent Disposal Works, Mumbai
44. Housing Complex for Kharghar, Navi Mumbai
45. ● Construction of Concrete Spillway for Gosikhurd Spillway Dam, Nagpur
46. Construction on Mumbai-Pune Expressway section B Chowk - Adoshi
47. ● Construction of High level tunnel at Ghatkopar, Mumbai
48. ● Construction of Water Supply Tunnel from Bhandup to Charkop, Mumbai
49. ● Bandra – Worli Sea Link Project – Construction of a Cable Stayed Bridge.
50. ● Four laning of Satara – Kolhapur – Maharashtra State border section of NH-4, Package V.
51. ▶ Lake City Hill Station Development Project

GOA

52. Goa Barge Berth at Marmagoa

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 – upgradation of road from Hattigudur to Bidar.

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 Moozhiyar and Veluthodu, (Kakkad)
64. Sebarigiri Dam
65. Wellington Bridge Works, Cochin
66. Lower Periyar Dam and Powerhouse
67. Brahmapuram Diesel Power Plant

TAMIL NADU

68. Civil Works for Kadamparai Pumped Storage Project
69. Lower Mettur Barrages, substructure and powerhouse
70. Ore Berth, Oil Jetty, Trawler Wharf at Chennai
71. Sewage Treatment Plant at Koyambedu, Chennai
72. Upper Nirar Tunnel
73. Navamalai Tunnel
74. Ennore Port-rock quarrying and transportation works
75. Breakwater Construction for New Port at Ennore, Chennai
76. ● Mass Rapid Transit System, Chennai
77. ● Kudankulam Nuclear Power Project, Units 1&2 – Package 3
78. ▶ Kudankulam Nuclear Power Project, Units 1&2 – Package 6
79. ▶ Tirupur Water Supply Project

Purulia Pumped [illegible] Project, West Bengal

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ANDHRA PRADESH

80. Civil works for Bhadrachalam Paper Board
81. Civil works, earthen Dam and 225M high chimney for Ramagundam Super Thermal Power Project
82. Vizag Monolith and West Wall Protection
83. Godavari Barrage at Rajahmundry
84. Papavinasam dam
85. Chimney at Vijaywada
86. Environmental Engineering works at Hyderabad
87. Substructure of bridge over river Godavari South Central Railway
88. Vijaywada Tunnel Works
89. Sileru Tunnel Works
90. D.B.K. Railway Project
91. Superstructure for Railway Bridge across Godavari

ORISSA

92. Dam at upper Kolab
93. Road Bridge across Mahanadi
94. Syphones at Kuakhai and Khushbhadra
95. Naraj Barrage, New Cuttack

WEST BENGAL

96. Farakka Barrage
97. Mahananda Barrage
98. Calcutta Metro railway Tunnel and subway structures
99. Teesta Barrage
100. Haldia Docks Project
101. Environmental Engineering Works at Calcutta
102. Kalyani Bridge
103. Earthworks for Farakka STPP
104. Dauk Barrage
105. One 220 M high RCC Chimney for Kolaghat TPS
106. Underwater cutting of protective shield and sheet piles in front of intake gates for KTPP
● 107. Golden Quadrilateral road project - National highway from Kolaghat to Kharagpur
● 108. Purulia Pumped Storage Project, West Bengal

ASSAM

109. Brahmaputra Bridge at Amingaon and Tezpur
110. Civil works for Refinery at Guwahati

BIHAR / JHARKHAND

111. Sone Barrage
112. Ganga Bridge at Mokameh
113. Civil works for Barauni Thermal Power Plant
114. Chandil Dam
115. Crossing over river Ganga for BSEB
116. Panchet Powerhouse for DVC
117. Icha Dam
● 118. Grand Trunk Road Improvement Project – Four laning and strengthening of existing two lane section from Kahudag to Boratani Bypass.

