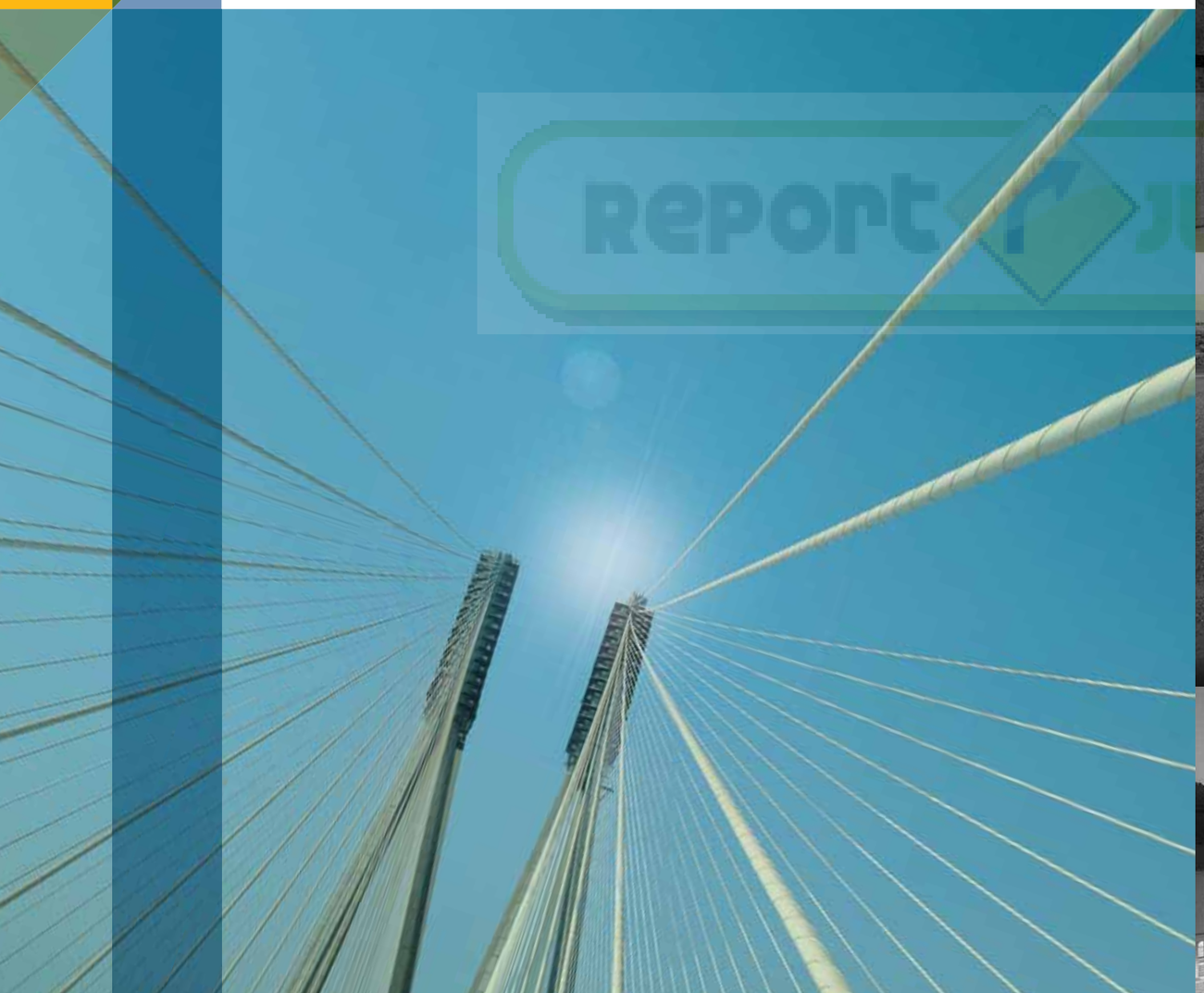
Annual Report 2008 - 09

Redefining Precision

HCC





















An engineering marvel, Bandra - Worli Sea Link, Mumbai, Maharashtra

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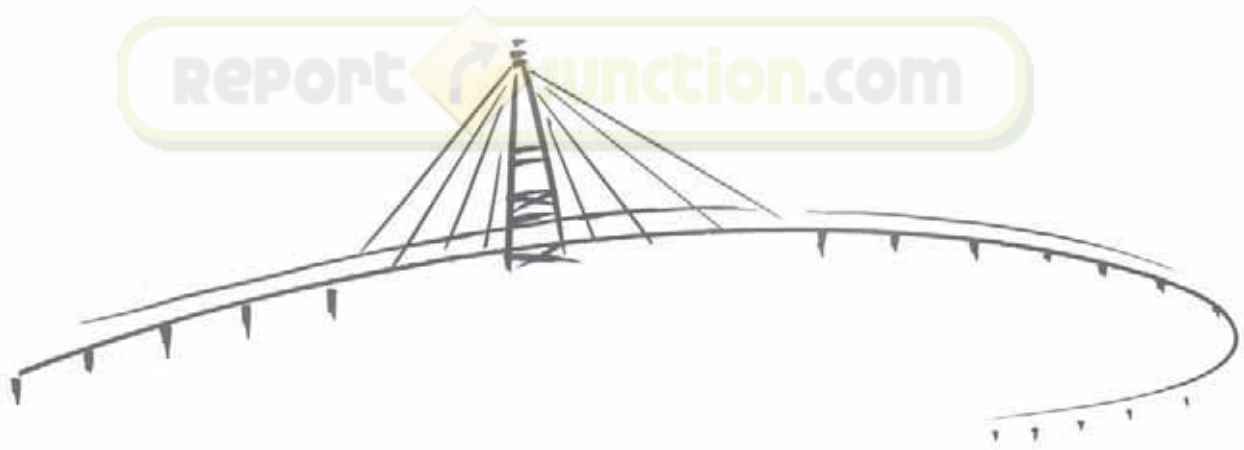
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Highlights 2008 - 09

- Order book increases by 61.5% to Rs. 16,400 crore.
- Power sector projects constitute 51% of the order backlog.
- Operating margins improve to 13.0% from 11.9%.
- Turnover and PAT grow by 13.3% and 15.3% respectively.
- Lavasa, a subsidiary, recognises revenue and posts maiden profit of Rs. 123 crore.

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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
- 17. JCR Devadula Lift Irrigation Phase III
- 18. Pranahita Chevella Lift Irrigation Scheme

ASSAM

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

BIHAR

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

CHATTISGARH

27. Bhilai Steel Plant
28. Bailadila Project

DELHI

29. Water and Sewage treatment plants
30. Delhi Metro Rail Project from Vishwa Vidyalaya Station to ISBT Station
- 31. DMRC - Airport Metro Express Line Contract AMEL - C1
- 32. DMRC - Airport Metro Express Line Contract AMEL - C6
- 33. Badarpur Elevated Highway

GOA

34. Goa Barge Berth at Marmugoa

GUJARAT

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

HARYANA

44. Road bridge at Palwai
45. Panipat Chimney
46. Hathnikund Barrage at Yamunanagar

HIMACHAL PRADESH

47. Underground Powerhouse & Tunnel for Chamera Hydel Power Project, Stage I
48. Head Race Tunnel for Nathpa Jhakri Hydroelectric project
- 49. Chamera Hydroelectric Project, Stage- III, Lot 1
- 50. Kashang Hydroelectric Project

