

## Nagarjuna Construction

STOCK INFO.	BLOOMBERG
BSE Sensex: 9,170	NJCC IN
	REUTERS CODE
S&P CNX: 2,779	NGCN.BO

15 December 2005

**Buy**

*Previous Recommendation: Buy*

**Rs233**

Equity Shares (m)	100.1
52-Week Range	262/74
1,6,12 Rel. Perf. (%)	-13/14/155
M.Cap. (Rs b)	23.3
M.Cap. (US\$ b)	0.5

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
3/05A	11,885	595	7.5	35.4	31.1	5.7	24.5	18.5	1.7	21.8
3/06E	18,560	1,150	11.5	53.6	20.2	2.6	18.9	17.8	1.1	12.5
3/07E	27,900	2,007	20.1	74.5	11.6	2.2	20.6	19.5	0.8	8.5

### Event: Raised US\$105m through GDR (plus greenshoe option of US\$15m)

Nagarjuna Construction Company (NCC) has raised US\$105m (Rs4.8b) through a GDR issue at US\$5.11 per GDR (Rs233 per share). The company has also granted greenshoe option to lead managers amounting to US\$15m. The issue (US\$105m) has led to equity dilution of 25.9%, resulting in post issue equity capital of Rs200m vs pre issue capital of Rs159m.

### Dilution to result in lower EPS

The funds raised are intended to be utilized for funding the BOT projects and capex. In the interim period, we assume a pre tax interest rate of 7% (10 year G Sec bond 7.1%) on the surplus cash balance, resulting in earning upgrades. On the expanded equity capital, we calculate FY06 EPS at Rs11.5 (down 15.5%), FY07 at Rs20.1 (down 6.7%) and FY08 at Rs27.5 (down 10.0%).

#### EARNINGS AND EPS REVISION SUMMARY

	NET PROFIT (RS M)			EPS (RS/SHARE)		
	CURR.	PREV.	% CH.	CURR.	PREV.	% CH.
FY05	595	595	0.0	7.5	7.5	0.0
FY06	1,150	1,081	6.4	11.5	13.6	-15.5
FY07	2,007	1,710	17.4	20.1	21.5	-6.7
FY08	2,754	2,436	13.1	27.5	30.6	-10.0

*Source: Company/Motilal Oswal Securities*

### Effective fund utilization could lead to earning upgrades

Going forward, reinvestment of funds into core business will enable the company to earn a much higher ROE than the assumed 7% interest rate on surplus cash balance. During March 06, we expect ROE from core business at 29.5%. Thus, the reinvestment in core business over a period of time will lead to further earnings upgrades.

### Fund raising will facilitate significant ramp up in order book over medium term

Post fund raising, NCC is amongst the very select few construction companies in India with net worth of US\$200m (Mar 06). Increased size will enable the company to pre-qualify for bidding for bigger ticket size projects and also build a BOT portfolio. Thus, we expect a significant ramp up in the order book of the company over the medium term. We note that over the past 4 quarters (Dec 04 till Sept 05), NCC has already witnessed a 91% increase up in order book to Rs52b.

#### COMPARATIVE NET WORTH (US\$M)

Larsen and Toubro	995.7
Jaiprakash Associates	491.2
Punj Lloyd	267.9
Nagarjuna Construction	197.2
IVRCL	106.9
Hindustan Construction	102.8
Gammon@	100.9

@ Gammon: FY05 = 9 months ending Dec' 04, CY05 = FY06

## TREND IN ORDER BOOK (RS M)

	DEC-04	MAR-05	JUN-05	SEP-05	INCREASE (SEPT 05 -DEC 04)
Gammon	37,467	N.A.	N.A.	52,000	38.8
Hindustan Const.	42,450	53,810	53,010	78,950	86.0
IVRCL**	25,454	39,059	40,000	46,000	80.7
Jaiprak. Assoc.*	80,000	73,000	67,000	90,000	12.5
Larsen &Toubro*	164,340	177,070	178,140	193,010	17.4
Nagarjuna Const.	27,000	35,920	48,720	51,621	91.2

\* L&T and Jaiprakash: Engineering and Construction business,

\*\* excl BOT projects

**Valuations continue to be attractive**

At the CMP of Rs233, NCC quotes at a PER of 11.6x FY07 (10.3x FY07 adjusted for the value of BOT projects and subsidiaries). We maintain Buy with a price target of Rs305/share, based on Sum of Parts methodology.

