

**NBCC****Sanguine outlook**

India Equity Research | Infrastructure - Construction

NBCC continued its good run by posting 29% YoY revenue growth in Q3FY16. Despite increase in work/consultancy charges, EBIDTA margin improved 59bps YoY to 4.3%. However, higher tax rate restricted PAT growth to 17% YoY. With INR150bn order intake in 9mFY16, NBCC ended Q3FY16 with an order book of ~INR300bn (book-to bill at 5.5x); in addition, ~INR150bn of projects are at various stages of approval. Strong revenue visibility, robust balance sheet and near monopoly in redevelopment space will enable NBCC to post 27% PAT CAGR over FY15-18E. Maintain 'BUY' with a revised target price of INR1,278 (INR1,276 earlier) as we roll over to FY18E.

**Extends strong execution**

NBCC's revenues surged 29% YoY to INR14.3bn with ~INR3.8bn contribution from Kidwai Nagar project. Increased contribution from the high-margin real estate segment led to EBITDA margin improving 59bps YoY to 4.3%. Interest costs, at INR99mn, moved up 21% YoY in line with revenue growth, signifying stable working capital cycle. PAT, at INR596mn, was up 17.3% YoY.

**Strong revenue visibility, opportunities galore**

YTD order inflow stands at ~INR174bn (FY15 order book at ~INR193bn). In addition, projects worth ~INR150bn (including 2 projects from DDA, projects with Rajasthan and Odisha governments) are at an advanced stage of approval with formal announcement expected shortly. Management expects sanction for redevelopment of government colonies in Delhi to come in 6 months, which will add ~INR200bn to order book further boosting revenue visibility. Apart from this, upcoming opportunities like smart cities/railway station redevelopment will further add to NBCC's burgeoning kitty of orders.

**Outlook and valuations: In pole position; maintain 'BUY'**

Likely improvement in margin trajectory driven by increasing share of redevelopment projects, healthy order book, robust return ratios (24% RoEs) and cash-rich balance sheet make NBCC a worthwhile bet in our view. We maintain 'BUY' with a revised target price of INR1,278, based on 27x FY18E EPS.

**EDELWEISS RATINGS**

<b>Absolute Rating</b>	<b>BUY</b>
Investment Characteristics	Growth

**MARKET DATA (R: NATO.BO, B: NBCC IN)**

CMP	: INR 838
Target Price	: INR 1,278
52-week range (INR)	: 1,215 / 700
Share in issue (mn)	: 120.0
M cap (INR bn/USD mn)	: 101 / 1,470
Avg. Daily Vol. BSE/NSE ('000)	: 582.1

**SHARE HOLDING PATTERN (%)**

	Current	Q2FY16	Q1FY16
Promoters *	90.0	90.0	90.0
MF's, FI's & BKs	3.3	1.0	1.1
FII's	2.0	2.5	2.2
Others	4.7	6.5	6.7
* Promoters pledged shares (% of share in issue)	:	NIL	

**PRICE PERFORMANCE (%)**

	BSE Midcap Index	Stock	Stock over Index
1 month	(8.9)	(10.8)	(1.9)
3 months	(6.3)	(0.6)	5.7
12 months	(2.6)	22.5	25.1

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**Financials (Standalone)****(INR mn)**

Year to March	Q3FY16	Q3FY15	% change	Q2FY16	% change	FY15	FY16E	FY17E
Revenues	14,260	11,064	28.9	11,254	26.7	46,621	59,630	76,349
EBITDA	615	412	49.3	664	(7.4)	2,870	3,671	4,777
Adj profit	596	508	17.3	672	(11.4)	2,773	3,353	4,420
Dil. EPS (INR)	5.0	4.2	17.3	5.6	(11.4)	23.1	27.9	36.8
Diluted P/E (x)						36.3	30.0	22.8
EV/EBITDA (x)						30.9	23.5	17.2
ROAE (%)						22.6	22.5	23.5