JAMMU & KASHMIR

51. Spillway, Dam and Powerhouse for Salal Hydel Project
52. Udhampur - Srinagar - Baramulla Rail Line Project, Laola - Qazigund section
53. Adit and Access Shaft for Pir Panjal Tunnel
- 54. Uri-II Hydroelectric Project, Lot 1
- 55. Pir Panjal Tunnel (Zone-VA)
- 56. Pir Panjal Tunnel (Zone-VB)
- 57. Mughal Road from Bafliaz (Poonch) to Shopian (Pulwama)
- 58. Sawalkote Hydroelectric Project
- 59. Chutak Hydroelectric Project, Lot 1
- 60. Nimoo Bazgo Hydroelectric Project, Lot 1
- 61. Kishanganga Hydroelectric Project

JHARKHAND

62. Chandil Dam
63. Icha Dam
64. Grand Trunk Road Improvement Project, Package VB

KARNATAKA

65. Tunnel and Powerhouse at Sharavati
66. Dockwork for MPT at Mangalore
67. Kadra Dam
68. Karnataka State Highways Project, Phase I, Package U3

KERALA

69. Tanker Terminal and Fertiliser Berth at Cochin
70. Dam across Kulamavu
71. Dam of Peppara
72. Dam across Idamalayar
73. Double Curvature Arch Dam at Idduki and Dam across River Cheruthoni
74. Lower Periyar Tunnel Power Project
75. Dam across Moozhiyar and Veluthodu, (Kakkad)
76. Sebarigiri Dam
77. Wellington Bridge Works, Cochin
78. Lower Periyar Dam and Powerhouse
79. Brahmapuram Diesel Power Plant

MADHYA PRADESH

80. Satpura TPS
81. Tons Road Bridge
82. Tons Hydel Project, Lot I & II
83. Road Bridge over Indravati River

MAHARASHTRA

84. Gas Turbine Project and LPG Station at Uran
85. Bhandup Complex

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86. Reactor Building, main building and other structures for BARC
87. SSSF Project at Tarapur
88. Sina Aqueduct
89. Panvel Creek Bridge
90. Barvi Expansion Project
91. Bridges over Vasai Creek at Western Railway
92. Bhorghat Tunnel for Central Railway
93. Factory Civil Works for Premier Automobiles Limited
94. Ambernath/Ulhasnagar STP
95. Water Treatment Plant, Pune
96. Underground Powerhouse for Koyna Project
97. Kolkewadi Dam
98. Bridge over River Ulhas
99. Trombay Chimney Works
100. Nhava Sheva WTP Works, Raigadh
101. Tunnel between Sewri and Futka for MCGM
102. Koyna Stage IV Powerhouse Complex
103. Tunnel between E Moses Road and Ruparel College, Mumbai
104. Aerated Lagoons at Ghatkopar and Bhandup, Mumbai
105. Bandra Effluent and Influent Disposal Works, Mumbai
106. Housing Complex for Kharghar, Navi Mumbai
▲ 107. NH3 MP / Maharashtra Border - Dhule
108. Ghatkopar High Level Tunnel Mumbai
109. Mumbai-Pune Expressway, Section B, Chowk to Adoshi
110. Vaitarna Dam
111. Satara Kolhapur Maharashtra State Border Section of NH-4, Package V
112. Water Supply Tunnel from Bhandup to Charkop, Mumbai
● 113. Bandra - Worli Sea Link Project
■ 114. Gosikhurd Spillway, Nagpur
● 115. Lavasa, Pune
● 116. Improvement to Pune Paud Road (SH 60) and Pirangut Mutha Road (SH 57) on BOT basis
● 117. Gosikhurd Project Ghodazari Branch Canal
● 118. Water Supply Tunnel from Maroshi to Ruparel College, Mumbai
● 119. IV Mumbai (Middle Vaitarna) Water Supply Project, Section 2

ORISSA

120. Dam at Upper Kolab
121. Road bridge across Mahanadi
122. Syphones at Kuakhai and Khushbhadra
123. Naraj Barrage, New Cuttack
● 124. 4-laning of Chandikhole-Paradip section of NH-5A, Package: OR (Paradip)

