

May 27, 2010

Rating	Reduce
Price	Rs162
Target Price	Rs155
Implied Upside	(-) 4.8%
Sensex	16,388

(Prices as on May 26, 2010)

Trading Data

Market Cap. (Rs bn)	41.7
Shares o/s (m)	256.6
Free Float	79.81%
3M Avg. Daily Vol ('000)	1,132.7
3M Avg. Daily Value (Rs m)	194.2

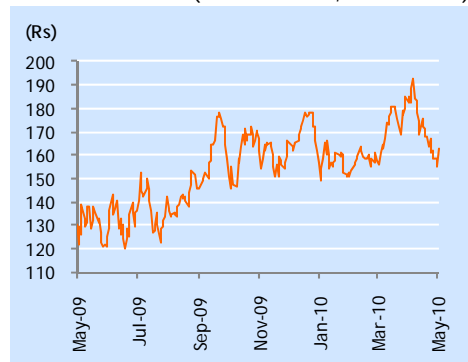
Major Shareholders

Promoters	20.19%
Foreign	35.93%
Domestic Inst.	21.84%
Public & Others	22.04%

Stock Performance

(%)	1M	6M	12M
Absolute	(12.8)	4.2	24.0
Relative	(6.0)	5.0	7.1

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



Source: Bloomberg

■ **Revenues above estimate:** Nagarjuna Construction Company (NCC) has clocked a growth of 38.6% in revenues for Q4FY10 at Rs15bn and was above our estimates. EBITDA margins expanded by 179bps YoY to 10%; this was above our estimates. PAT was in line with our estimates at Rs531m. For FY10, revenues grew by 15% YoY to Rs47.7bn, EBITDA improved by 107bps YoY and PAT stood at Rs1.8bn and was in line with our expectation. The company has booked gains of Rs530m from the sale of its stake on 'Gautami Power' plant. On a consolidated basis, the company clocked sales of Rs59bn and PAT of Rs2.8bn.

■ **Order book position:** Currently, NCC has an order book of Rs153bn (Rs89bn order intake in FY10), with an execution period of 30 months. The company has guided for an order inflow of 150bn in FY11.

■ **Update on projects and subsidiaries:** Investments outstanding in power project stands at Rs17bn (over three years) and would not need to raise further funds in the current year. Three BOT road projects would be operational by H2FY11 and the total turnover for BOT expected is Rs2.8bn in full year of operations. The international order book stands at Rs34bn, out of which Rs18bn is from Oman.

■ **Valuation:** At CMP of Rs162, the stock is trading at 14x FY11E and 13x FY12E core earnings. We maintain 'Reduce'.

Key financials (Y/e March)	FY09	FY10	FY11E	FY12E
Revenues (Rs m)	41,514	47,753	56,175	66,312
Growth (%)	19.5	15.0	17.6	18.0
EBITDA (Rs m)	3,737	4,810	5,653	6,346
PAT (Rs m)	1,535	1,831	2,157	2,393
EPS (Rs)	6.7	7.1	8.4	9.3
Growth (%)	(5.2)	6.4	17.8	10.9
Net DPS (Rs)	1.3	1.4	1.4	1.2

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10	FY11E	FY12E
EBITDA margin (%)	9.0	10.1	10.1	9.6
RoE (%)	9.4	9.6	9.8	9.9
RoCE (%)	7.9	7.9	8.6	8.6
EV / sales (x)	1.2	1.2	1.0	0.9
EV / EBITDA (x)	12.9	11.4	10.3	9.5
PE (x)	24.2	22.8	19.3	17.4
P / BV (x)	2.2	2.0	1.8	1.7
Net dividend yield (%)	0.8	0.8	0.8	0.7

Source: Company Data; PL Research

Rupa Shah
RupaShah@PLIndia.com
+91-22-6632 2244



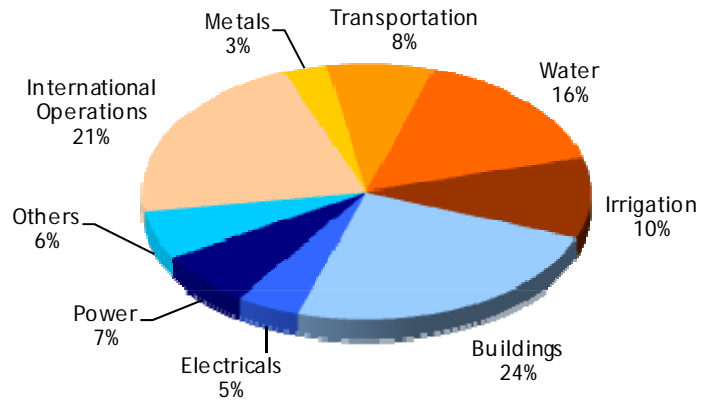
Q4FY10 Result Overview

(Rs m)