MADHYA PRADESH / CHATTISGARH

119. Satpura TPS
120. Tons Road Bridge
121. Bhilai Steel Plant
122. Tons Hydel Project, Lot I & II
123. Road Bridge over Indravati River
124. Bailadila Project

UTTAR PRADESH / UTTARANCHAL

125. Maneri Bhali Hydel Project
126. Civil works for Narora Atomic Power Project
127. Rihand Dam
128. Civil works and Chimney for Rihand STPP
129. Sharda and Ghogra Barrages
130. Yamuna Hydel Project
131. Gomti Aqueduct
132. Sai Aqueduct
133. Varanasi Bridge
134. Malvika Steel Works
● 135. Dhauliganga Hydro-electric Project, Stage I, Lot 2 – Construction of underground powerhouse
● 136. Construction of a Cable Stayed Bridge across Naini, Allahabad

DELHI

137. Water and sewage Treatment Plants.
● 138. Delhi Metro Rail Project from Vishwa Vidyalaya Station to ISBT station

HIMACHAL PRADESH

139. Power Tunnel and Underground Powerhouse for Chamera Hydel Power Project
140. Head Race Tunnel for Nathpa Jhakri Joint Venture hydroelectric project

BHUTAN

141. Construction of Concrete Dam and appurtenant works for Kurichu Hydro-electric Project
● 142. Construction of Dam, Intake, Desilting Chamber and part head race tunnel for Tala Hydro-electric Project, (Package C-1)
● 143. Construction of part head race tunnel (Package C-4) for Tala Hydro-electric Project.

▶ NEW PROJECTS ● PROJECTS IN PROGRESS

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FINANCIALS

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UCCHAR INVESTMENT LTD
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CHAIRMAN'S LETTER

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Dear Shareholders

This is the fourth successive Annual Report of your company where I have used the Chairman's letter to share with you some thoughts on the economy and the performance of HCC. On the economic front, there has been a common theme across the three previous letters — how the lack of adequate investment in infrastructure is slowing the country's potential for achieving significantly higher growth. Unfortunately, the situation in 2002-03 was not much different from 2001-02 and 2000-01. Simply put, **there just has not been enough focus on all areas of physical infrastructure.**

There has been, of course, one significant exception, and that is the road programme. Financed by a cess of Re.1 per litre of diesel and petrol — now raised to Rs.1.50 in the Union Budget 2003-04 — road building projects have been major successes. The Golden Quadrilateral project spans 5,846 kilometres, and envisages strengthening and four-laning of highways connecting Delhi, Mumbai, Chennai and Kolkata. According to data released by the Government of India, over 1,400 kilometres (or 24 per cent) have been already four-laned; all contracts have been awarded for the remainder, and the projects are being implemented. **Three of the eight transportation projects that are being executed by your**

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company relate to the Golden Quadrilateral — one in West Bengal, the second between Bihar and Jharkhand, and the third in Maharashtra.

Without doubt, the Golden Quadrilateral is achieving results. Progress has been more modest in the North-South and East-West four-laning programme. About 15 per cent of the 7,300 kilometres that fall under this huge project has been four-laned; and another 15 per cent is under implementation. With the additional cess of Re.0.50 levied in Union Budget 2003-04, there ought to be enough funds to actively award contracts for the remaining 70 per cent.

An outcome of this much needed growth in investment in roads has been a change in your company's project portfolio. In 2001-02, transportation projects accounted for 21 per cent of HCC's construction business. In 2002-03, this share has increased to 30 per cent, over a significantly larger base.

The road programme certainly deserves kudos. However, it seems to be the solitary beacon in what is still a bleak infrastructure landscape. During the Ninth Plan, less than half the planned increase in power generating capacity was achieved, and only 29 per cent of the expected private investment was forthcoming. Today, there is a shortfall of at least 12.5 per cent between peak power demand and supply.

Water is another area of concern. With every passing year, India finds itself woefully short in supplying drinking water to its citizens. Yet, there are just not enough projects in power generation and water supply.

One reason why there is a paucity of investment in power generation and water supply is the dire fiscal situation of the state governments. Most of the states are bankrupt and, after paying for establishment costs, they don't have the revenue to service their growing burden of debt — either on their balance sheets, or their off-balance sheet, special purpose vehicle (SPV) instruments. The other reason is that very few state governments are willing to risk political capital by actively engaging in power and water reforms — which necessarily require gradual increase in tariffs to cover at least the marginal cost of supply.

