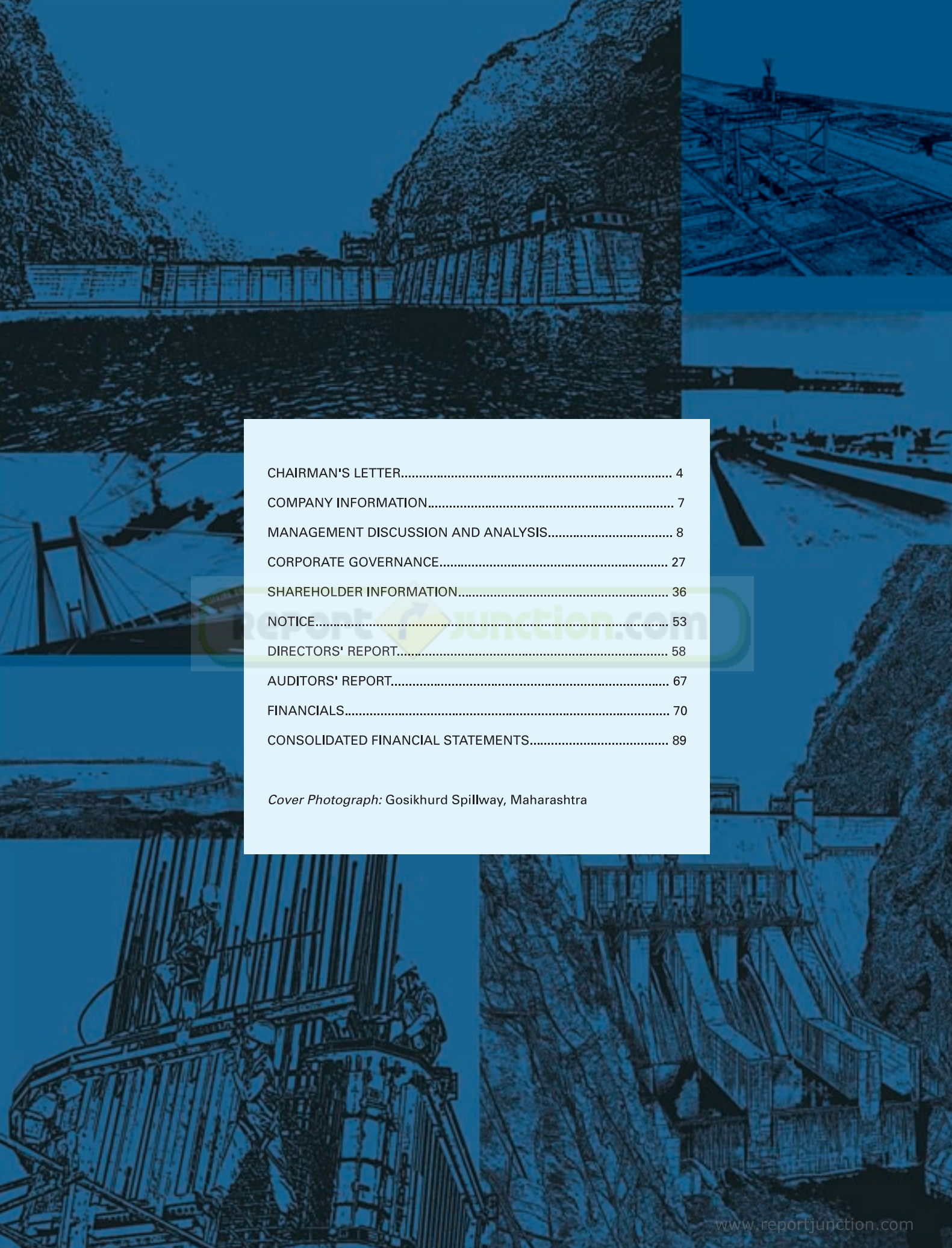
Annual Report 2007 - 08

HCC

Infrastructure Alive



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Highlights 2007-08

- Revenue from operations increased by 30% and crossed Rs. 3000 crore
- Profit after Tax increased by 37% and crossed Rs. 100 crore
- Order backlog crossed Rs. 10,000 crore
- Net worth crossed Rs. 1000 crore
- Operating level margin (EBDITA) improved significantly to 11.9% from 9.2%
- Awarded two Golden Peacock Awards - for Excellence in Corporate Governance and for Occupational Health & Safety
- Constructed 465 lane km of road and 25.8 km of tunneling in the year






