

May 29, 2009

|                |          |
|----------------|----------|
| Rating         | Reduce   |
| Price          | Rs139    |
| Target Price   | Rs131    |
| Implied Upside | (-) 5.7% |
| Sensex         | 14,625   |

(Prices as on May 29, 2009)

### Trading Data

|                            |       |
|----------------------------|-------|
| Market Cap. (Rs bn)        | 31.8  |
| Shares o/s (m)             | 228.8 |
| Free Float                 | 75.6% |
| 3M Avg. Daily Vol ('000)   | 569.9 |
| 3M Avg. Daily Value (Rs m) | 48.0  |

### Major Shareholders

|                 |       |
|-----------------|-------|
| Promoters       | 24.4% |
| Foreign         | 27.0% |
| Domestic Inst.  | 22.4% |
| Public & Others | 26.2% |

### Stock Performance

| (%)      | 1M    | 6M    | 12M    |
|----------|-------|-------|--------|
| Absolute | 100.7 | 132.8 | (28.6) |
| Relative | 72.4  | 71.9  | (18.2) |

Price Performance (RIC: NGCN.BO, BB: NJCC IN)



Source: Bloomberg

■ **Revenues below estimate:** Nagarjuna Construction (NCC) has clocked de-growth of 12.4% in revenues for Q4FY09 at Rs11bn and PAT de-growth of 27% YoY. The sluggish growth is attributed to less revenue recognition on account of cancellation and delays in order execution. For FY09, NCC has reported a 19.5% YoY revenue growth, EBITDA margin of 9% and PAT of Rs1.5bn (5.2% YoY de-growth). The company has booked losses of Rs250m in road projects. NCC has also witnessed order cancellations from the oil & gas and buildings sector.

■ **Order book position:** Currently, NCC has an order book of Rs122bn (Rs54bn order intake in FY09), with an execution period of 30 months.

■ **Update on projects and subsidiaries:** NCC's foreign subsidiaries in Muscat have reported a 4.5% PBT margin at Rs130m, in Oman at a loss of Rs(480m) and in Dubai PBT of Rs120m. The company will commit Rs1.4bn in subsidiaries in FY10.

■ **Valuation:** The stock has also seen a steep growth in the prices on account of a re-rating of the infrastructure sector due to robust investments pegged post elections. However, the growth in the company has been muted on account of an increase in the costs in various projects and order cancellations.

At CMP of Rs139, the stock is trading at 18.3x FY10E and 15.5x FY11E earnings. The company is expected to grow at a steady rate for the next two years. However, on account of lack of clarity on subsidiaries and new order intake, we change our rating to 'Reduce' from 'Accumulate'.

| Key financials (Y/e March) | FY08   | FY09   | FY10E  | FY11E  |
|----------------------------|--------|--------|--------|--------|
| Revenues (Rs m)            | 34,729 | 41,514 | 47,945 | 56,326 |
| Growth (%)                 | 56.0   | 19.5   | 15.5   | 17.5   |
| EBITDA (Rs m)              | 3,598  | 3,737  | 4,522  | 5,405  |
| PAT (Rs m)                 | 1,620  | 1,535  | 1,738  | 2,044  |
| EPS (Rs)                   | 7.1    | 6.7    | 7.6    | 8.9    |
| Growth (%)                 | (2.9)  | (5.2)  | 13.3   | 17.6   |
| Net DPS (Rs)               | 1.1    | 1.3    | 1.5    | 1.5    |

Source: Company Data; PL Research

| Profitability & valuation | FY08 | FY09 | FY10E | FY11E |
|---------------------------|------|------|-------|-------|
| EBITDA margin (%)         | 10.4 | 9.0  | 9.4   | 9.6   |
| RoE (%)                   | 12.4 | 9.3  | 9.8   | 10.6  |
| RoCE (%)                  | 15.4 | 13.7 | 14.1  | 14.4  |
| EV / sales (x)            | 1.1  | 1.0  | 1.0   | 0.9   |
| EV / EBITDA (x)           | 10.7 | 11.5 | 10.3  | 9.3   |
| PE (x)                    | 19.6 | 20.7 | 18.3  | 15.5  |
| P / BV (x)                | 2.0  | 1.9  | 1.7   | 1.6   |
| Net dividend yield (%)    | 0.8  | 0.9  | 1.1   | 1.1   |

