

RESULTS

REVIEW

Nagarjuna Construction Co. Ltd.

Order inflow, Nelcast acquisition the bright spots

BUY

Analyst

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Nifty: 5,396; Sensex: 18,008

CMP	Rs104
Target Price	Rs163
Potential Upside/Downside	+57%

Key Stock Data

Sector	Construction
Bloomberg/Reuters	NJCC IN/NGCN.BO
Shares o/s (mn)	256.8
Market cap. (Rs mn)	26,736
Market cap. (US\$ mn)	586
3-m daily average vol.	167,043

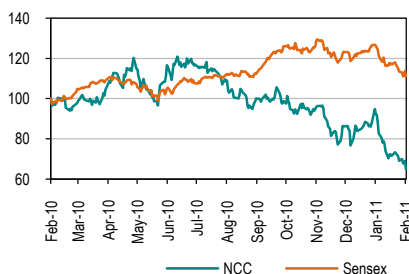
Price Performance

52-week high/low	Rs197/102
	-1m -3m -12m
Absolute (%)	(30) (32) (35)
Rel to Sensex (%)	(17) (18) (46)

Shareholding Pattern (%)

Promoters	20.0
FII/IRIs/OCBs/GDR	35.9
MFs/Banks/FIs	18.9
Non Promoter Corporate	11.3
Public & Others	13.9

Relative to Sensex



Source: Capitaline

Summary

Q3FY11 numbers were disappointing on both revenue (up 13% YoY) and earnings front (down 16% YoY). However, order inflow for the quarter remained strong at Rs27.4 bn. Due to lower than expected execution, we have cut our revenue estimates for FY11/FY12 by 5%/6% to Rs53.7/64.7 bn. Also, led by lower margin assumption of 9.7% in FY11/FY12 and increase in leverage (due to higher working capital and investment in subsidiaries), we have downgraded our FY11/FY12 EPS by 18%/19% to Rs7.0/8.5. We maintain our BUY rating on the stock with a revised SOTP based target price of Rs163 per share (earlier TP Rs187).

Key Highlights

- Execution impacted due to weather conditions and delay in payments by clients

Standalone revenue grew by 13% YoY to Rs13.4 bn (below our estimate of Rs14.1 bn). The execution during the quarter was impacted due to unfavourable weather conditions and delays in payments by the clients. According to the management, the revenue loss due to this was close to Rs2 bn for the quarter. Consolidated revenue was up 9% YoY to Rs15.9 bn.

- Order inflow continues to remain strong; consolidated order book at Rs173 bn

NCC witnessed an order inflow of Rs27.4 bn in Q3FY11 (Rs62.4 bn in 9MFY11), taking the consolidated order book position at Q3FY11-end to Rs172.7 bn. The orders inflows during the quarter predominantly came from the buildings, irrigation, water and electrical segment. We maintain our order inflow assumption at Rs8 bn each for the standalone entity in FY11E and FY12E.

- EBITDA margins decline 30/70 bps YoY/QoQ to 9.6%; EBITDA growth at 8% YoY

Standalone EBITDA was up 8% YoY to Rs1.3 bn v/s our estimate of Rs1.4 bn. EBITDA margins contracted by 30/70 bps YoY/QoQ to 9.6%. Lower margins were due to shortfall in revenue as opposed to input cost pressure and the management expects to maintain EBITDA margins at 10% going forward. We have revised downwards our EBITDA margin assumption by a marginal 20bps to 9.7% for FY11/FY12, as we feel higher input cost is bound to put some pressure on the margins.

- Higher interest and tax dents bottom-line; PAT down 15% YoY to Rs404 mn

Higher debt and increase in short term interest rates led to 43% YoY (17% QoQ) increase in interest cost. Gross debt at the end of the quarter stood at Rs23.2 bn (Rs20.6 bn at Q2FY11-end). Also, the company has made excess tax provision of Rs40 mn for the quarter (Rs150 mn for FY11), post the tax raids conducted by the IT department. As a result, standalone PAT was down 16% YoY to Rs404 mn, against our estimate of Rs531 mn.