### Other highlights

- **Order book** - Expected to reach ~INR400bn over next couple of months, driven by conversion of ~INR150bn pipeline projects (as discussed earlier) into firm orders.
- **Order book break up** - PMC - 80%, real estate - 15%, EPC - 5%
- **Kidwai Nagar** - Scheduled completion is in December 2019; project is currently running ahead of schedule.
- **Real Estate** - NBCC is not looking at launching any new real estate projects in view weak real estate markets. Focus is on liquidation of current inventory.
- **DDA projects** - NBCC is undertaking 2 projects for DDA worth INR80bn—Karkardooma and Sanjay Lake. Currently, design/engineering work is in progress and work is expected to start in a couple of quarters. These orders are currently not included in order book.
- **Redevelopment projects** - Progress on redevelopment of land of various government agencies like NAWADCO (Waqf Board), New Delhi Municipal Corporation, state governments like Rajasthan and Odisha, etc., is progressing smoothly. NBCC is also in discussions with Indian Railways for redevelopment of railway stations. Overall, INR500-600bn works are under consideration.
- **Smart cities/AMRUT project** - NBCC is targeting redevelopment opportunity in smart Cities/AMRUT programme as it would aid fund generation, a key plank in these schemes. NBCC would restrict itself to PMC work and not invest any amount in these programmes.

Chart 1: Strong Revenue visibility

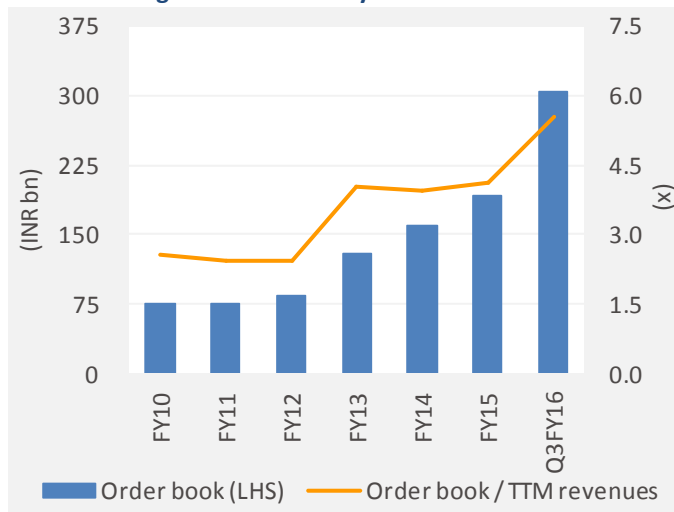
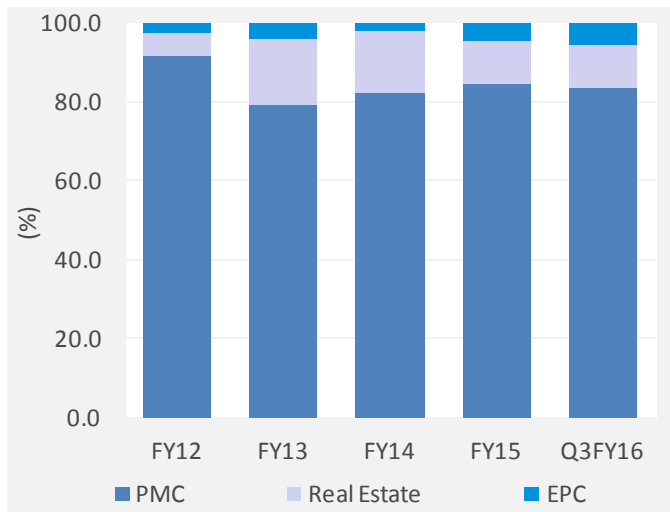


Chart 2: PMC dominates order book



Source: Company, Edelweiss research

**Table 1: Project won since Q2FY16 end**

<b>Major projects won since Q2FY16 end</b>	<b>INR mn</b>
<b>October</b>	
Acharya N. G. Ranga Agricultural University	1,263
<b>November</b>	
All India Institute of Medical Sciences (AIIMS) - redevelopment	58,280
<b>December</b>	
Indian Culinary Institute Society under Ministry of Tourism	1,879
All India Institute of Medical Sciences (AIIMS) - trauma center	30,000
Nabinagar Super Thermal Power Project	3,281
<b>January</b>	
Re-development of Pragati Maidan	21,490
IIT campus, Mandi	2,948