Source: Company Data; PL Research

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## Q4FY09 Result Overview

(Rs m)

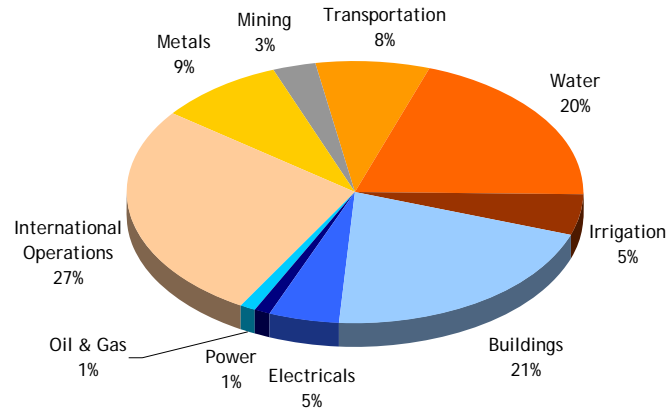
| Y/e March                      | Q4FY09      | Q4FY08       | YoY gr.<br>(%) | Q3FY09       | FY09         | FY08        | YoY gr.<br>(%) |
|--------------------------------|-------------|--------------|----------------|--------------|--------------|-------------|----------------|
| Net Sales                      | 10,981      | 12,541       | (12.4)         | 10,221       | 41,514       | 34,729      | 19.5           |
| <b>Expenditure</b>             |             |              |                |              |              |             |                |
| Consumption of Raw Materials   | 3,074       | 4,567        | (32.7)         | 4,002        | 14,420       | 11,737      | 22.9           |
| <i>% of Net Sales</i>          | <i>28.0</i> | <i>36.4</i>  |                | <i>39.2</i>  | <i>34.7</i>  | <i>33.8</i> |                |
| Increase/Decrease in WIP       | 217         | (268)        |                | (540)        | (1,378)      | 774         |                |
| <i>% of Net Sales</i>          | <i>2.0</i>  | <i>(2.1)</i> |                | <i>(5.3)</i> | <i>(3.3)</i> | <i>2.2</i>  |                |
| Subcontracting expenses        | 4,320       | 4,181        | 3.3            | 3,178        | 14,028       | 11,339      | 23.7           |
| <i>% of Net Sales</i>          | <i>39.3</i> | <i>33.3</i>  |                | <i>31.1</i>  | <i>33.8</i>  | <i>32.7</i> |                |
| Other Construction Expenditure | 883         | 1,206        | (26.7)         | 1,055        | 3,979        | 3,422       | 16.3           |
| <i>% of Net Sales</i>          | <i>8.0</i>  | <i>9.6</i>   |                | <i>10.3</i>  | <i>9.6</i>   | <i>9.9</i>  |                |
| Personnel Cost                 | 409         | 387          | 5.7            | 458          | 1,886        | 1,402       | 34.5           |
| <i>% of Net Sales</i>          | <i>3.7</i>  | <i>3.1</i>   |                | <i>4.5</i>   | <i>4.5</i>   | <i>4.0</i>  |                |
| Labour cost                    | 1,080       | 1,140        | (5.3)          | 945          | 3,923        | 3,228       | 21.5           |
| <i>% of Net Sales</i>          | <i>9.8</i>  | <i>9.1</i>   |                | <i>9.2</i>   | <i>9.4</i>   | <i>9.3</i>  |                |
| Other Expenditure              | 161         | 235          | (31.8)         | 267          | 920          | 777         | 18.3           |
| <i>% of Net Sales</i>          | <i>1.5</i>  | <i>1.9</i>   |                | <i>2.6</i>   | <i>2.2</i>   | <i>2.2</i>  |                |
| Total Expenditure              | 9,367       | 11,447       | (18.2)         | 9,367        | 37,777       | 31,132      | 21.3           |
| EBITDA                         | 899         | 1,093        | (17.8)         | 899          | 3,737        | 3,598       | 3.9            |
| <i>Margin (%)</i>              | <i>8.2</i>  | <i>8.7</i>   | <i>(53.0)</i>  | <i>8.8</i>   | <i>9.0</i>   | <i>10.4</i> | <i>900.1</i>   |
| Depreciation                   | 123         | 138          | (10.9)         | 119          | 533          | 482         | 10.6           |
| EBIT                           | 776         | 956          | (18.8)         | 780          | 3,204        | 3,116       | 2.8            |
| Interest                       | 213         | 174          | 22.3           | 238          | 964          | 719         | 33.9           |
| Other Income                   | 15          | 37           | (60.3)         | 54           | 42           | 56          | (25.1)         |
| PBT                            | 578         | 819          | (29.4)         | 596          | 2,282        | 2,452       | (6.9)          |
| Tax                            | 135         | 293          | (54.0)         | 188          | 832          | 793         | 5.0            |
| <i>Tax Rate (%)</i>            | <i>23.3</i> | <i>35.8</i>  |                | <i>31.5</i>  | <i>36.5</i>  | <i>32.3</i> |                |
| Recurring Pat                  | 382         | 526          | (27.4)         | 363          | 1,535        | 1,619       | (5.2)          |



