



## NEUTRAL

Price	Rs143
Target Price	-
Investment Period	-

### Stock Info

Sector	Construction
Market Cap (Rs cr)	3,282
Beta	1.4
52 WK High / Low	159/34
Avg. Daily Volume	514878
Face Value (Rs)	2

BSE Sensex	15,388
Nifty	4,571

BSE Code	500294
NSE Code	NAGARCONST
Reuters Code	NGCN.BO
Bloomberg Code	NJCC@IN

### Shareholding Pattern (%)

Promoters	24.4
MF/Banks/Indian FIs	33.7
FII/ NRIs/ OCBs	24.9
Indian Public/others	17.0

Abs.	3m	1yr	3yr
Sensex (%)	34.9	7.7	44.1
NCC (%)	107.3	6.7	15.2

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## Performance Highlights

- Top-line disappoints:** Nagarjuna Construction Company (NCC) posted a mere 3.1% growth in Top-line to Rs1,001cr (Rs971cr) for 1QFY2010, which was way below our estimate of Rs1,178cr. This sluggish growth in Top-line is attributed to lower Revenue recognition on account of cancellations and delays in order execution. This is the second consecutive quarter of poor show by NCC. Going ahead, we expect the company to post decent Top-line growth mainly on the back of strong Order Book and positive outlook for the Sector. For FY2009-11E, we expect the company to post a CAGR of 19.3% in Top-line to Rs5,913cr.
- Operating Margins show an uptick:** On the Operating front, NCC's 1QFY2010 results exceeded our estimates. OPM at 10.4% (9.4%) surpassed our expectation of 8.4%. Going ahead, we believe that with the prices of bitumen, steel and other commodities starting to cool, the company could surprise on the Margin front as it has fixed price contracts. However, in our valuation model, we have factored in Margins of 9.5% and 9.7% for FY2010E and FY2011E, respectively.
- Net Profit below our estimate:** NCC's Net Profit came in flat at Rs38.2cr (Rs37.1cr), which was below our expectation in spite of the expansion in Operating Margins. Net Profit growth was impacted by higher-than-expected Interest costs and subdued Top-line growth. Net Interest costs increased by 45.2% to Rs34.6cr, which is a cause of concern.
- Order inflow remains healthy:** The company has secured orders worth Rs2,870cr during 1QFY2010 as against the full year guidance of Rs6,500cr. Though breakup of Order inflow is not available yet, we expect NCC's international Order inflow to remain muted in FY2010 due to the global economic slowdown.
- Sale of stake in Gautami Power:** The NCC Board has approved selling its 9.5% stake in Gautami Power to GVK for Rs113cr, resulting in capital gain of approximately Rs50cr.

### Key Financials (Standalone)

Y/E March (Rs cr)	FY2008	FY2009	FY2010E	FY2011E
<b>Net Sales</b>	<b>3,473</b>	<b>4,151</b>	<b>4,885</b>	<b>5,913</b>
% chg	21.0	19.5	17.7	21.0
<b>Net Profit</b>	<b>161.9</b>	<b>153.9</b>	<b>185.2</b>	<b>234.2</b>
% chg	6.6	(5.0)	20.4	26.5
<b>FDEPS (Rs)</b>	<b>7.1</b>	<b>6.7</b>	<b>8.1</b>	<b>10.2</b>
EBITDA Margin (%)	10.4	9.0	9.5	9.7
P/E (x)	20.3	21.4	17.8	14.1
RoE (%)	10.3	9.1	10.2	11.7
RoCE (%)	12.5	10.9	10.9	11.8
P/BV (x)	2.1	2.0	1.8	1.7
EV/Sales (x)	1.1	1.1	1.0	0.9
EV/EBITDA (x)	11.0	11.8	10.3	8.9

Source: Company, Angel Research

**Outlook and Valuation**

NCC is one of the leading infrastructure players of the country with presence across nine segments in the Infra space and strong Order Book, which ensures Revenue visibility for next couple of years. Though there have been some concerns on the Operation front including high commodity prices, land acquisition issues leading to delays in execution as well as some technical issues in this case the promoters defaulting on warrants, we believe the negatives are factored in the current market price of the stock.

We have arrived at a SOTP Target Price of Rs142 for the stock valuing NCC's core Construction business at Rs111 (10x FY2011E EPS), BOT business at Rs15.0 and Real Estate arm at Rs16.4. We believe that at current levels of Rs144, the stock is fairly valued and provides little upside potential to our Target Price of Rs142. **Therefore, we recommend Neutral rating on the stock, though it should be noted that the stock price may show an uptick on money raising news.**

**Exhibit 1: 1QFY2010 Performance (Standalone)**

Y/E March (Rs cr)	1QFY2010	1QFY2009	% chg	FY2009	FY2008	% chg
<b>Net Sales</b>	<b>1,001.0</b>	<b>970.9</b>	<b>3.1</b>	<b>4,151.4</b>	<b>3,472.9</b>	<b>19.5</b>
Total Expenditure	897.2	879.4	2.0	3,777.7	3,113.2	21.3
<b>Operating Profit</b>	<b>103.8</b>	<b>91.6</b>	<b>13.4</b>	<b>373.7</b>	<b>359.8</b>	<b>3.9</b>
OPM (%)	10.4	9.4		9.0	10.4	
Interest	34.6	23.9	45.2	96.4	71.9	33.9
Depreciation	12.7	14.2	(10.5)	53.3	48.2	10.6
Non Operating Income	1.4	0.9	61.6	4.2	5.6	(25.1)
Nonrecurring items	0.0	0.0	0.0	0.0	0.0	0.0
<b>Profit Before Tax</b>	<b>57.9</b>	<b>54.4</b>	<b>6.4</b>	<b>228.2</b>	<b>245.2</b>	<b>(6.9)</b>
Tax	19.6	17.3	13.4	74.3	83.2	(10.7)
<b>Reported Profit After Tax</b>	<b>38.2</b>	<b>37.1</b>	<b>3.1</b>	<b>153.9</b>	<b>161.9</b>	<b>(5.0)</b>
PAT (%)	3.8	3.8		3.7	4.7	
<b>Adj PAT</b>	<b>38.2</b>	<b>37.1</b>	<b>3.1</b>	<b>153.9</b>	<b>161.9</b>	<b>(5.0)</b>
Adj. PAT (%)	3.8	3.8		3.7	4.7	
<b>FDEPS (Rs)</b>	<b>1.7</b>	<b>1.6</b>	<b>3.1</b>	<b>6.7</b>	<b>7.1</b>	<b>(5.0)</b>

Source: Company, Angel Research



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<b>Ratings (Returns) :</b>	<b>Buy (Upside &gt; 15%)</b> <b>Reduce (Downside upto 15%)</b>	<b>Accumulate (Upside upto 15%)</b> <b>Sell (Downside &gt; 15%)</b>	<b>Neutral (5 to -5%)</b>
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