## INQUIRE CONSTRUCTION UNIVERSE: COMPARATIVE VALUATIONS

PRICE TARGET (RS/SH)	CMP RS/SH	EV (RS M)	EPS RS/SH	PE (X)	PE ADJ # (X)	EV/ EBITDA (X)	EV/ EBITDA ADJ # (X)	DPS RS/SH	DIV YIELD (%)	ROE (%)	ROCE (%)	BV RS/SH	PIBV (X)
Gammon	387	31,809	6.7	58.0	41.8	33.2	24.6	0.5	0.1	12.9	17.6	51.8	7.5
		31,257	10.2	37.9	27.3	20.8	15.3	1.6	0.4	17.0	16.7	60.1	6.4
		30,601	18.8	20.6	14.8	13.6	9.9	3.0	0.8	24.9	23.5	75.5	5.1
		29,470	23.8	16.3	11.7	11.0	8.0	3.5	0.9	25.0	24.9	95.4	4.1
Hindustan Constr	122	31,414	2.9	42.6	37.0	20.2	17.8	0.6	0.5	25.5	15.4	15.4	7.9
		32,159	4.4	28.0	24.3	14.9	13.2	1.0	0.8	24.4	21.1	20.4	6.0
		33,387	7.8	15.8	13.7	10.2	9.1	1.4	1.1	33.1	21.8	26.5	4.6
		32,994	10.1	12.1	10.5	8.1	7.2	1.7	1.4	33.1	23.1	34.7	3.5
IVRCL	708	13,093	33.4	21.2	16.1	15.1	11.8	3.7	0.5	18.4	15.2	237.4	3.0
		17,289	45.0	15.7	12.0	11.8	9.3	5.9	0.8	21.7	18.6	227.1	3.1
		19,392	60.7	11.7	8.9	9.6	7.8	7.9	1.1	24.0	18.9	278.9	2.5
		20,702	79.3	8.9	6.8	8.0	6.6	10.3	1.5	25.3	19.0	346.5	2.0
Jaiprakash	335	89,985	12.0	28.0	16.7	17.2	12.7	2.4	0.7	18.3	12.9	69.4	4.8
		83,120	14.8	22.7	13.6	13.0	8.9	4.0	1.2	16.6	13.1	114.6	2.9
		87,076	25.0	13.4	8.0	9.9	6.9	5.0	1.5	20.2	15.7	133.9	2.5
		82,192	28.9	11.6	6.9	8.3	5.7	6.0	1.8	19.9	16.2	156.0	2.1
Larsen & Toubro	1736	251,223	49.3	35.2	32.3	28.5	26.4	27.5	1.6	19.2	19.2	256.3	6.8
		242,542	70.8	24.5	22.5	19.0	17.5	25.0	1.4	21.9	23.4	316.7	5.5
		241,408	95.8	18.1	16.6	15.0	13.7	32.0	1.8	23.3	27.6	359.5	4.8
		241,119	111.7	15.5	14.3	13.3	12.2	35.0	2.0	23.1	28.0	408.9	4.2
Nagarjuna Constr	233	19,764	7.5	31.1	30.2	21.8	21.2	1.2	0.5	24.5	18.5	40.5	5.7
		16,520	11.5	20.2	19.6	9.7	9.3	2.0	0.9	18.9	17.8	89.2	2.6
		16,897	20.1	11.6	10.3	6.6	6.3	3.0	1.3	20.6	19.5	105.8	2.2
		16,583	27.5	8.4	8.2	4.7	4.5	4.0	1.7	23.5	22.0	128.8	1.8