Y/e March	Q4FY10	Q4FY09	YoY gr. (%)	Q3FY10	FY10	FY09	YoY gr. (%)
Net Sales	15,218	10,981	38.6	11,865	47,753	41,514	15.0
Expenditure							
Consumption of Raw Materials	5,886	3,074	91.5	5,167	17,662	14,420	22.5
<i>% of Net Sales</i>	<i>38.7</i>	<i>28.0</i>		<i>43.5</i>	<i>37.0</i>	<i>34.7</i>	
Increase/Decrease in WIP	542	217		(335.0)	408	(1,378)	
<i>% of Net Sales</i>	<i>3.6</i>	<i>2.0</i>		<i>(2.8)</i>	<i>0.9</i>	<i>(3.3)</i>	
Subcontracting and other expenses	3,841	4,320	(11.1)	2,796	12,714	14,028	(9.4)
<i>% of Net Sales</i>	<i>25.2</i>	<i>39.3</i>		<i>23.6</i>	<i>26.6</i>	<i>33.8</i>	
Other Construction Expenditure	1,427	883	61.6	1,184	4,849	3,979	21.9
<i>% of Net Sales</i>	<i>9.4</i>	<i>8.0</i>		<i>10.0</i>	<i>10.2</i>	<i>9.6</i>	
Personnel Cost	472	409	15.3	462	1,841	1,886	(2.4)
<i>% of Net Sales</i>	<i>3.1</i>	<i>3.7</i>		<i>3.9</i>	<i>3.9</i>	<i>4.5</i>	
Labour cost	1,258	1,080	16.5	1,176	4,501	3,922	14.8
<i>% of Net Sales</i>	<i>8.3</i>	<i>9.8</i>		<i>9.9</i>	<i>9.4</i>	<i>9.4</i>	
Other Expenditure	273.7	160.5	70.5	240.6	969.4	919.5	5.4
<i>% of Net Sales</i>	<i>1.8</i>	<i>1.5</i>		<i>2.0</i>	<i>2.0</i>	<i>2.2</i>	
Total Expenditure	13,700	9,367	46.2	10,690	42,943	37,777	13.7
EBITDA	1,518	899	68.9	1,176	4,810	3,737	28.7
<i>Margin (%)</i>	<i>10.0</i>	<i>8.2</i>	<i>1.8</i>	<i>9.9</i>	<i>10.1</i>	<i>9.0</i>	<i>1.1</i>
Depreciation	136	123	10.9	133	525	533	(1.4)
EBIT	1,382	776	78.1	1,043	4,284	3,204	33.7
Interest	348	213	63.4	306	1,322	964	37.2
Other Income	21	15	42.8	19	73	42	74.3
Exceptional Item	496	-		-	496	-	
PBT	1,551	578	168.3	756	3,531	2,282	54.7
Tax	525	135	288.5	277	1,204	832	44.7
<i>Tax Rate (%)</i>	<i>33.8</i>	<i>23.4</i>		<i>36.6</i>	<i>34.1</i>	<i>36.5</i>	
Recurring PAT	1,026	382	168.7	479	2,326	1,539	51.2
Adj PAT	531	382	38.9		1,831	1,539	19.0

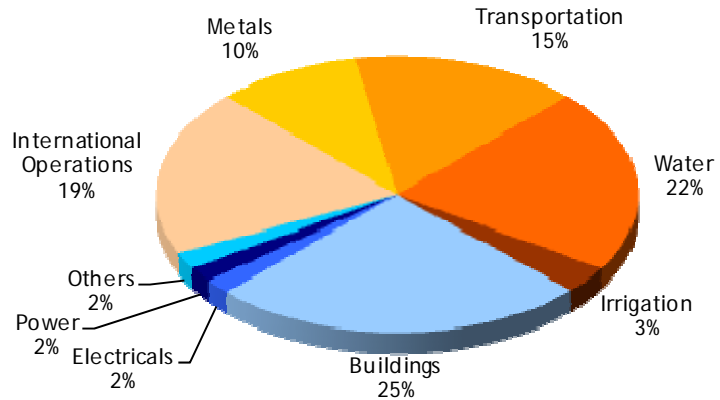
Highlights

Order book break-up



Source: Company Data, PL Research

FY10 revenue break-up



Source: Company Data, PL Research

Break-up of Equity Invested till date in subsidiaries

	(Rs bn)
BOT	4.4
RE	2.6
International	1.6
Others	0.9
Total	9.5

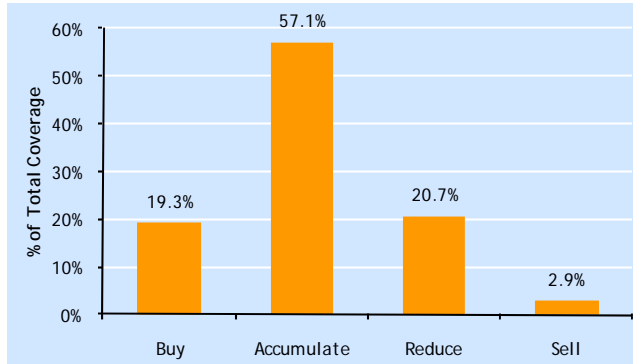
Source: Company Data, PL Research

Prabhudas Lilladher Pvt. Ltd.

3rd Floor, Sadhana House, 570, P. B. Marg, Worli, Mumbai-400 018, India

Tel: (91 22) 6632 2222 Fax: (91 22) 6632 2209

Rating Distribution of Research Coverage



PL's Recommendation Nomenclature

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

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