

BUY

Price	Rs197
Target Price	Rs260
Investment Period	12 months

Stock Info

Sector	Construction
Market Cap (Rs cr)	4,517
Beta	1.1
52 WK High / Low	373 / 156
Avg Daily Volume	264627
Face Value (Rs)	2
BSE Sensex	16,416
Nifty	4,870
BSE Code	500294
NSE Code	NAGARCONST
Reuters Code	NGCN.BO
Bloomberg Code	NJCC IN

Shareholding Pattern (%)

Promoters	22.5
MF/Banks/Indian FIs	22.5
FII/ NRIs/ OCBs	40.8
Indian Public	14.2

Abs.	3m	1yr	3yr
Sensex (%)	(6.6)	13.9	144.5
Nagarjuna (%)	(27.5)	23.9	155.2

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Performance Highlights

- Strong order book execution helps Topline:** Nagarjuna Constructions (NCC) reported 44.5% yoy growth in Topline to Rs1,254cr (Rs868cr) for 4QFY2008 which was above our estimates of Rs1,123crs. For FY2008, the company recorded a growth of 21% yoy in Net Sales to Rs3,473cr (Rs2,871cr). This commendable performance was on the back of the strong order book and good conversion of order to bill by the company.
- OPMs increase marginally:** OPMs for the quarter improved marginally to 8.7% (8.3%). This, along with the strong Top-line growth led to a growth of 50% yoy in Operating Profits to Rs109cr (Rs73cr). The reason for the marginal improvement in OPMs was a sharp decline in Other expenses (664bp) despite the increase in Raw Material costs (620bp) and Staff costs (10bp). For FY2008, Operating Profits grew 33.4% yoy to Rs360cr (Rs270cr) and OPMs increased to 10.3% (9.4%).
- Net Profit growth impacted:** Contrary to the Operating performance, NCCs Net Profit growth was significantly lower at 5.4% yoy at Rs52.6cr (Rs49.9cr) and Net Profit margin was at 4.2% (5.7%). The reason for this was an exceptional Other Income component in 4QFY2007 and an increase in Tax provisioning in 4QFY2008 as the company did not avail of 80IA benefits. Further, Depreciation increased to Rs13.7cr (Rs9.6cr), up 43.5% yoy. However, for FY2008, while Net Profit margin increased to 4.6% (4%), Net Profit growth was at 40% yoy at Rs162cr (Rs116.6cr).
- Strong Order Book:** As on May 2008, the order book of NCC stood strong at Rs11,300cr (excluding Rs500cr of L1 stage). The Water and Irrigation segments contributed over 31%, International Business contributed 21%, Buildings contributed 19%, Oil and Gas contributed 11%, Metals and Roads contributed 7% each, Electricity contributed 3% and Power contributed 1% of the company's order book. NCC bagged six new orders worth Rs502crs in the quarter under consideration.

Key Financials

Y/E March (Rs cr)	FY2007	FY2008	FY2009E	FY2010E
Net Sales	2,871	3,473	4,644	5,950
% chg	56.0	21.0	33.7	28.1
Net Profit	152	163	232	332
% chg	44.8	7.0	42.9	43.1
FDEPS (Rs)	7.2	7.7	11.0	15.7
EBITDA Margin (%)	9.4	10.4	9.9	10.5
P/E (x)	27.4	25.6	17.9	12.5
RoE (%)	14.6	13.4	16.4	19.4
RoCE (%)	14.8	14.2	16.5	18.9
P/BV (x)	4.0	3.4	2.9	2.4
EV/Sales (x)	1.4	1.2	1.0	1.2
EV/EBITDA (x)	14.5	11.4	10.0	11.4

Source: Company, Angel Research

Key Developments

NCC Infra Signs PDA for Airport Development: NCC Infra has signed Project Development Agreement (PDA) with Infrastructure Development Department (IDD), Government of Karnataka to develop and operate airports proposed at Gulbarga and Shimoga on BOT basis. These would be under PPP (Public Private Partnership). It will include construction and development of runway, terminal, ancillary buildings and other infrastructure. We have not factored any contribution from this in our estimates as these developments are at a nascent stage and financial closure is pending.

