



Nagarjuna Construction

STOCK INFO. BLOOMBERG
BSE SENSEX: 14,001 NJCC IN
REUTERS CODE
S&P CNX: 4,228 NGCN.BO

12 September 2008

Neutral

Previous Recommendation: Neutral

Rs127

Equity Shares (m)	228.8
52-Week Range	373/107
1,6,12 Rel. Perf. (%)	-3/-36/-32
M.Cap. (Rs b)	21.0
M.Cap. (US\$ b)	0.6

YEAR	NET SALES	PAT	EPS	EPS	P/E	P/BV	ROE	ROCE	EV/	EV/
END	(RS M)	(RS M)	(RS)	GROWTH (%)	(X)	(X)	(%)	(%)	SALES	EBITDA
3/07A	28,711	1,335	6.4	26.1	19.8	2.6	13.5	14.9	1.2	13.1
3/08A	34,729	1,623	7.1	10.3	18.0	1.8	12.4	12.3	1.2	11.3
3/09E	44,829	1,616	7.1	0.0	18.0	1.7	9.9	11.2	1.0	10.7
3/10E	56,464	2,120	9.3	31.2	13.7	1.6	11.9	12.6	0.9	8.9

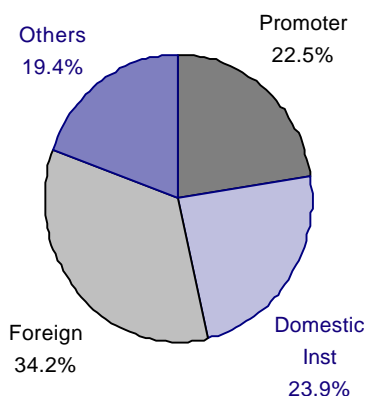
Promoters not to exercise warrants, a negative surprise: During Feb 07, Nagarjuna Construction allotted 2.5m warrants to promoters (M/s. A V S R Holdings Private Ltd), with option to convert into equity shares at Rs217/sh, within 18 months, entailing cash inflow of Rs543m. As the promoters have not paid the amount within stipulated time frame, warrants have elapsed. NCC had received 10% upfront payment of Rs54m, which will now be forfeited.

Blackstone (9.1m warrants) could also lapse: During Aug 2007, NCC had issued 9.1m warrants to Blackstone, to be converted into equity at Rs225/sh, entailing cash inflow of Rs2.1b. We understand that these warrants would possibly not be converted into equity, given that it is deeply out of the money. Further, as the FIPB approval is not received, Blackstone had not paid 10% upfront premium also, and thus non-exercise will not result in any forfeiture.

Increase in debt funding of ~Rs2.5b: We had assumed warrants conversion, and thus the recent developments will lead to incremental debt funding. We now expect net DER for NCC at 1x in FY09 and 1.1x in FY10, v/s earlier estimates of 0.7x in FY09 and 0.9x in FY10. As at Mar 08, equity investments in BOT and real estate projects stood at Rs6.5b. Further equity commitments stand at Rs6.6b, of which Rs2b+ would be invested in FY09.

Valuation and view: We have downgraded our earnings estimates for FY09 by 5.3% and for FY10 by 6.7%, to factor in the incremental debt post non-conversion of warrants into equity. The EPS downgrades for FY09 and FY10 stands at 0.5% and 2% respectively. At the CMP of Rs127, the stock trades at reported PER of 18x FY09E and 13.7x FY10E. Adjusted for value of BOT projects (Rs10/sh) and Real Estate (Rs25/sh), the stock trades at PER of 13x FY09E and 9.9x FY10E. Maintain **Neutral**.

SHAREHOLDING PATTERN (JUNE 08)



STOCK PERFORMANCE (1 YEAR)



REVISED EARNING ESTIMATES (RS M)

	FY09E			FY10E		
	EARLIER	REVISED	% CHANGE	EARLIER	REVISED	% CHANGE
Revenues	44,829	44,829	0.0	56,464	56,464	0.0
EBITDA	4,279	4,279	0.0	5,631	5,631	0.0
Net Profit	1,707	1,616	-5.3	2,272	2,120	-6.7
EPS/share (Rs)	7.1	7.1	-0.5	9.5	9.3	-2.0

Source: Motilal Oswal Securities

NET DER (TAKING MOBILIZATION ADVANCE AS PART OF DEBT)

	FY06	FY07	FY08	FY09E	FY10E
Gammon*	0.3	0.5	0.8	1.4	1.5
HCC**	0.4	1.7	1.8	1.6	1.3
IVRCL	1.2	0.4	0.7	0.8	0.9
NCC	0.2	0.9	0.7	1.0	1.1
Patel Engg	2.0	0.5	0.8	0.9	1.1
Simplex Infra	3.1	3.5	1.6	1.4	1.3