PUNJAB

125. 140 m high Chimney at Ropar
126. Rail Coach Factory At Kapurthala

RAJASTHAN

127. Foundation, Structures and other Civil Works for Rajasthan Atomic Power Project, Kota, Units I & II
128. Chambal Bridge at Dholpur
129. Rajasthan Atomic Power Project, Units 3 & 4
130. Rajasthan Atomic Power Project, Units 5 & 6
■ 131. East-West Corridor Project, Package-EW-II (RJ-7)

SIKKIM

▲ 132. Teesta Hydroelectric Project Stage VI

TAMIL NADU

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

UTTAR PRADESH

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

UTTARAKHAND

162. Dhauliganga Hydroelectric Project, Stage I, Lot 2
● 163. Loharinag Pala Hydroelectric Project

WEST BENGAL

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

BHUTAN

178. Kurichu Hydroelectric Dam Project
179. Tala Hydroelectric Project, Package C-1
180. Tala Hydroelectric Project, Package C-4
▲ 181. Punatsangchhu Hydroelectric Project - Powerhouse

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

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Chairman's Letter

Dear Shareholder

In my letter to you last year, written in April 2008, I had said, "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." In fact, we did better by achieving a growth rate of 9%. However, nobody could have predicted the tsunami that would hit the global economy in 2008-09, especially after 14 September 2008, when Lehman Brothers had to declare bankruptcy, and its effects on growth throughout the world.

Here are some stark facts. The United States has already spent over $1.5 trillion trying to bail out its severely damaged financial system. The rest of the world has spent a similar amount trying to fix theirs. That's not all. The recent G20 summit in April 2009 has promised another $1.1 trillion to kick-start the global economy, with $750 billion going to help recapitalise the International Monetary Fund.

As I write this letter, the developed world is reeling under the worst recession it has had since the Great Depression of the 1930s. For the calendar year 2009, US real GDP will shrink by 2.7%. It already has an unemployment rate of 8.5% — the worst since the early 1980s. Between October 2008 and March 2009, some 3.5 million people have lost their jobs in the US. The Euro Zone is worse still: GDP will fall by 3.4% in 2009, and the unemployment rate is now in excess of 8.5%. Great Britain is reeling under a terrible recession: GDP growth in 2009 will be (-)3.5%. And Japan is facing a huge fall in GDP — 6.5% in 2009. Such a sharp, synchronous slump has never happened in the last 70-odd years.

India has not been immune to the ill winds. From the fourth quarter of 2007-08, every successive quarter saw a slowdown in growth — which became more acute in the second half of 2008-09. After achieving 9%-plus GDP growth in the last three years, our growth in 2008-09 will be in the neighbourhood of 7%, if that. And 2009-10 will not see any significant improvement in growth. In fact, it could further reduce to 6%.

No doubt, India is better off than the US, the Euro Zone, the UK and Japan. In these trying times, GDP growth in the range of 6.5% to 7% is very creditable indeed. Equally, however, one must realise what it means for business when a rapidly growing economy begins to decelerate. Everyone cuts back on spending; orders stop materialising; customers start delaying payments; working capital gets strained; and profits come down.

One of the most visible features of slower growth in India has been the sharp fall in construction — the activity that defines your Company's business. In 2006-07, the construction sector grew by 12%. Thanks to the rise in interest rates triggered by the Reserve Bank of India throughout last year, this growth fell to 10% in 2007-08. For 2008-09, it is lower still at 6.5%. In other words, in a space of two years, India has witnessed a 550 basis point compression in the rate of growth of construction activity. That is not trivial.

In such a milieu, your Company has done quite well in 2008-09. Here is a brief summary of HCC's results for 2008-09:

- HCC's order book has increased by almost 61.5% to Rs.16,400 crore.
- Revenue from operations has risen by 13.3% to Rs. 3,518.3 crore in 2008-09.
- Operating profit (PBDIT including profit/loss from joint ventures, but excluding other income) increased by 17.9% to Rs. 431.5 crore in 2008-09.
- Profit before and after tax (PBT/PAT including profit/loss from joint ventures and other income) increased by 5.5% & 15.3% to Rs. 164.6 crore & Rs. 125.4 crore respectively in 2008-09.
- Basic earnings per share (EPS) was Rs. 4.89 in 2008-09.