Table: Financial snapshot

(Rs mn)

Year	Revenue	EBITDA	EBITDA (%)	Adj. PAT	EPS (Rs)	PE *(x)	EV/EBITDA* (x)	RoE (%)	RoCE (%)
FY08	34,729	3,598	10.4	1,641	6.4	6.7	6.8	10.4	8.3
FY09	41,514	3,737	9.0	1,538	6.0	7.2	7.1	9.1	7.4
FY10	47,778	4,834	10.1	1,999	7.8	5.5	6.5	8.9	7.5
FY11E	53,748	5,214	9.7	1,804	7.0	6.1	6.3	7.6	6.0
FY12E	64,695	6,275	9.7	2,176	8.5	5.1	5.4	8.5	7.0

* Adjusted for subsidiary valuation

Source: Company; IDBI Capital Research

■ **Road BOTs: COD awaited for OB Infra; UP Tollway to get operational by March 2011**

While the OB Infra Annuity project is awaiting COD from the NHAI, UP Tollway is expected to commence operations in March 2011. The daily toll collection at Bangalore Elevated Tollway has remained stable at Rs1.7 mn.

■ **Acquisition of Nelcast Power plant may make up for Sompeta disappointment**

NCC has acquired 55% stake in 1320MW Nelcast Power Plant for Rs1.5 bn along with Gayatri Projects (45% partner). According to NCC, Nelcast has all the necessary approvals in place and expects the financial closure to happen by March 2011. The company has already got the approval from the coal ministry to transfer the coal linkages of its Sompeta Project to the Nelcast power plant. The total project cost is close to Rs70 bn, and NCC will execute the BOP and civil component of the plant.

Outlook and Valuation

Due to lower than expected execution during the quarter, we have cut our revenue estimates for FY11/FY12 by 5%/6% to Rs53.7/64.7 bn. However, due to lower margin assumption of 9.7% for FY11/FY12 (earlier 9.9%) and increase in leverage due to higher working capital/subsidiary investments, we have downgraded our FY11/FY12 EPS by 18%/19% to Rs7.0/8.5. We have also downgraded our P/E multiple for the standalone business from 13x earlier to 12x. **We maintain our BUY rating on the stock with a revised SOTP based target price of Rs163 per share (earlier Rs187).**

Table: Quarterly and nine-monthly performance (Standalone)

(Rs mn)

	Q3FY10	Q3FY11	% Change (YoY)	9MFY10	9MFY11	% Change (YoY)
Revenue	11,870	13,355	12.5	32,551	36,233	11.3
Operating expenses	10,690	12,079	13.0	29,244	32,666	11.7
EBITDA	1,181	1,276	8.1	3,307	3,567	7.9
<i>EBITDA margin (%)</i>	9.9	9.6		10.2	9.8	
Depreciation	133	175	31.5	389	500	28.4
PBIT	1,048	1,101	5.1	2,918	3,067	5.1
<i>PBIT margin (%)</i>	8.8	8.2		9.0	8.5	
Interest	306	438	43.4	974	1,106	13.6
Other income	14	23	68.8	36	90	152.2
PBT	756	686	(9.2)	1,980	2,051	3.6
Tax	277	282	1.6	680	773	13.8
Reported PAT	479	404	(15.5)	1,300	1,278	(1.7)
Adjusted PAT	479	404	(15.5)	1,300	1,278	(1.7)
<i>Net profit margin (%)</i>	4.0	3.0		4.0	3.5	
EPS (Rs)	1.9	1.6	(15.5)	5.1	5.0	(1.7)

Source: Company

Table: Quarterly and nine-monthly performance (Consolidated) (Rs mn)