Source: Company, Edelweiss research

## Financial snapshot

(INR mn)

Year to March	Q3FY16	Q3FY15	% change	Q2FY16	% change	YTD16	FY16E	FY17E
Net revenues	14,260	11,064	28.9	11,254	26.7	37,009	59,630	76,349
Direct costs	12,943	9,971	29.8	10,004	29.4	33,242	52,743	67,456
Staff costs	531	496	7.2	503	5.6	1,703	2,496	3,196
Other expenses	171	186	(8.1)	83	106.4	391	720	921
Total expenditure	13,646	10,653	28.1	10,590	28.9	35,336	55,959	71,573
EBITDA	615	412	49.3	664	(7.4)	1,673	3,671	4,777
Depreciation	5	5	3.5	5	17.0	16	26	27
EBIT	609	406	49.9	659	(7.6)	1,657	3,645	4,749
Other income	342	373	(8.2)	318	7.6	972	1,343	1,706
Interest	99	82	20.7	53	87.4	228	325	307
Profit before tax	852	697	22.3	924	(7.8)	2,401	4,663	6,147
Provision for taxes	256	189	35.5	251	2.0	700	1,310	1,727
Reported net profit	596	508	17.3	672	(11.4)	1,701	3,353	4,420
Adjusted Profit	596	508	17.3	672	(11.4)	1,701	3,353	4,420
Equity capital	1,200	1,200		1,200		1,200	1,200	1,200
Diluted shares (mn)	120	120		120		120	120	120
Adjusted Diluted EPS	5.0	4.2		5.6		14.2	27.9	36.8
<b>as % of revenues</b>								
Direct costs	90.8	90.1		88.9		95.5	88.5	88.4
Other expenses	4.9	6.2		5.2		-	5.4	5.4
EBITDA	4.3	3.7		5.9		4.5	6.2	6.3
Adjusted profit	4.2	4.6		6.0		4.6	5.6	5.8
Tax rate	30.1	27.1		27.2		29.1	28.1	28.1

## Company Description

**NBCC is a 'Navratna' PSU which is mainly present in the following segments:**

**PMC:** NBCC does PMC work for projects awarded by various government arms like the Ministry of Home Affairs, Ministry of Corporate Affairs, Ministry of Urban Development, Ministry of Power and Ministry of External Affairs, among others. The company bags ~80% of the PMC works on a nomination basis, with the balance won on competitive bidding basis. Its competitors in this segment include IRCON, WAPCOS, Engg Projects India (EPI), Hindustan Prefab, etc.

**EPC work for infra projects:** In this segment, NBCC provides EPC services for power projects. It undertakes design and execution of civil and structural works for power projects, cooling towers and chimneys. Projects in this segment are awarded on competitive bidding basis. Major competitors in this segment are L&T, Gammon, Paharpur Cooling Tower, etc.

**Real estate development:** Here NBCC develops realty projects on land owned by it. Over the years, surplus cash generated has been invested in buying land from the government agencies. Currently, NBCC has ~130 acres of land in its kitty.

## Investment Theme

NBCC is a 'Navratna' public sector undertaking (PSU) in the construction space, which mainly undertakes project management and consultancy (PMC) work for government organisations. The company's PSU status ensures that ~80% of the PMC projects won by it are bagged on nomination basis. NBCC's diversified execution capabilities ensure that it remains the preferred port-of-call for executing large size projects, which various government organisations are unequipped to handle on their own.

NBCC's experience in real estate development space (the only PSU PMC player with this capability) means it enjoys near monopoly position in redevelopment of government colonies/development of government land.

## Key Risks

### Sub-contractor risk

NBCC sub-contracts actual construction work. Even when work is sub-contracted on a back-to-back basis, the ultimate responsibility for project completion rests with the company. Any issue with the sub-contractor not being able to execute the project efficiently can adversely impact project timelines and hence NBCC's profitability.

### Execution risk

Average size of projects being handled by the company is increasing and projects also involve higher level of complexity than what the company has encountered so far. Completion of such projects within the stipulated time and costs will be paramount to maintain profitability.