\* BOT, Real Estate, Investments and Other subsidiaries Sum of Parts Value per share;

# Adjusted for BOT, Real Estate, Investments and Other subsidiaries

\*\* for 9 months period March to December 2004

Source: Motilal Oswal Securities

INCOME STATEMENT		(Rs Million)				
Y/E MARCH	2004	2005	2006E	2007E	2008E	
<b>Net Sales</b>	<b>7,582</b>	<b>11,885</b>	<b>18,560</b>	<b>27,900</b>	<b>38,539</b>	
Change (%)	67.1	56.8	56.2	50.3	38.1	
Construction expenses	6,606	10,407	15,984	24,300	33,711	
Staff Cost	200	309	619	774	967	
Office and site establishment exp	188	262	246	272	303	
<b>EBITDA</b>	<b>588</b>	<b>907</b>	<b>1,711</b>	<b>2,554</b>	<b>3,558</b>	
% of Net Sales	7.7	7.6	9.2	9.2	9.2	
Depreciation	91	109	179	226	293	
Interest	134	147	222	297	354	
Other Income	41	49	129	416	448	
<b>PBT</b>	<b>404</b>	<b>700</b>	<b>1,438</b>	<b>2,448</b>	<b>3,359</b>	
Tax	88	127	288	441	605	
Rate (%)	21.8	18.2	20.0	18.0	18.0	
<b>Reported PAT</b>	<b>316</b>	<b>573</b>	<b>1,150</b>	<b>2,007</b>	<b>2,754</b>	
Extra-ordinary expenses	1	22	0	0	0	
<b>Adjusted PAT</b>	<b>316</b>	<b>595</b>	<b>1,150</b>	<b>2,007</b>	<b>2,754</b>	
Change (%)	71.5	88.0	93.4	74.5	37.2	

BALANCE SHEET		(Rs Million)				
Y/E MARCH	2004	2005	2006E	2007E	2008E	
Share Capital	115	159	200	200	200	
Reserves	1,507	3,087	8,758	10,423	12,722	
<b>Net Worth</b>	<b>1,621</b>	<b>3,255</b>	<b>8,959</b>	<b>10,623</b>	<b>12,922</b>	
Loans	1,540	2,648	3,705	4,767	5,336	
Deffered Tax Liability	43	66	66	66	66	
<b>Capital Employed</b>	<b>3,205</b>	<b>5,969</b>	<b>12,730</b>	<b>15,457</b>	<b>18,324</b>	
Gross Fixed Assets	1,414	1,665	2,674	3,374	4,374	
Less: Depreciation	507	576	756	982	1,275	
<b>Net Fixed Assets</b>	<b>907</b>	<b>1,089</b>	<b>1,919</b>	<b>2,393</b>	<b>3,100</b>	
Capital WIP	12	9	0	0	0	
Investments	5	462	1,112	1,112	1,112	
<b>Curr. Assets</b>	<b>4,306</b>	<b>7,462</b>	<b>13,811</b>	<b>17,749</b>	<b>21,811</b>	
Inventory	1,019	1,523	2,542	3,822	5,279	
Debtors	843	1,916	2,288	3,440	4,751	
Cash & Bank Balance	657	1,372	5,673	6,358	7,241	
Loans & Advances	1,770	2,629	3,286	4,107	4,518	
Other Current Assets	17	21	21	21	21	
<b>Current Liab. &amp; Prov.</b>	<b>2,022</b>	<b>3,087</b>	<b>4,146</b>	<b>5,830</b>	<b>7,733</b>	
Creditors	1,312	2,160	3,065	4,660	6,465	
Other Liabilities	519	621	714	785	864	
Provisions	192	305	367	385	404	
<b>Net Current Assets</b>	<b>2,284</b>	<b>4,375</b>	<b>9,665</b>	<b>11,918</b>	<b>14,078</b>	
Misc. Expenses	3	34	34	34	34	
<b>Application of Funds</b>	<b>3,211</b>	<b>5,969</b>	<b>12,730</b>	<b>15,457</b>	<b>18,324</b>	

