



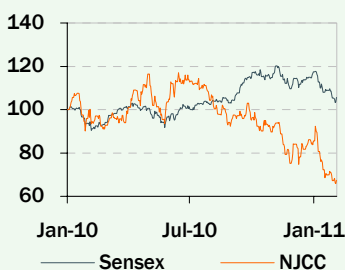
Nagarjuna Construction

 Relative to sector: **Underperformer**
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Relative Performance


Source: Bloomberg, ENAM Research

Stock data

No. of shares	: 257 mn
Market cap	: Rs 26.7 bn
52 week high/low	: Rs 197/ Rs 102
Avg. daily vol. (6mth)	: 1.3 mn shares
Bloomberg code	: NJCC IB
Reuters code	: NGCN.BO

Shareholding (%) Dec-10 QoQ chg

Promoters	: 20.0	(0.1)
FIs	: 35.4	1.7
MFs / UTI	: 18.7	(1.1)
Banks / FIs	: 0.2	(0.2)
Others	: 25.7	(0.4)

Financial summary

Y/E Mar	Sales (Rs mn)	PAT (Rs mn)	Consensus EPS* (Rs)	EPS (Rs)	Change YoY (%)	P/E (x)	RoE (%)	RoCE (%)	EV/EBITDA (x)	DPS (Rs)	P/ BV (x)
2010	47,778	2,000	-	7.8	30.0	-	10.2	13.0	-	1.5	-
2011E	55,095	2,046	9.1	8.0	2.3	10.5	8.8	11.0	9.4	1.8	0.9
2012E	65,013	2,174	11.2	8.5	6.3	9.9	8.7	10.6	9.0	1.8	0.8
2013E	76,715	2,556	13.6	10.0	17.5	8.4	9.5	11.4	8.3	0.0	0.8

Source: *Consensus broker estimates, Company, ENAM estimates; Valuations adjusted for Vol of Rs 20/sh

RESULTS DISAPPOINT

Nagarjuna Construction's (NCC) Q3FY11 PAT was below expectations, coming in at Rs 404 mn v/s Rs 535 mn expected. Sales rose by just 13% YoY to Rs 13.4 bn v/s expectation of 25% YoY growth mainly due to slow execution pick-up. Lower operating results led to PAT disappointing. Factoring in slower execution pick-up, we have reduced our earnings estimates by 8-10% for FY11E & FY12E for the core EPC business and reduced our target 006Dultiple to 10x FY12E PE v/s 14x earlier, to factor in lower earnings CAGR. We believe outlook for earnings will remain muted, and maintain HOLD rating with a revised target price of Rs 105 v/s Rs 150 earlier - upside of 1% from CMP.

Key result highlights

- **Revenue growth disappoints:** NCC has seen topline growth of 13% YoY during the quarter to Rs 13.4 bn (below expectation of 25% YoY growth) mainly on account of slow execution pick-up.
- **PAT declined by 16% YoY:** Drop in operating margins by 40bps YoY and higher interest costs have led to decline in PAT by 16% YoY. Management has highlighted that interest cost has increased 43% YoY on account of higher debt levels & interest rates for funding higher working capital cycle.

Outlook & Valuation

We believe NCC's current valuations leave limited room for upside, considering slow pick-up in execution and uncertainty on monetization of real estate investments. We believe outlook for earnings will remain muted, and maintain HOLD rating with a revised target price of Rs 105 v/s Rs 150 earlier - upside of 1% from CMP.

Results update

(Rs mn)	Quarter ended					12 months ended		
	Dec-10	Dec-09	% Chg	Sep-10	% Chg	Mar-11E	Mar-10	% Chg
Net Sales	13,355	11,870	12.5	12,013	11.2	55,095	47,778	15.3
EBIDTA	1,276	1,181	8.1	1,234	3.4	5,344	4,834	10.5
Other income	23	14	68.0	54	(57.8)	97	48	-
PBIDT	1,299	1,194	8.8	1,288	0.8	5,441	4,883	11.4
Depreciation	175	133	31.5	168	3.8	660	525	25.7
Interest	438	306	43.3	375	17.0	1,556	1,322	17.7
PBT	686	756	(9.2)	745	(8.0)	3,225	3,035	6.3
Tax	282	277	1.6	285	(1.3)	1,179	1,035	13.9
Adjusted PAT	404	479	(15.5)	460	(12.1)	2,046	2,000	2.3
Extra ordinary income/ (exp.)	-	-	-	-	-	-	327	-
Reported PAT	404	479	(15.5)	460	(12.1)	2,046	2,326	(12.0)
No. of shares (mn)	257	257	-	257	-	257	257	-
EBIDTA margin (%)	9.6	9.9	-	10.3	-	9.7	10.1	-
PBIDT margin (%)	9.7	10.1	-	10.7	-	9.9	10.2	-
EPS - annualized (Rs.)	6.3	7.5	(15.5)	7.2	(12.1)	8.0	7.8	2.3

Source: Company, ENAM Research

Valuation

	Value (Rs/share)	Basis
Core construction	85	10x FY12E PE
Real estate	12	DCF+Land value
BOT projects	8	DCF
Target price	105	

Source: ENAM Research

3QFY11: Order backlog break-up

	Order Backlog		
	(Rs bn)	% gwth	% of total
Water/Irrigation	40	(6)	23
Building	60	63	35
International	26	(21)	15
Others	47	31	27
Total	173	17	100

Source: Company

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