HCC's Contribution To Nation Building

ANDHRA PRADESH

1. Civil Works, earthen dam and 225 m 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
- 14. Cavern for Crude Oil Storage, Vishakhapatnam
- 15. Rajiv Dummugudem Lift Irrigation Scheme
- 16. Pula Subbaiah Veligonda Tunnel

ASSAM

17. Brahmaputra Bridge at Amingaon and Tezpur
18. Civil Works for refinery at Guwahati
- 19. Four laning of NH-54, Package EW-II (AS23)

BIHAR

20. Sone Barrage
21. Ganga Bridge at Mokameh
22. Civil Works for Barauni Thermal Power Plant
23. Panchet Powerhouse
- 24. Rail cum road bridge across river Ganga at Munger

DELHI

25. Water and Sewage treatment plants
26. Delhi Metro Rail Project from Vishwa Vidyalaya Station to ISBT Station
- 27. DMRC - Airport Metro Express Line Contract AMEL - C1
- 28. DMRC - Airport Metro Express Line Contract AMEL - C6

GOA

29. Goa Barge Berth at Marmugoa

GUJARAT

30. Kandla Oil Jetty for Kandla Port Trust, Kandla
31. 180 m high chimney at Wanakbori
32. Tapi Road Bridge
33. Kakrapar Atomic Power Project
34. Natural Draught Cooling Towers at Kakrapar
35. Two Cooling Towers at Gandhinagar for Gujarat State Electricity Board
36. Gujarat State Highways Project-Mehsana to Palanpur
- 37. Saurashtra Branch Canal Pumping Scheme
38. Kalol Mehsana Gas Pipeline Project

HARYANA

39. Road bridge at Palwai
40. Panipat Chimney
41. Hathnikund Barrage at Yamunanagar

HIMACHAL PRADESH

42. Underground Powerhouse & Tunnel for Chamera Hydel Power Project, Stage I
43. Head Race Tunnel for Nathpa Jhakri Hydroelectric project
- 44. Chamera Hydroelectric Project, Stage- III, Lot 1

JAMMU & KASHMIR

45. Spillway, Dam and Powerhouse for Salal Hydel Project
- 46. Udhampur - Srinanagar - Baramulla Rail Line project, Laola - Qazigund section
47. Adit and Access Shaft for Pir Panjal Tunnel
- 48. Uri-II Hydroelectric Project, Lot 1
- 49. Pir Panjal Tunnel (Zone-VA)
- 50. Pir Panjal Tunnel (Zone-VB)
- 51. Mughal Road from Bafliaz (Poonch) to Shopian (Pulwama)
- 52. Sawalkote Hydroelectric Project
- 53. Chutak Hydroelectric Project, Lot 1
- 54. Nimoo Bazgo Hydroelectric Project, Lot 1

JHARKHAND

55. Chandil Dam
56. Icha Dam
- 57. Grand Trunk Road Improvement Project, Package VB

KARNATAKA

58. Tunnel and Powerhouse at Sharavati
59. Dockwork for MPT at Mangalore
60. Kadra Dam
61. Karnataka State Highways Project, Phase I, Package U3

KERALA

62. Tanker Terminal and Fertiliser Berth at Cochin
63. Dam across Kulamavu
64. Dam of Peppara
65. Dam across Idamalayar
66. Double Curvature Arch Dam at Idduki and Dam across River Cheruthoni
67. Lower Periyar Tunnel Power Project
68. Dam across Moozhiyar and Veluthodu, (Kakkad)
69. Sebarigiri Dam
70. Wellington Bridge Works, Cochin
71. Lower Periyar Dam and Powerhouse
72. Brahmapuram Diesel Power Plant

MADHYA PRADESH

73. Satpura TPS
74. Tons Road Bridge
75. Tons Hydel Project, Lot I & II
76. Road Bridge over Indravati River

CHATTISGARH

77. Bhilai Steel Plant
78. Bailadila Project

MAHARASHTRA

79. Gas Turbine Project and LPG Station at Uran
80. Bhandup Complex
81. Reactor Building, main building and other structures for BARC
82. SSSF Project at Tarapur
83. Sina Aqueduct
84. Panvel Creek Bridge
85. Barvi Expansion Project
86. Bridges over Vasai Creek at Western Railway
87. Bhorghat Tunnel for Central Railway
88. Factory Civil Works for Premier Automobiles Limited
89. Ambernath/Ulhasnagar STP
90. Water Treatment Plant, Pune