Orders under Execution: There are 10 Projects under execution out of which 5 are roads, of which 1 is operational and rest under execution, 2 Airports, 2 Hydro Power Projects and 1 Port.

Sales and Order Book details: The order book of NCC stood strong at Rs11,300cr out of which 65% is covered by escalation clause and 35% is under Fixed Price contract. 90% of the order comes from the Central and State governments and rest from the private sector. For FY2008, Real Estate segment contributed Rs40cr to revenues. Revenue breakup of NCC as well as expected EBITDA margins from each segment are given in the table below:

Exhibit 1: Revenue & EBITDA Break Up		
Segments	Revenue Breakup (in cr)	EBITDA Margins
Buildings	926	11%-12%
Transport	732	8%-10%
Water and Irrigation	1,059	10%-11%
Power and Electricity	356	12%-14%
Oil and Gas	109	12%-13%
International Projects	291	9%-10%
TOTAL	3,473	

Source: Company, Angel Research

Outlook and Valuation

There is general consensus that inadequate infrastructure is a drag on the economy by 1-2%, which has led to increased investment allocation for infrastructure in the XIth Five Year Plan to around US\$ 475bn. This will ensure growth for the Indian Infrastructure companies. In the Road segment, NHAI has estimated Rs2.45lakh crore to be invested for the balance work under NHDP schemes up to 2015. "India Infrastructure Finance Company (IIFCL)" set up for financing the infrastructure projects of Indian companies got a nod from the RBI to lend US\$ 5bn from the forex reserves, which would provide a boost to the sector as a whole. Exclusive India Infrastructure Funds set up by Blackstone Group and Citi Group with IDFC got US\$ 519mn out of the total size of US\$ 5bn from IDFC. Many more Infra funds with an investment outlay of more than US\$ 10bn are in the process of being set up by global giants including GE Capital, which are required to fund the infrastructure needs of the economy. Therefore, we remain positive on NCC.

At the CMP, the stock trades at 17.9x FY2009E and 12.5x FY2010E Earnings. However, adjusting for the value of the BOT projects (Rs18.7/share) and Real Estate (Rs20.6/share), the stock is trading at 14.3x FY2009E and 10.1x FY2010E Earnings. **We maintain a Buy on the stock with a Target Price of Rs260.**

Exhibit 2: Standalone Performance

Y/E March (Rs cr)	4QFY2008	4QFY2007	% chg	FY2008	FY2007	% chg
Net Sales	1254	868	44.5	3473	2871	21.0
Total Expenditure	1144.6	795.1	44.0	3113.1	2601.3	19.7
Operating Profit	109	73	50.4	360	270	33.4
OPM (%)	8.7	8.3	-	10.3	9.4	-
Interest	17.4	16.5	4.8	71.9	50.3	42.7
Depreciation	13.7	9.6	43.5	48.2	29.9	61.2
Non Operating Income	3.7	27.0	-	5.5	29.1	-
Non recurring items	0.0	0.0		0.0	0.0	
Profit Before tax	81.9	73.6	(25.3)	245.2	218.6	12.2
Tax	29.3	59.8	(51.0)	83.2	102.9	(19.2)
Reported Profit After Tax	52.6	13.8	5.4	162.0	115.6	40.1
PAT (%)	4.2	1.6	-	4.6	4.0	-
Reported EPS	2.5	0.7	4.2	7.7	5.5	40

Source: Company, Angel Research


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Ratings (Returns) : Buy (Upside > 15%)
Reduce (Downside upto 15%)

Accumulate (Upside upto 15%)
Sell (Downside > 15%)

Neutral (5 to -5%)