	Q3FY10	Q3FY11	% Change (YoY)	9MFY10	9MFY11	% Change (YoY)
Revenue	14,617	15,937	9.0	40,852	44,962	10.1
Operating expenses	13,075	14,182	8.5	36,470	39,782	9.1
EBITDA	1,542	1,755	13.8	4,382	5,180	18.2
<i>EBITDA margin (%)</i>	10.5	11.0		10.7	11.5	
Depreciation	243	349	43.7	719	1,002	39.2
PBIT	1,299	1,406	8.2	3,662	4,178	14.1
<i>PBIT margin (%)</i>	8.9	8.8		9.0	9.3	
Interest	513	645	25.8	1,575	1,880	19.4
Other income	39	55	40.8	119	200	68.5
PBT	825	816	(1.1)	2,207	2,498	13.2
Tax	282	290	3.1	688	794	15.4
Reported PAT	544	526	(3.3)	1,518	1,704	12.2
Adjusted PAT	544	526	(3.3)	1,518	1,704	12.2
<i>Net profit margin (%)</i>	3.7	3.3		3.7	3.8	
EPS (Rs)	2.1	2.0	(3.3)	5.9	6.6	12.2

Source: Company

Table: Our revised estimates for standalone entity (Rs mn)

	Old Estimates		New Estimates		% Change	
	FY11E	FY12E	FY11E	FY12E	FY11E	FY12E
Sales	56,526	68,955	53,748	64,695	(4.9)	(6.2)
EBITDA	5,596	6,827	5,214	6,275	(6.8)	(8.1)
Adj. PAT	2,243	2,658	1,804	2,176	(19.6)	(18.1)
EPS	8.7	10.3	7.0	8.5	(19.6)	(18.1)

Source: IDBI Capital Research

Table: SOTP Valuation

Business	Valuation Methodology	Valuation (Rs mn)	Value (Rs/Share)	% of TP
NCC Standalone	12x FY12 EPS	26,109	102	63
International construction business	10x FY12 earnings	4,857	19	12
NCC Infra (Road & Power assets)*	1x Book Value	8,633	34	21
NCC Urban (Real Estate)*	1x Book Value	2,167	8	5
Total		41,766	163	100

* Entire investments into Dubai Harmony and Sompeta project is considered as loss

Source: IDBI Capital Research

Financial Summary

Profit & Loss Account

(Rs mn)

Year-end: March	FY08	FY09	FY10	FY11E	FY12E
Net sales	34,729	41,514	47,778	53,748	64,695
Growth (%)	21.0	19.5	15.1	12.5	20.4
Operating expenses	31,132	37,777	42,944	48,535	58,420
EBITDA	3,598	3,737	4,834	5,214	6,275
Growth (%)	33.4	3.9	29.4	7.8	20.4
Depreciation	482	533	525	675	813
EBIT	3,116	3,204	4,309	4,539	5,463
Net interest expense	719	964	1,322	1,702	2,295
Other income	56	42	544	80	80
Pre-tax profit	2,452	2,282	3,531	2,917	3,247
Tax	833	743	1,205	1,113	1,072
Effective tax rate (%)	34.0	32.6	34.1	38.1	33.0
Net profit	1,619	1,538	2,326	1,804	2,176
Adjusted net profit	1,641	1,538	1,999	1,804	2,176
Growth (%)	1.4	(6.3)	30.0	(9.8)	20.6
Shares o/s (mn nos)	229	229	257	257	257

Balance Sheet

(Rs mn)

Year-end: March	FY08	FY09	FY10	FY11E	FY12E
Net fixed assets	5,197	4,592	5,538	6,064	6,651
Capital WIP	143	281	434	434	434
Investments	5,648	7,402	9,412	11,750	13,250
Current assets	30,286	33,403	41,083	49,782	57,476
Inventories	5,493	7,495	7,539	9,277	10,635
Sundry Debtors	8,677	10,260	12,994	16,198	18,611
Cash and Bank	2,330	1,345	1,997	2,210	2,651
Loans and advances	13,725	14,273	18,520	22,061	25,535
Other current assets	61	30	32	36	43
Total assets	41,273	45,679	56,467	68,030	77,810
Shareholders' funds	15,724	16,856	22,457	23,871	25,626
Share capital	458	458	514	514	514
Reserves & surplus	15,266	16,398	21,943	23,357	25,112
Total Debt	8,938	12,439	15,302	23,002	27,002
Secured loans	7,188	8,864	10,499	-	-
Unsecured loans	1,750	3,575	4,803	-	-
Deferred tax liability	167	188	255	255	255
Curr Liab & prov	16,444	16,197	18,453	20,903	24,928
Current liabilities	15,564	15,541	17,497	20,078	23,935
Provisions	880	655	957	825	993
Total liabilities	25,549	28,824	34,010	44,160	52,185
Total equity & liabilities	41,273	45,679	56,467	68,031	77,811