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91. Underground Powerhouse for Koyna Project
92. Kolkewadi Dam
93. Bridge over River Ulhas
94. Trombay Chimney Works
95. Nhava Sheva WTP Works, Raigadh
96. Tunnel between Sewri and Futka for MCGM
97. Koyna Stage IV Powerhouse Complex
98. Tunnel between E Moses Road and Ruparel College, Mumbai
99. Aerated Lagoons at Ghatkopar and Bhandup, Mumbai
100. Bandra Effluent and Influent Disposal Works, Mumbai
101. Housing Complex for Kharghar, Navi Mumbai
102. Ghatkopar High Level Tunnel, Mumbai
103. Construction on Mumbai-Pune Expressway, Section B, Chowk to Adoshi
104. Vaitarna Dam
105. Satara Kolhapur Maharashtra State Border Section of NH-4, Package V.
106. Water Supply Tunnel from Bhandup to Charkop, Mumbai
- 107. Bandra - Worli Sea Link Project
- 108. Gosikhurd Spillway, Nagpur
- 109. Lavasa, Pune
- 110. Improvement to Pune Paud Road (SH 60) and Pirangut Mutha Road (SH 57) on BOT basis
- 111. Gosikhurd Project Ghodazari Branch Canal
- ▲ 112. Water Supply Tunnel from Maroshi to Ruparel College, Mumbai
- ▲ 113. IV Mumbai (Middle Vaitarna) Water Supply Project, Section 2

ORISSA

114. Dam at Upper Kolab
115. Road bridge across Mahanadi
116. Syphones at Kuakhai and Khushbhadra
117. Naraj Barrage, New Cuttack
- 118. 4-laning of Chandikhole-Paradip section of NH-5A, Package: OR (Paradip)

PUNJAB

119. 140 m high Chimney at Ropar
120. Rail Coach Factory At Kapurthala

RAJASTHAN

121. Foundation, Structures and other Civil Works for Rajasthan Atomic Power Project, Kota, Units I & II.
122. Chambal Bridge at Dholpur
123. Rajasthan Atomic Power Project, Units 3 & 4
- ■ 124. Rajasthan Atomic Power Project, Units 5 & 6
- 125. East-West Corridor Project, Package-EW-II (RJ-7)

TAMIL NADU

126. Civil Works for Kadamparai Pumped Storage Project
127. Lower Mettur Barrages, Substructure and Powerhouse
128. Ore Berth, Oil Jetty, Trawler Wharf at Chennai
129. Sewage Treatment Plant at Koyambedu, Chennai
130. Upper Nirar Tunnel
131. Navamalai Tunnel
132. Ennore Port-rock Quarrying and Transportation Works
133. Breakwater Construction for New Port at Ennore, Chennai
134. Mass Rapid Transit System, Chennai
- 135. Kudankulam Nuclear Power Project, Units 1 & 2, Package III
- 136. Kudankulam Nuclear Power Project, Units 1 & 2, Package C6
137. Tirupur Water Supply Project
- 138. Chennai Bypass, Package CBP2

UTTAR PRADESH

139. Maneri Bhali Hydel Project
140. Civil Works for Narora Atomic Power Project
141. Rihand Dam
142. Civil Works and Chimney for Rihand STPP
143. Sharda and Ghogra Barrages
144. Yamuna Hydel Project
145. Gomti Aqueduct
146. Sai Aqueduct
147. Varanasi Bridge
148. Malvika Steel Works
149. Cable Stayed Bridge across Naini, Allahabad
- 150 Allahabad Bypass Project, Package ABP2
- 151. Lucknow - Muzaffarpur National Highway Project Package LMNHP-EW II (WB)-1
- 152. Lucknow - Muzaffarpur National Highway Project Package LMNHP-EW II (WB)-2
- 153. Lucknow - Muzaffarpur National Highway Project Package LMNHP-EW II (WB)-3
- 154. Lucknow - Muzaffarpur National Highway Project Package LMNHP-EW II (WB)-4