In the absence of other infrastructure projects, all construction companies — small, medium and large — are desperately trying to get road contracts. This has led to unhealthy competition and the crashing of prices and margins. While your company is financially sound and efficient enough to operate profitably despite severe pricing pressure, I fear that many construction firms may fail in the next couple of years.

So, other than the road programme, the infrastructure situation remains sombre. In this difficult scenario, your company has again done well. Let me report a few salient facts.

- On 31 March 2003, HCC's order book position stood at Rs.3,346 crore — which was 27 per cent more than what it was a year ago, and the highest in the history of the company.
- Despite tough market conditions and intensely competitive bidding, your company won four new projects valued at Rs.1,157 crore.
- Gross income from operations in 2002-03 stood at Rs.789.2 crore; and net income (after excluding income from integrated joint ventures) was Rs.677.2 crore — both being higher than ever before.
- Profits before depreciation, interest and taxes (PBDIT) was Rs.124.2 crore.
- Profits after tax (PAT) was Rs.28.7 crore.

Three years ago, we had taken the view that there will not be any spectacular growth in infrastructure spend in the foreseeable future, and that HCC would have to compete in an increasingly tough environment. Hence, your company had to adopt a two-fold *mantra*.

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First, to get more business and raise the top-line, but to do so by carefully choosing projects. And second, to become much more efficient in all departments, so as to continue delivering profits and higher shareholder value in a difficult milieu.

Over the last three years, we have been quietly focusing these two objectives. **Today, your company is actively involved in 20 major projects** — Seven in power, Nine in roads, bridges and transport, Three in water supply (including a first time EPC contract for Tirupur), and one in township building. **HCC, however, is not opting for maximising the sheer number of projects. Instead, our biddings are now based on value-added, and our technical and execution competencies.** In the future, we will have to move towards integrated project management — where we become the turnkey contractor involved in engineering, procurement and construction, and deal with multiple sub-contractors. The experience that we shall gain with the Tirupur project will stand us in good stead.

In order to efficiently engage in multiple projects, your company has been steadily investing in state-of-the-art construction equipment. In 2002-03, HCC's gross investment in construction equipment was Rs.436 crore — almost 18 per cent higher than the previous year. We will continue investing in equipment and technology, and complement this by better handling and maintenance and by optimally allocating these across different projects.

As far as internal efficiencies go, we have been attempting to steadily reduce construction costs through better systems. In 2002-03, however, there was an increase in construction costs as a percentage of work done. That was because of the rise in the share of roads in our project portfolio — a sector which has greater input of construction material and lower value addition. We will, however, further improve our project management systems to again reduce construction as well as material costs, despite a larger portfolio of road projects.

Your company is in the consolidation mode. Going forward, you should expect to see us continuously improving operational parameters, so as to squeeze profits without sacrificing quality and delivery. We are going to tie all the loose ends and build an integrated organisation. That is what will deliver even more superior results when the infrastructure sector gets buoyant again.

Let me end by thanking you for your support, and thanking every employee of HCC for their hard work and dedication.

Ajit Gulabchand

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BOARD OF DIRECTORS

Ajit Gulabchand
Chairman & Managing Director

Y H Malegam
Rajas R Doshi
Bhalchandra R Sule
D M Popat
D M Savur (Resigned w.e.f. 17 Jan 2003)
Ram P Gandhi
Dr N A Kalyani
Fred Moavenzadeh
Sharad M Kulkarni
Nirmal P Bhogilal
K G Tendulkar (Executive Director, Operations)
M D Khattar (Executive Director, Technical & Business Development)
R G Vartak (Appointed w.e.f. 17 Jan 2003)