### Rising exposure to real estate development business

NBCC's investment (in terms of land bank acquisition) has been steadily increasing. With the real estate industry currently facing a slowdown in many cities, the company may also have to rework its plan regarding monetisation of this land bank.

## Financial Statements

### Key Assumptions

Year to March	FY15	FY16E	FY17E	FY18E
<b>Macro</b>				
GDP(Y-o-Y %)	7.2	7.4	7.9	8.3
Inflation (Avg)	5.9	4.8	5.0	5.2
Repo rate (exit rate)	7.5	6.8	6.0	6.0
USD/INR (Avg)	61.1	65.0	67.5	67.0
<b>Company</b>				
Order intake (INR bn)	80	175	175	177
Y-o-Y growth (%)	14.9	120.0	-	1.0
Book-to-bill ratio (x)	4.1	5.2	5.3	5.1
Order backlog (INR bn)	193	309	408	489
Order backlog growth (%)	20.7	59.9	32.0	20.0
Revenue growth (% yoy)	15	28	28	25
Raw Material (% net rev)	6.2	6.1	6.3	6.3
Other mfg(as % of sales)	82.3	82.4	82.1	82.0
Salary (% of revenues)	4.2	4.2	4.2	4.2
Depreciation rate (%)	6.1	5.7	5.3	5.3
Tax rate (%)	29.1	28.1	28.1	28.1
Dividend per share	5.5	6.4	7.4	9.5
Inc. in invts (INR mn)	475	116	125	136
Capex (INR mn)	61	65	73	84
Debtor days	118	123	123	123
Inventory days	95	83	83	83
Payable days	119	125	124	126
Other creditors days	166	125	123	123
Provisions days	13	10	8	6
Loans & adv (% net rev)	13.1	12.8	12.9	12.9

### Income statement

(INR mn)

Year to March	FY15	FY16E	FY17E	FY18E
Income from operations	46,621	59,630	76,349	95,528
Direct costs	41,237	52,743	67,456	84,305
Employee costs	1,951	2,496	3,196	3,998
Other Expenses	563	720	921	1,153
Total operating expenses	43,751	55,959	71,573	89,456
EBITDA	2,870	3,671	4,777	6,072
Depreciation	23	26	27	32
EBIT	2,847	3,645	4,749	6,040
Add: Other income	1,466	1,343	1,706	2,218
Less: Interest Expense	402	325	307	360
Profit Before Tax	3,910	4,663	6,147	7,899
Less: Provision for Tax	1,137	1,310	1,727	2,219
Reported Profit	2,773	3,353	4,420	5,679
Adjusted Profit	2,773	3,353	4,420	5,679
Shares o /s (mn)	120	120	120	120
Adjusted Basic EPS	23.1	27.9	36.8	47.3
Diluted shares o/s (mn)	120	120	120	120
Adjusted Diluted EPS	23.1	27.9	36.8	47.3
Adjusted Cash EPS	23.6	28.2	37.1	47.6
Dividend per share (DPS)	5.5	6.4	7.4	9.5
Dividend Payout Ratio (%)	23.8	23.0	20.0	20.0

### Common size metrics

Year to March	FY15	FY16E	FY17E	FY18E
Operating expenses	93.8	93.8	93.7	93.6
EBITDA margins	6.2	6.2	6.3	6.4
Depreciation	0.1	-	-	-
Adjusted profit	5.9	5.6	5.8	5.9

### Growth ratios (%)

Year to March	FY15	FY16E	FY17E	FY18E
Revenues	15.4	27.9	28.0	25.1
EBITDA	28.1	27.9	30.1	27.1
Adjusted Profit	12.2	20.9	31.8	28.5
EPS	12.2	20.9	31.8	28.5