Let me share with you four features of your Company's development in the course of 2008-09 which I believe will position HCC on to a sustainable higher growth path for the coming years.

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Lavasa

Lavasa is the first privately built hill city in India, comprising a built-up area of 12,500 acres in the Sahyadri range along the contours of Warasgaon Lake. The master plan, designed by internationally renowned consultants, embraces 25,000 acre verdant space. It is a Rs.1,40,000 crore end-to-end urban development and management project, which is expected to evolve over the next 12 years around the development of four towns. Dasve, the first town, will be ready by 2010.

Lavasa has been envisioned to not only house permanent residents and industry employees, but also host tourists and second-home residents. It has been designed to cater to multiple socio-economic classes and is planned for a population of 1,50,000 permanent residents plus an estimated tourist flow of 2 million per annum. It will be a self-sustaining city built around four principal activities — live, learn, work and play. The city will offer a wide range of residential and commercial facilities, tie-ups with premier national and international education institutes, an extensive range of tourist activities, family entertainment opportunities and several business destinations across a range of non-polluting industries.

Already 1,400 residences and 425 acres of land have been sold to individuals and different entities. Some of the important construction work that is in progress include the Country Club, the Convention Centre and Hotel, Apollo Hospital, a high - end Accor Novotel Hotel and the GDST International School. The ITC Fortune Hotel and a budget hotel are already operational at Dasve, as is the Lakeshore Watersports. The Ecole Hotelier Lausanne hospitality school will also commence operations at the beginning of the next financial year.

Lavasa is much more than a real estate project — not just from the point of view of project development and management, but also from the revenue perspective of Lavasa Corporation. There will be several revenue flows from servicing the infrastructure that is being created. Many of the facilities for hospitality, leisure, tourism and business will operate through special purpose vehicles (SPVs) where Lavasa Corporation is a substantive partner. In addition, there will be revenue streams from the services of managing the four towns. In fact, it is worth noting that Lavasa is the first private sector entity in India to be conferred the rights of being the Special Planning Authority.

I am excited about Lavasa and invite you to read the chapter on Management Discussion and Analysis for greater details on this first-of-its-kind project.

HCC Infrastructure Limited

As I had mentioned in last year's annual report, an increasing number of major infrastructure projects in the country are being tendered and implemented in the Build-Operate-Transfer (BOT) and Build-Operate-Own (BOO) mode. These involve toll roads and bridges, power, ports and airports. While HCC is a major player in construction and project execution, we felt that more needed to be done to focus on developing and executing the larger BOT and BOO businesses and so become an integrated end-to-end infrastructure developer, constructor and operator. Thus, 2007-08 saw your Company launching a wholly owned subsidiary, HCC Infrastructure Limited, which focuses on structuring projects, creating appropriate financial models, developing partners, executing construction works and managing infrastructure assets through their entire operational and financial lifecycle. During 2008-09, HCC successfully bid and attained financial closure on two BOT-based road projects: the Badarpur-Faridabad toll road project, which your Company successfully bid on its own; and the Dhule-Madhya Pradesh border toll road, which was won as a consortium with two other partners. I expect HCC Infrastructure Limited to secure many more such projects in the future.

Structuring HCC's engineering and construction businesses into vertical organisations.

I had mentioned this in last year's annual report. This has been successfully completed. The five verticals are: roads and bridges, power projects (hydro and nuclear), water supply, integrated projects, and engineering-procurement-construction (EPC) projects. The rationale for having these verticals is to create greater focus on understanding specific customer needs and better utilisation of specialised capital equipment. I expect that these verticals will help HCC to become best-in-class in project management, in cost effectiveness and in the optimal use of equipment and technology.