COMPANY SECRETARY

Vithal P Kulkarni

AUDITORS

K S Aiyar & Co, Chartered Accountants

ADVOCATES AND SOLICITORS

Mulla & Mulla & Craigie Blunt & Caroe
Kanga & Co

BANKERS

ICICI Bank Ltd
Canara Bank
Punjab National Bank
Oriental Bank of Commerce
Indian Bank
State Bank of India
Global Trust Bank Ltd
IDBI Bank Ltd
Federal Bank Ltd
State Bank of Patiala
Union Bank of India
ING Vysya Bank Limited
Dena Bank
Bank of Baroda
UTI Bank Ltd
Bank of India

REGISTRAR AND 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
HCC Infotech Inc

REGISTERED OFFICE

Hincon House
Lal Bahadur Shastri Marg
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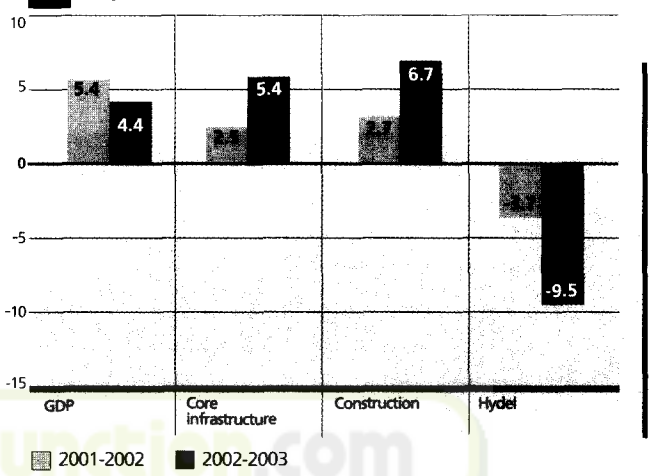
MANAGEMENT DISCUSSION AND ANALYSIS

2002-03 has been a mixed year for the Indian economy. Advance estimates released by the Central Statistical Organisation (CSO) peg GDP growth for the year at 4.4 per cent. While actual growth rates tend to vary significantly from advance estimates, if correct, this GDP growth rate is much less than the 5.4 per cent GDP growth of 2001-02. The slowdown has been caused primarily by widespread drought in 2002-03, which led to a 3.1 per cent decline in the agriculture sector.

At the same time, after a dismal 2001-02, the manufacturing and industrial sectors have staged a modest recovery in 2002-03. Indian industry is estimated to have grown by 6.1 per cent during the year, as against 3.3 per cent in the previous year, and the manufacturing sector has grown by over 6 per cent.

The mini-revival in the industrial and manufacturing sectors is reflected in the improved performance of the infrastructure sector as well. Core infrastructure industries, which include cement, steel, electricity, and coal, have grown by 5.4 per cent in 2002-03 (April-December) as against 2.5 per cent (April-December) in 2001-02. During the same period, the construction sector, spurred by the road construction programme, currently under way in the country, has witnessed a growth of 6.7 per cent as against 2.7 per cent. Electricity generation and thermal power generation, too, have grown by 3.7 per cent and 6.6 per cent, as against 2.8 per cent and 4.1 per cent respectively. However, for the third year in succession, hydel power generation witnessed a negative growth in production. Chart A gives the data.

A Key Economic Indicators (%)



Notes: GDP estimates are for April-March, all the others are for April-December. Source: CSO

These relatively encouraging trends do not, however, obscure some fundamental truths. First, the state of infrastructure in India continues to be abysmal, and is a major obstacle in our economic competitiveness. Second, the pace of infrastructure development is sluggish and tardy. Third, the level of private and public investment in infrastructure is unacceptably low. Fourth, state governments often lack the resources to meet their financial commitments to their contractors. A case in point is the Gosikhurd spillway project in Maharashtra, where our client—the state government, has been unable to adhere to its payment schedule to us, and the project has come to a standstill.

These factors, in turn, have had a negative fall-out on companies such as HCC, which are focused on building infrastructure projects. Big ticket, highly profitable projects are not forthcoming. The demand-supply mismatch, which has built up over the last several years due to the slow pace of infrastructure development, persists — with the capacities of companies to implement projects outstripping the availability of projects.

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