Balance sheet		(INR mn)			
As on 31st March	FY15	FY16E	FY17E	FY18E	
Share capital	1,200	1,200	1,200	1,200	
Reserves & Surplus	12,041	15,394	19,814	25,493	
Shareholders' funds	13,241	16,594	21,014	26,693	
Long Term Liabilities	450	450	450	450	
Def. Tax Liability (net)	(195)	(195)	(195)	(195)	
<b>Sources of funds</b>	<b>13,496</b>	<b>16,849</b>	<b>21,269</b>	<b>26,948</b>	
Gross Block	415	480	553	636	
Net Block	262	302	347	399	
Total Fixed Assets	262	302	347	399	
Non current investments	262	262	262	262	
Cash and Equivalents	11,943	14,225	18,492	23,402	
Inventories	11,457	15,602	19,044	24,402	
Sundry Debtors	17,041	23,226	28,332	36,177	
Loans & Advances	6,123	7,662	9,887	12,371	
Other Current Assets	161	102	102	102	
Current Assets (ex cash)	34,782	46,591	57,364	73,052	
Trade payable	15,140	20,373	25,934	33,053	
Other Current Liab	18,613	24,157	29,262	37,113	
Total Current Liab	33,753	44,531	55,196	70,166	
Net Curr Assets-ex cash	1,029	2,061	2,168	2,885	
<b>Uses of funds</b>	<b>13,496</b>	<b>16,849</b>	<b>21,269</b>	<b>26,948</b>	
BVPS (INR)	110.3	138.3	175.1	222.4	

Free cash flow		(INR mn)			
Year to March	FY15	FY16E	FY17E	FY18E	
Reported Profit	2,773	3,353	4,420	5,679	
Add: Depreciation	23	26	27	32	
Interest (Net of Tax)	285	234	221	259	
Others	(1,080)	(1,159)	(1,282)	(1,622)	
Less: Changes in WC	2,859	1,032	108	717	
Operating cash flow	(857)	1,421	3,279	3,631	
Less: Capex	61	65	73	84	
<b>Free Cash Flow</b>	<b>(918)</b>	<b>1,356</b>	<b>3,206</b>	<b>3,547</b>	

Cash flow metrics		FY15	FY16E	FY17E	FY18E
Year to March					
Operating cash flow	(857)	1,421	3,279	3,631	
Investing cash flow	(536)	(180)	(198)	(220)	
Net cash Flow	(1,393)	1,241	3,081	3,411	
Capex	(61)	(65)	(73)	(84)	
Dividend paid	(794)	(925)	(1,061)	(1,363)	

Profitability and efficiency ratios		FY15	FY16E	FY17E	FY18E
Year to March					
ROAE (%)	22.6	22.5	23.5	23.8	
ROACE (%)	35.2	33.4	34.3	34.6	
Inventory Days	95	93	91	89	
Debtors Days	118	118	116	114	
Payable Days	109	109	111	113	
Cash Conversion Cycle	104	102	96	90	
Current Ratio	1.0	1.0	1.0	1.0	
Net Debt/Equity	(0.9)	(0.9)	(0.9)	(0.9)	
Interest Coverage Ratio	7.1	11.2	15.4	16.8	

Operating ratios		FY15	FY16E	FY17E	FY18E
Year to March					
Total Asset Turnover	3.7	3.9	4.0	4.0	
Fixed Asset Turnover	191.2	211.5	235.5	256.3	
Equity Turnover	3.8	4.0	4.1	4.0	

Valuation parameters		FY15	FY16E	FY17E	FY18E
Year to March					
Adj. Diluted EPS (INR)	23.1	27.9	36.8	47.3	
Y-o-Y growth (%)	12.2	20.9	31.8	28.5	
Adjusted Cash EPS (INR)	23.6	28.2	37.1	47.6	
Diluted P/E (x)	36.3	30.0	22.8	17.7	
P/B (x)	7.6	6.1	4.8	3.8	
EV / Sales (x)	1.9	1.4	1.1	0.5	
EV / EBITDA (x)	30.9	23.5	17.2	7.5	
Dividend Yield (%)	0.7	0.8	0.9	1.1	

#### Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY16E	FY17E	FY16E	FY17E	FY16E	FY17E
NBCC	1,574	30.0	22.8	23.5	17.2	22.5	23.5
Nagarjuna Construction Co	498	16.3	12.3	7.1	6.3	5.9	7.4
Simplex Infrastructures Ltd	189	17.2	8.0	6.6	5.1	4.8	9.6
Median	-	17.2	12.3	7.1	6.3	5.9	9.6
AVERAGE	-	20.8	14.0	12.3	9.4	11.3	13.8