UTTARAKHAND

155. Dhauliganga Hydroelectric Project, Stage I, Lot 2
- 156. Loharinag Pala Hydroelectric Project

WEST BENGAL

157. Farakka Barrage
158. Mahananda Barrage
159. Kolkata Metro Railway Tunnel and Subway structures
160. Teesta Barrage
161. Haldia Docks Project
162. Environmental Engineering Works at Kolkata
163. Kalyani Bridge
164. Earthworks for Farakka STPP
165. Dauk Barrage
166. One 220 M high RCC Chimney for Kolaghat TPS
167. Underwater cutting of protective shield and sheet piles in front of intake gates for KTPP
168. Golden Quadrilateral Road Project - National Highway from Kolaghat to Kharagpur
169. Purulia Pumped Storage Project, West Bengal
- 170. Teesta Low Dam HEP Stage IV, Lot I

BHUTAN

171. Kurichu Hydroelectric Dam Project
172. Tala Hydroelectric Project, Package C-1
173. Tala Hydroelectric Project, Package C-4

SAUDI ARABIA

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

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

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Chairman's Letter

Dear Shareholder

If you will recollect, during the year 2005-06, your Company's income from operations had crossed the Rs.2,000 crore mark. Two years later, we have achieved another milestone. In 2007-08, operational revenue increased by 30% over the previous year to reach Rs.3,104.34 crore thus crossing Rs.3,000 crore.

Profits, too, have risen during the year. Your Company's operating profit (PBDIT including profits from joint ventures, but excluding other income) increased by 53% to Rs.365.9 crore in 2007-08. Profit before tax (also including profits from JVs and other income) rose by 32% to Rs.156.0 crore.

Your Company, therefore, firmly remains on a high growth path and I expect to see continued growth in both the top-line and profits in the foreseeable future. That is because of the initiatives which we have taken at HCC to diversify our businesses across our areas of competencies. Let me explain them to you.



• ***We have created a subsidiary to focus on end-to-end infrastructure business***. Increasingly, many key infrastructure projects in India are being implemented in the Build-Operate-Transfer (BOT) mode. While HCC has been a major player in construction and project execution, it was not sufficiently active in developing the BOT business. Recognising the need to define itself as an integrated infrastructure developer, your Company has launched a subsidiary, HCC Infrastructure Limited. This company will play a key role in envisaging projects with appropriate financial models, developing partners, executing construction works and managing infrastructure assets through their entire operational and financial life-cycle. With this subsidiary, I expect your Company to win many more large sized end-to-end, life-cycle contracts across the infrastructure development space.

• ***We have created a separate real estate organisation***. Real estate is, and will continue to be, a major opportunity in India. It is also a very specialised field. Recognising this, your Company had floated a real estate subsidiary, HCC Real Estate Limited (HREL), in the previous financial year. During 2007-08, HREL started executing its first project. The **247 Park** at Vikhroli (West) was officially introduced to the broker community in March 2008. Construction is in progress and structural work is planned to be completed by October/November 2008. The offices will be ready for occupation by 2009. Others projects are also on the anvil.

• ***We have restructured HCC's construction business into distinct vertical organisations, based on sectors***. Each vertical will develop and leverage its skill sets and will be supported by shared services. At present, there are five such verticals: hydel, transport, water, nuclear, special projects and thermal.

I am certain that these initiatives will not only yield greater revenues and profits in the future, but also de-risk your Company from the vicissitudes of being a pure-play construction business. Therefore, as far as your Company is concerned, I am confident that it will continue to do well in the years to come.

My concerns are more to do with India, and the greater role that needs to be played by both central and state governments as well as local authorities in the infrastructure space.

We are all proud of the fact that India has recorded a compounded annual growth rate (CAGR) of 8.7% over the last four years and that it will achieve 8.7% growth, or more, in 2007-08, despite global economic slowdown. This growth has been the outcome of phenomenal entrepreneurship across all manufacturing and service sectors. Entrepreneurship is a huge positive of India's growth story over the last decade. The other is that growth in India is driven by domestic consumption, which accounts for 68% of GDP. This significant pull of domestic demand has created greater sustainability to the growth process, and also protected us from global cycles.

However, domestic consumption alone will be hard pressed to lift India's growth rate to beyond 8% in the longer term. If we have to aim for sustained growth of 10% plus per annum over the next decade, which we can, and must achieve, we will need to focus much more on physical infrastructure.