* Includes acquisition debt of Rs6b; **Includes FCCB of Rs4b as debt

Source: Motilal Oswal Securities

EQUITY COMMITMENT TOWARDS BOT PROJECTS (RS M)

	COST	NCC	NCC	EQUITY	ADD. EQUITY
		EQUITY (%)	EQUITY (%)	INFUSION (FY08)	REQUIREMENT
(A) BOT Portfolio					
Transportation					
Bangalore-Maddur, Karnataka	2,475	33	148	148	0
Orai-Bhognipur, UP	5,840	64	934	468	466
Bangalore - Hosur, Karnataka	7,757	34	590	447	143
Merrut-Muzzafarnagar, UP	5,350	30	280	140	140
Tindivanam - Pondicherry	3,060	50	383	153	230
Power					
Himachal Sorang (100MW)	6,000	33	396	0	396
Himalayan Green (280MW)	14,500	50	175	0	2,175
Gautami Power (464MW)			413	413	0
Ports					
Machillipatnam Port	15,500	25	969	0	969
Sub -Total	60,482		6,288	1,636	4,652
Share Application Money				1,350	1,350
Sub - Total (A)				2,986	3,302
(B) Real Estate					
National Games Village, Ranchi	2,760	100	250	250	0
Jubilee Hills, Hyderabad	8,000	25	489	489	0
Madhurdwada, Andhra Pradesh	4,557	89	668	499	169
Tellapur, Hyderabad	55,000	26	4,399	1,300	3,099 *
Sub -Total (B)	70,317		5,806	2,538	3,268
Total (A)+(B)	130,799		12,094	5,524	6,570

* Tellapur: Rs2.2b of equity can be financed from monetization of the initial phase of real estate development

Source: Company/Motilal Oswal Securities

NCC: SUM OF PARTS VALUE

	BUSINESS SEGMENT	METHOD	VALUATION (X)	VALUE (RS M)	VALUE (RS/SH)	RATIONALE
NCC Standalone	Construction	FY10E PER (x)	12	25,438	111	At premium to industry average
BOT Portfolio						
A) Operational Projects	Road	DCF, Cost of Equity: 14%		196	0.9	Based on NPV of cash flows
Bangalore Mysore Annuity						
B) Projects under Construction Phase						
Meerut Muzzafarpur Toll Project	Road	Book Value		140	0.6	Book Value of investments till Mar 08
Orai - Bhognipur and Bhognipur - Barah Annuity Project	Road	Book Value		468	2.0	Book Value of investments till Mar 08
Bangalore Elevated Highway Project	Road	Book Value		447	2.0	Book Value of investments till Mar 08
Real Estate						
NCC Urban Infra (Land Bank)	Real Estate	NPV, Cost of Equity: 17%		2,469	10.8	Based on discount of 35% NPV of cash flows
National Games Village (Ranchi)	Real Estate	NPV, Cost of Equity: 17%		388	1.7	Based on discount of 35% NPV of cash flows
Jubilee Hills (Hyderabad)	Real Estate	NPV, Cost of Equity: 17%		670	2.9	Based on discount of 35% NPV of cash flows
Madhudwada (AP)	Real Estate	NPV, Cost of Equity: 17%		801	3.5	Based on discount of 35% NPV of cash flows
HUDA (Hyderabad)	Real Estate	Book Value		1,300	5.7	Book Value of investments till Mar 08
Share Application Money (NCC Infra)	Infrastructure	Book Value		1,350	3.0	Book Value of investments till Mar 08
Gautami Power	Power	Book Value		413	1.8	Book Value of investments till Mar 08
Total				34,075	146	

Source: Motilal Oswal Securities

INCOME STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008	2009E	2010E
Net Sales	18,404	28,711	34,729	44,829	56,464
Change (%)	54.9	56.0	21.0	29.1	26.0
Construction Expenses	15,803	24,572	28,952	37,895	47,618
Staff Cost	473	844	1,402	1,752	2,190
Office and Site Est. Exps	487	597	777	903	1,025
EBITDA	1,641	2,698	3,598	4,279	5,631
% of Net Sales	8.9	9.4	10.4	9.5	10.0
Depreciation	182	299	482	613	753
Interest	217	504	719	1,288	1,748
Other Income	20	292	56	35	35
PBT	1,262	2,186	2,452	2,412	3,164
Tax	223	667	832	796	1,044
Rate (%)	17.7	30.5	34.0	33.0	33.0
Reported PAT	1,039	1,519	1,619	1,616	2,120
EO Expenses	10	-184	3	0	0
Adjusted PAT	1,049	1,335	1,623	1,616	2,120
Change (%)	76.3	27.3	216	-0.4	312