E: Most Estimates

RATIOS						
Y/E MARCH	2004	2005	2006E	2007E	2008E	
<b>Basic (Rs)</b>						
<b>Adjusted EPS</b>	<b>5.5</b>	<b>7.5</b>	<b>11.5</b>	<b>20.1</b>	<b>27.5</b>	
Growth (%)	416	35.4	53.6	74.5	37.2	
Cash EPS	7.1	8.9	13.3	22.3	30.5	
Book Value	28.4	40.5	89.2	105.8	128.8	
DPS	0.8	12	2.0	3.0	4.0	
Payout (incl. Div. Tax.)	16.3	18.8	19.8	17.0	16.6	
<b>Valuation</b>						
P/E (standalone)	42.1	31.1	20.2	116	8.4	
Cash P/E	32.7	26.3	17.5	10.4	7.6	
EV/EBITDA	33.0	21.8	12.5	8.5	6.0	
EV/Sales	2.6	1.7	1.1	0.8	0.6	
Price/Book Value	8.2	5.7	2.6	2.2	1.8	
Dividend Yield (%)	0.3	0.5	0.9	13	17	
<b>Profitability Ratios (%)</b>						
RoE	23.4	24.5	18.9	20.6	23.5	
RoCE	20.2	18.5	17.8	19.5	22.0	
<b>Turnover Ratios</b>						
Debtors (Days)	41	59	45	45	45	
Inventory (Days)	49	47	50	50	50	
Creditors (Days)	72	76	70	70	70	
Asset Turnover (x)	2.8	2.6	2.0	2.0	2.3	
<b>Leverage Ratio</b>						
Debt/Equity (x)	0.9	0.8	0.4	0.5	0.4	

CASH FLOW STATEMENT		(Rs Million)				
Y/E MARCH	2004	2005	2006E	2007E	2008E	
PBT before Extraordinary Items	<b>404</b>	<b>700</b>	<b>1,438</b>	<b>2,448</b>	<b>3,359</b>	
Add: Depreciation	91	109	179	226	293	
Interest	134	147	222	297	354	
Less: Direct Taxes Paid	88	127	288	441	605	
(Inc)/Dec in WC	-646	-1,376	-989	-1,568	-1,277	
<b>CF from Operations</b>	<b>-105</b>	<b>-547</b>	<b>563</b>	<b>962</b>	<b>2,124</b>	
(Inc)/Dec in FA	-176	-287	-1,000	-700	-1,000	
(Pur)/Sale of Investments	1	-458	-650	0	0	
<b>CF from Investments</b>	<b>-176</b>	<b>-745</b>	<b>-1,650</b>	<b>-700</b>	<b>-1,000</b>	
(Inc)/Dec in Networth	291	1,154	4,782	0	0	
(Inc)/Dec in Debt	533	1,108	1,057	1,062	569	
Less: Interest Paid	134	147	222	297	354	
Dividend Paid	52	108	228	342	456	
<b>CF from Fin. Activity</b>	<b>639</b>	<b>2,007</b>	<b>5,388</b>	<b>424</b>	<b>-241</b>	
<b>Inc/Dec of Cash</b>	<b>358</b>	<b>715</b>	<b>4,300</b>	<b>686</b>	<b>883</b>	
Add: Beginning Balance	299	657	1,372	5,673	6,358	
<b>Closing Balance</b>	<b>657</b>	<b>1,372</b>	<b>5,673</b>	<b>6,358</b>	<b>7,241</b>	

**N O T E S**

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**Nagarjuna Construction**

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| 1. Analyst ownership of the stock            | No |
| 2. Group/Directors ownership of the stock    | No |
| 3. Broking relationship with company covered | No |

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