Unless highways, roads, power, ports, railways, airports, rural and urban infrastructure get much greater priority and investments, we will not realise our true growth potential - one which eliminates mass poverty in two decades, and lifts India's per capita real income from under US$1,000 today to US$5,000.

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Increasing real per capita income to US$5,000 in 20 years requires a CAGR of per capita GDP of 8.5%. That translates to an overall GDP growth of 10% compounded over the next two decades. This is attainable provided we focus on the many big and little things needed to make successes out of infrastructure.

What are some of these things? Let me share with you a few.

• ***First, the pace of implementation***. The most die-hard proponents of infrastructure will admit that implementation has been slow. To give some examples: the North South-East West corridor was to be completed by December 2008. As of end-March 2008, only 2,010 km of the planned 7,300 km have been completed; 146 contracts covering 4,220 km of roads are under implementation, while over 11% of project length has not yet been contracted. In power, of the 16,335 MW of additional capacity which was to be in place during 2007-08, only 10,783 MW was added. This slow pace of implementation is due to many reasons: delays in awarding contracts; multiple clearances needed from various ministries and offices across central, state and local governments; delays in releasing the requisite funds; problems in the procurement process in pre- and post-award of works contracts; and others. We need to take concerted action to minimise these delays.

• ***Second, problems of funding***. The central and state governments are short of funds. Thus, their own-funded projects often get delayed because of lack of sufficient finance at the right points of time. Moreover, in public-private partnership (PPP) projects, private sector infrastructure providers often face difficulty in expeditiously obtaining the necessary long term funds to secure financial closure without which projects cannot start.

• ***Third, the funding problem has got worse with severe caps and bans on external commercial borrowings (ECB)***. This is a peculiar situation. Because the RBI does not want the rupee to appreciate, it is loath to allow unrestricted flow of ECBs even those that are available at competitive interest rates and over long tenures. Thus, on the one hand, infrastructure developers are constrained by the lack of long term foreign debt at lower costs; while, on the other, they suffer from the lack of a long term corporate debt and bond market, which is the key ingredient for infrastructure finance. Caps on ECB are seriously hurting infrastructure growth.

These are not insurmountable problems. For instance, once the Government of India takes the view that infrastructure growth will not be allowed to suffer, the decision regarding easing ECB norms for infrastructure becomes clear both in policy and in practice. Similarly, if infrastructure occupies the key position in policy-making, it should be possible to have a mechanism at the level of the Prime Minister's Office to drive decisions across the various concerned ministries.

Let us ask ourselves how the Chinese build infrastructure at such a rapid pace. And let us adopt their best practices.

I make these observations not to criticise various ministries and their agencies. Instead, it is a plea to speed up the process of infrastructure building without which it will be impossible to attain, let aside sustain 10% GDP growth.

Every political party recognises the need for greater investments in infrastructure. Let us now move from recognition to concerted action. And, in the process, lift India's growth to where it ought to be.

I am confident that the transition to more action-oriented governance will occur in India. It should occur sooner, rather than later.

Let me take this opportunity to thank all the employees of your Company and its subsidiaries for lifting HCC's top-line to over Rs.3,000 crore.
My exhortation is that we must achieve the US$ 1 billion mark at a very quick pace. And then break out for even more rapid growth. With our entrepreneurship and supportive action from government I am sure that we can do it.

Thank you for your support. There are huge growth opportunities in India. With the dedication of our employees and your encouragement, HCC will make the best of these opportunities.

Yours sincerely,



Ajit Gulabchand
Chairman and Managing Director

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Paradip Port Road Connectivity, Orissa



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Company Information

BOARD OF DIRECTORS

Ajit Gulabchand
Chairman & Managing Director

Y.H.Malegam
Rajas R.Doshi
D. M. Popat
Ram P. Gandhi
Dr. N. A. Kalyani (Resigned w.e.f April 21, 2008)
Fred Moavenzadeh
Sharad M.Kulkarni
Nirmal P. Bhogilal
R. G. Vartak (Resigned w.e.f. July 27, 2007)
Anil Singhvi (Appointed w.e.f July 27, 2007)