BALANCE SHEET					
(Rs Million)					
Y/E MARCH	2006	2007	2008E	2009E	2010E
Share Capital	207	417	458	458	458
Reserves	9,212	9,914	15,209	16,487	18,163
Net Worth	9,450	10,336	15,669	16,944	18,620
Loans	4,629	11,403	13,767	19,035	23,210
Deferred Tax Liability	66	115	167	167	167
Capital Employed	14,145	21,855	29,603	36,146	41,997
Gross Fixed Assets	2,569	5,007	6,620	8,763	10,763
Less: Depreciation	720	964	1,423	2,037	2,790
Net Fixed Assets	1,849	4,043	5,197	6,726	7,973
Capital WIP	67	186	143	0	0
Investments	877	4,768	5,648	8,752	10,226
Curr. Assets	15,699	20,963	31,483	37,497	45,565
Inventory	3,893	4,041	5,493	6,755	8,508
Debtors	3,017	5,817	8,677	10,439	13,149
Cash & Bank Balance	2,809	2,434	2,329	2,094	1,876
Loans & Advances	5,942	8,579	14,923	18,148	21,971
Other Current Assets	39	93	61	61	61
Current Liab. & Prov.	4,368	8,061	12,814	16,828	21,766
Creditors	3,107	5,026	8,238	10,382	13,046
Other Liabilities	803	1,790	2,497	3,246	4,220
Provisions	457	1,244	2,078	3,200	4,500
Net Current Assets	11,331	12,902	18,669	20,668	23,799
Misc. Expenses	22	10	0	0	0
Application of Funds	14,146	21,909	29,657	36,146	41,997

E: MOSI Estimates

RATIOS					
Y/E MARCH	2006	2007	2008E	2009E	2010E
Basic (Rs)					
Adjusted EPS	5.1	6.4	7.1	7.1	9.3
Growth (%)	35.7	26.1	10.3	0.0	312
Cash EPS	6.0	7.8	9.2	9.7	12.6
Book Value	91.3	49.8	68.7	74.1	81.4
DPS	0.8	12	13	13	17
Payout (incl. Div. Tax.)	18.1	18.9	215	20.9	20.9
Valuation					
P/E (standalone)		19.8	18.0	18.0	13.7
Cash P/E		16.2	13.8	13.0	10.1
EV/EBITDA		13.1	11.3	10.7	8.9
EV/Sales		12	12	10	0.9
Price/Book Value		2.6	1.8	1.7	1.6
Dividend Yield (%)		0.9	1.0	1.0	1.3
Profitability Ratios (%)					
RoE	16.6	13.5	12.4	9.9	11.9
RoCE	14.7	14.9	12.3	11.2	12.6
Turnover Ratios					
Debtors (Days)	60	74	91	85	85
Inventory (Days)	77	51	58	55	55
Creditors. (Days)	72	75	104	100	100
Asset Turnover (x)	1.8	1.6	1.3	1.4	1.4
Leverage Ratio					
Debt/Equity (x)	0.5	1.1	0.9	1.1	1.2

CASH FLOW STATEMENT					
(Rs Million)					
Y/E MARCH	2006	2007	2008E	2009E	2009E
PBT before Extraordinary Itc	1,262	2,186	2,452	2,412	3,164
Add : Depreciation	182	299	482	613	753
Interest	217	504	719	1,288	1,748
Less : Direct Taxes Paid	223	667	832	796	1,044
(Inc)/Dec in WC	-5,519	-1,946	-5,872	-2,235	-3,348
CF from Operations	-4,082	376	-3,051	1,283	1,273
(Inc)/Dec in FA	-999	-2,612	-1,593	-2,000	-2,000
(Pur)/Sale of Investments	-415	-3,890	-881	-3,104	-1,474
CF from Investments	-1,414	-6,502	-2,474	-5,104	-3,474
(Inc)/Dec in Networth	5,357	-232	4,124	-57	0
(Inc)/Dec in Debt	1,981	6,774	2,364	5,268	4,175
Less : Interest Paid	217	504	719	1,288	1,748
Dividend Paid	188	287	348	338	444
CF from Fin. Activity	6,933	5,751	5,420	3,584	1,983
Inc/Dec of Cash	1,437	-375	-104	-236	-218
Add: Beginning Balance	1,372	2,809	2,434	2,329	2,094
Closing Balance	2,809	2,434	2,330	2,093	1,876

N O T E S



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Disclosure of Interest Statement	Nagarjuna Construction
1. Analyst ownership of the stock	No
2. Group/Directors ownership of the stock	No
3. Broking relationship with company covered	No
4. Investment Banking relationship with company covered	No

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