Source: Edelweiss research

## Additional Data

### Directors Data

Dr. Anoop Kumar Mittal	Chairman and Managing Director	Mr. S.K Pal	Director (Finance)
Mr. S K Chaudhary	Director (Projects)	Mr. Rajendra Chaudhari	Director (Commercial)
Mr. D.S. Mishra	Nominee Director (MoUD)	Ms. Jhanja Tripathy	Nominee Director (MoUD)
Mr. Brijeshwar Singh	Independent Director	Mr. K L Mehrotra	Independent Director
Mr. Subash C. Saraf	Independent Director	Dr K. Chandrashekhar Iyer	Independent Director
Prof. V K Gupta	Independent Director		

Auditors - M/s Jagdish Chand & Co

*\*as per last annual report*

### Holding – Top 10

	Perc. Holding		Perc. Holding
Tata Asset Management	0.39	Credit Agricole SA	0.29
J P Morgan Asset Management	0.23	L&T Mutual Fund	0.20
Kotak Mahindra Old Mutual Life	0.14	HSBC Asset Management	0.13
L&T Investment Management Ltd	0.11	Capital Securities Investment trust	0.09
Daiwa Asset Management Singapore	0.08	Principal PNB Asset Management	0.07

*\*as per last available data*

### Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
No Data Available				

*\*as per last available data*

### Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

*\*as per last available data*



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### **Coverage group(s) of stocks by primary analyst(s): Infrastructure - Construction**

Ahluwalia Contracts, Ashoka Buildcon, Hindustan Construction Co., J Kumar Infraprojects, KNR Constructions, NBCC, Nagarjuna Construction Co, Sadbhav Engineering, Simplex Infrastructures Ltd, Supreme Infrastructure, PNC Infratech

#### **Recent Research**

Date	Company	Title	Price (INR)	Recos
11-Feb-16	<b>Nagarjuna Construction</b>	Extends robust performance; <i>Result Update</i>	57	Buy
10-Feb-16	<b>PNC Infratech</b>	Strong performance; <i>Result Update</i>	520	Buy
09-Feb-16	<b>Sadbhav Engineering</b>	Pinning hopes on fresh order wins; <i>Result Update</i>	299	Buy

#### **Distribution of Ratings / Market Cap**

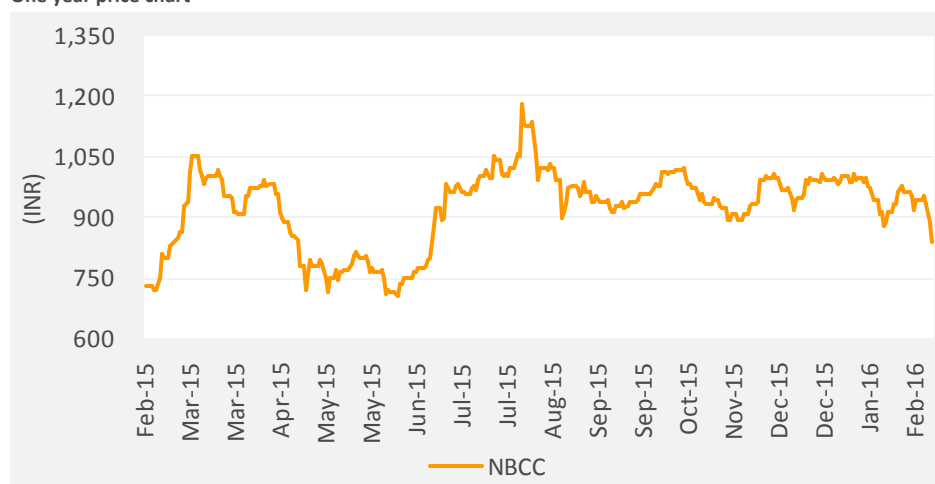
##### **Edelweiss Research Coverage Universe**

	Buy	Hold	Reduce	Total
Rating Distribution*	145	54	15	214
* stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	147	61	6	

#### **Rating Interpretation**

Rating	Expected to
<b>Buy</b>	appreciate more than 15% over a 12-month period
<b>Hold</b>	appreciate up to 15% over a 12-month period
<b>Reduce</b>	depreciate more than 5% over a 12-month period

**One year price chart**



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