K. G. Tendulkar
Dy. Managing Director

S. K. Fotedar
Executive Director (Technical)

COMPANY SECRETARY

Vithal P. Kulkarni

AUDITORS

K.S. Aiyar & Co, Chartered Accountants

ADVOCATES & SOLICITORS

Mulla & Mulla & Craigie Blunt & Caroe
Kanga & Co

BANKERS

ICICI Bank Ltd
Punjab National Bank
Canara Bank
State Bank of India
Indian Bank
Oriental Bank of Commerce
State Bank of Patiala
Union Bank of India
IDBI Bank Ltd
Federal Bank Ltd
Axis Bank Ltd
Exim Bank
IDFC Ltd
State Bank of Travancore
Citibank N.A.
Hongkong Shanghai Banking Corporation Ltd
Standard Chartered Bank

REGISTRAR & SHARE TRANSFER AGENTS

TSR Darashaw Limited
6-10, Haji Moosa Patrawala Industrial Estate,
20, Dr. E. Moses Road, Mahalaxmi, Mumbai-400 011

REGISTERED OFFICE

Hincon House, Lal Bahadur Shastri Marg,
Vikhroli (West), Mumbai - 400083

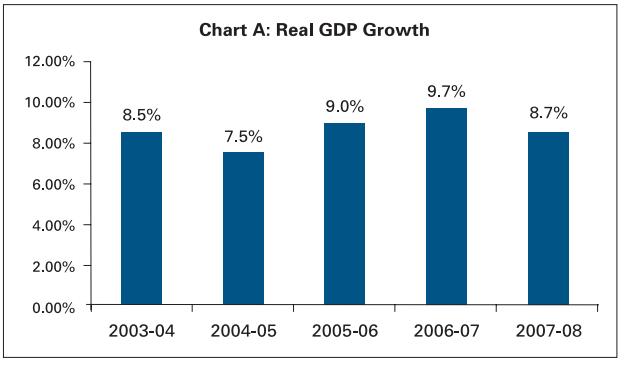


Saurashtra Branch Canal Pumping Station, Gujarat

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Management Discussion and Analysis

Looking back at 2007-08, it is safe to say that the US-led global real sector slowdown has not significantly affected the Indian economy. Advance estimates of the Central Statistical Organisation (CSO) suggest that real GDP in India grew by 8.7% during the year. While this will be less than the 9% plus growth achieved in 2005-06 and 2006-07, it is, by any yardstick, a very impressive growth rate for an economy as large as India's. Indeed, it brings the compounded annual growth rate (CAGR) over the last five years to over 8.7% (see chart A). Indeed, in an environment of global economic slowdown in 2008, the world is looking to India, China and some other emerging markets to be the beacons of growth.



The positive aspect of India's growth story is the extent to which it has been driven by widespread domestic consumer demand, which accounts for over 65% of GDP. This is very different from China's growth where the impetus is from exports and huge annual increases in both public and private investments. Economists believe that the anchor of domestic demand in India creates greater stability for the growth process and tends to immunise the country from global cycles relative to an export- and investment-intensive China.

This is true. However, it is also the case that while China needs to focus on boosting domestic incomes and demand, India needs to do more on pushing up investments, especially in infrastructure, the sinews that connect and power growth. India is already on an accelerated growth path, a focused approach towards intensive infrastructure development will propel it to the next level. And, Hindustan Construction Company Limited ('HCC' or 'the Company'), which is a leading construction company in India, is well positioned to participate and partner such development initiatives and grow exponentially.

This is where India has not yet managed to break out into a higher trajectory. While the need for infrastructure development in India is well established in theory and in the political rhetoric of the land, the speed of reforms is sluggish and investments are not happening at the requisite rate. While the infrastructure growth agenda is well established, the speed of implementation is not satisfactory. Take for example the two major infrastructure sectors – roads and power.

In roads, the East West-North South corridor, which forms a part of the National Highways Development Programme (NHDP 1 and 2) was scheduled to be completed by December 2008. As of 31 March 2008, only 2,010 km of the planned 7,300 km have been completed; 146 contracts covering 4,220 km of roads are under implementation, while over 11% of project length has not yet been contracted.

The situation for NHDP Phase 3 and Phase 5 is also not heartening. Of the 12,109 km to be built under NHDP 3, only 441 km have been completed; 31 contracts covering 1,664 km are under implementation, while for 83% of the projects, contracts still need to be awarded. None of the roads under NHDP 5 has been completed; 7 contracts for 1,030 km are under implementation, while for 84% of the projects, contracts are still to be awarded.

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