The real estate organisation

Recognising that real estate development is a great opportunity which requires considerable specialisation, your Company had created a 100% real estate subsidiary, HCC Real Estate Limited (HREL) in 2006-07. There are two key projects that are being executed by HREL. The first is Lavasa — a Company in which HREL holds a substantial stake. The other is the 247 Park at Vikhroli (West). Construction work on this project has entered its last leg. Some 50% of the project has already been leased out and another 20% is in the final rounds of negotiations. Customers will get possession in the first half of 2009-10. Other projects are also on the cards.

To recapitulate, despite 2008-09 being a difficult year, your Company has done reasonably well. More significantly, we have in place all the organisational building blocks for achieving sustained high growth as the economy begins to recover. At the risk of being construed to make a 'forward looking statement', I believe that HCC will perform quite strongly across all its businesses in 2009-10.

Finally, a few words on the economy, going forward. The Reserve Bank has been doing the right things since October 2008 — dropping the cash reserve ratio, the statutory liquidity ratio, the repo and the reverse repo rates. Given the low inflation outlook, even more can be done. What we need is a stable government which focuses on the crying need for infrastructure in this country. We cannot expect 8% GDP growth on a consistent basis if only 5 km of highways are completed each day; or if we have a 15% deficit in peak power needs. Let's all pray that the new dispensation in Delhi will care for infrastructure and, thus, the nation.

My congratulations to all the employees of your Company for doing their very best in trying times. And thanks as always for your support.

Yours sincerely,



Ajit Gulabchand
Chairman and Managing Director

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4-lane, East-West Corridor Project,
Rajasthan-63 km of national highway NH-76



Sitting (L to R) - Prof. Fred Moavenzadeh, D.M. Popat, Ajit Gulabchand, Y.H. Malegam, Sharad M. Kulkarni
Standing (L to R) - Anil C. Singhvi, Nirmal P. Bhogilal, K.G. Tendulkar, Rajas R. Doshi, Ram P. Gandhi

Company Information

BOARD OF DIRECTORS

Ajit Gulabchand
Chairman & Managing Director

Y. H. Malegam
Rajas R. Doshi
D.M.Popat
Ram P. Gandhi
Prof. Fred Moavenzadeh
Sharad M. Kulkarni
Nirmal P. Bhogilal
Anil C. Singhvi

K.G. Tendulkar
Dy. Managing Director

S.K. Fotedar – Upto 28th September, 2008
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.
ING Vysya Bank Ltd.
The Jammu & Kashmir Bank Ltd.
Hongkong & Shanghai Banking Corporation Ltd.
Axis Bank Ltd.
Exim Bank
State Bank Of Travancore
Bank Of Maharashtra
Standard Chartered Bank

REGISTRAR & SHARE TRANSFER AGENT

TSR Darashaw Ltd.
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 - 400 083

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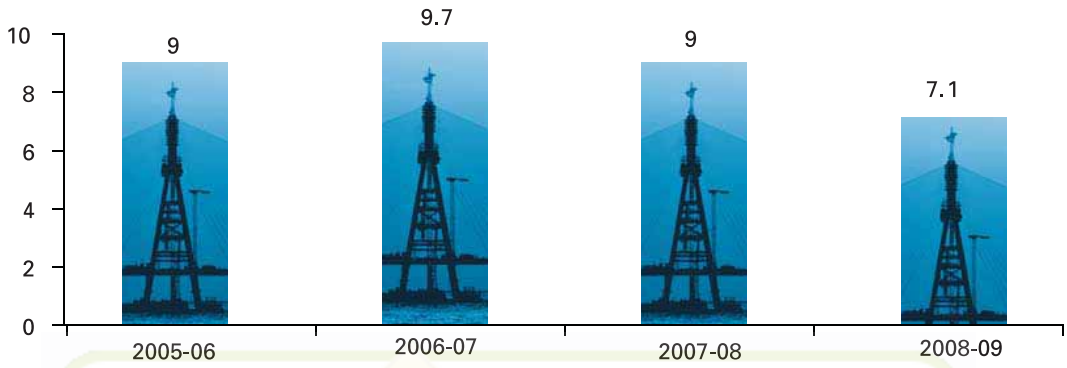
Management Discussion and Analysis

Overview

With USA going into recession and growth coming to a virtual standstill in the European Union during the second half of 2008, the global economy is going through turmoil unparalleled in the last fifty years. There are primarily two major fallouts of this global crisis on the infrastructure and construction sector in India – the domain where Hindustan Construction Company (referred to also as "HCC" or "the Company) operates.