## Highlights

### Order book break-up

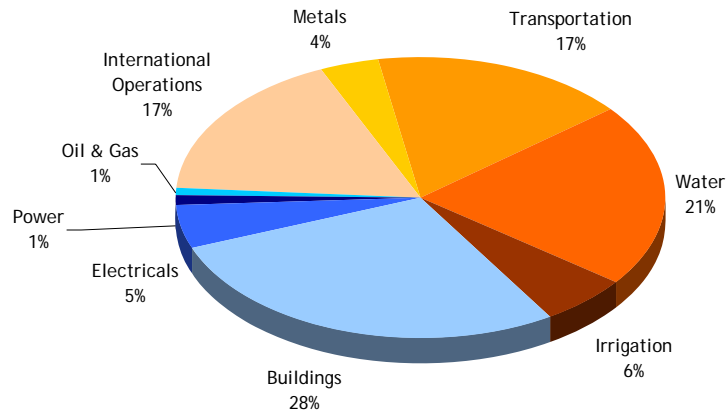
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Source: Company Data, PL Research

### Sectoral performance

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Source: Company Data, PL Research

### Change in estimates

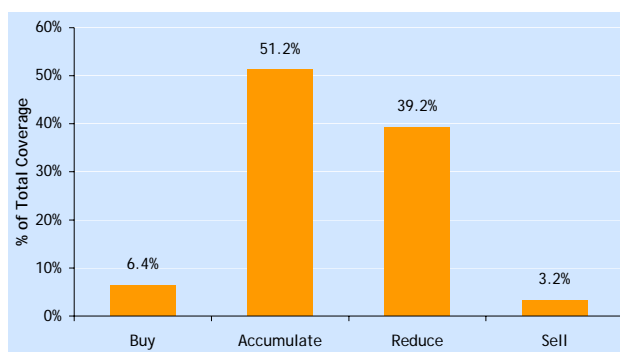
We have revised FY10E and FY11E topline, EBITDA and PAT estimates on account of lower order intake, dent in execution and possible cancellation of further orders. Our revised revenues for FY10E and FY11E stand at Rs48bn and Rs57bn, respectively, from our earlier estimates of Rs55bn and Rs65bn, respectively. However, we have retained EBITDA margins at the same levels as the cost occurring due to order cancellations may not recur. We expect NCC to report a PAT of Rs1.7bn and Rs2bn in FY10E and FY11E, respectively.

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#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

|                       |  |                          |  |
|-----------------------|--|--------------------------|--|
| <b>BUY</b>            | : Over 15% Outperformance to Sensex over 12-months | <b>Accumulate</b>        | : Outperformance to Sensex over 12-months            |
| <b>Reduce</b>         | : Underperformance to Sensex over 12-months        | <b>Sell</b>              | : Over 15% underperformance to Sensex over 12-months |
| <b>Trading Buy</b>    | : Over 10% absolute upside in 1-month              | <b>Trading Sell</b>      | : Over 10% absolute decline in 1-month               |
| <b>Not Rated (NR)</b> | : No specific call on the stock                    | <b>Under Review (UR)</b> | : Rating likely to change shortly                    |

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