Cash Flow Statement

(Rs mn)

Year-end: March	FY08	FY09	FY10	FY11E	FY12E
Pre-tax profit	2,452	2,282	3,531	2,917	3,247
Depreciation	482	533	525	675	813
Interest	1,115	1,622	1,960	2,474	3,189
Other items	2,368	(831)	198	-	-
Chg in working capital	(6,077)	(4,350)	(4,771)	(6,036)	(3,227)
Income tax paid	(833)	(743)	(1,205)	(1,113)	(1,072)
Cash flow from operations (a)	(492)	(1,488)	239	(1,083)	2,950
Capital expenditure	(2,074)	170	(1,710)	(1,200)	(1,400)
Chg in investments	(881)	(1,754)	(2,009)	(2,338)	(1,500)
Other investing items	(1,936)	502	(44)	-	-
Cash flow from investing (b)	(4,890)	(1,082)	(3,764)	(3,538)	(2,900)
Change in equity	4,049	0	3,580	-	-
Change in debt	2,569	3,501	2,863	7,700	4,000
Dividend (incl. tax)	(348)	(295)	(389)	(391)	(421)
Interest	(1,115)	(1,622)	(1,960)	(2,474)	(3,189)
Other financing items	123	1	83	-	-
Cash flow from financing (c)	5,277	1,586	4,177	4,835	390
Net chg in cash (a+b+c)	(104)	(984)	652	213	441

Financial Ratios

Year-end: March	FY08	FY09	FY10	FY11E	FY12E
Adj EPS (Rs)	6.4	6.0	7.8	7.0	8.5
Adj EPS growth (%)	1.4	(6.3)	30.0	(9.8)	20.6
EBITDA margin (%)	10.4	9.0	10.1	9.7	9.7
Pre-tax margin (%)	7.1	5.5	6.4	5.4	5.0
RoE (%)	10.4	9.1	8.9	7.6	8.5
RoCE (%)	8.3	7.4	7.5	6.0	7.0
Turnover & Leverage ratios (x)					
Asset turnover	5.2	6.7	6.3	6.1	6.4
Leverage factor	0.6	0.7	0.7	1.0	1.1
Net margin (%)	4.7	3.7	4.2	3.4	3.4
Net Debt/Equity	0.4	0.7	0.6	0.9	1.0
Working Capital & Liquidity ratios					
Inventory days	58	66	58	63	60
Receivable days	91	90	99	110	105
Payable days	63	56	69	65	65

Valuations*

Year-end: March	FY08	FY09	FY10	FY11E	FY12E
PER (x)	6.7	7.2	5.5	6.1	5.1
Price / Book value (x)	0.7	0.7	0.5	0.5	0.4
PCE (x)	5.2	5.3	4.4	4.5	3.7
EV / Net sales (x)	0.7	0.6	0.7	0.6	0.5
EV / EBITDA (x)	6.8	7.1	6.5	6.3	5.4
Dividend Yield (%)	1.3	1.1	1.2	1.3	1.3

* Adjusted for subsidiary valuation



Notes

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Key to Ratings

Stocks:

BUY: Absolute return of 15% and above; **ACCUMULATE:** 5% to 15%; **HOLD:** Upto $\pm 5\%$; **REDUCE:** -5% to -15%; **SELL:** -15% and below.

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