Consequently, the various innovative and structured routes of raising global capital and increasing equity participation in infrastructure development have virtually closed down. 2008-09 also witnessed a severe tightening of liquidity in the system. This was particularly severe in the period between August and November 2008. The liquidity crunch delayed payments and most companies including construction players were affected by the chain reaction set off by the non-availability of cash in the system.

Chart A: Real GDP Growth



First, is the repercussion that the global economic slowdown has on the real economy in India. In last year's Annual Report, one observed that the Indian economy remained buoyant and "de-coupled" from the global slowdown, recording a GDP growth of over 9% in 2007-08. In 2008-09, however, the effects of the global economic slump are starting to creep into the Indian economy. As Chart A shows, the advanced estimates of the Central Statistical Organisation (CSO) of the Government of India (GOI) indicates that India will grow by 7.1% in 2008-09. Although this level of growth does not indicate a significant slowdown on a standalone basis, it is around a 200 basis point reduction over the 9% plus growth recorded in the three preceding years.

Clearly, 2008-09 has been a bit of a dampener to the accelerated growth story of India and there is some uncertainty amongst key economic agents in India. Given the high capital intensity and long gestation periods in infrastructure projects, this uncertainty has considerably dampened private sector participation in Indian infrastructure development. The slowdown and its effects on Indian companies have also reduced tax buoyancy in the economy putting some stress on government financing of infrastructure development as well. These factors get directly reflected in the sharp fall in construction growth in GDP from 10.1% in 2007-08 to 6.5% in 2008-09 (Chart B). And, this fall is even more rapid compared to growth rates of the three preceding years.

Second, is on the financial sector. Here the story is much bleaker. After all, the global slowdown that one witnesses today is a fallout of the "sub-prime" driven global financial crisis that started in the middle of 2007-08. Global financial institutions are still recovering from the shocks of this crisis and many national governments have had to bail out their major financial institutions. There has been a major need to recapitalise while the risk appetite of global financial houses has become limited.

In this milieu, HCC has delivered a very stable performance during 2008-09. The highlights of its financial performance are:

Financial Highlights

- HCC's order book has increased by almost 61.5% to Rs. 16,400 crore.
- Revenue from operations has risen by 13.3% to Rs. 3,518.3 crore in 2008-09.
- Operating profit (PBDIT including profit/loss from joint ventures, but excluding other income) increased by 17.9% to Rs. 431.5 crore in 2008-09.
- Profit before and after tax (PBT/PAT including profit/loss from joint ventures and other income) increased by 5.5% & 15.3% to Rs. 164.6 crore & Rs. 125.4 crore respectively in 2008-09.
- Basic earnings per share (EPS) was Rs. 4.89 in 2008-09.

At this stage, it is important to throw some greater light on the intrinsic nature of the engineering and construction business and analyse HCC's performance within that purview.

There are primarily two different zones of activities in this industry. The first zone comprises the conceptualisation and scoping of a project followed by the entire process of tendering, budgeting and vendor selection. This is the primary focus of planning and business development for construction and engineering companies like HCC who are essentially vendors to infrastructure projects. Successful implementation of these activities leads to a growth in the order book of a company. This defines the future growth path of the company and its impact is not felt in the financial performance of the year under review except for balance sheet entries where capital could have been raised or equipment bought for executing a project in the future.

The second zone involves the actual execution of the project including collections and dispute resolution with clients. Activities during this phase centres on effective project management, efficient resource management and working

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