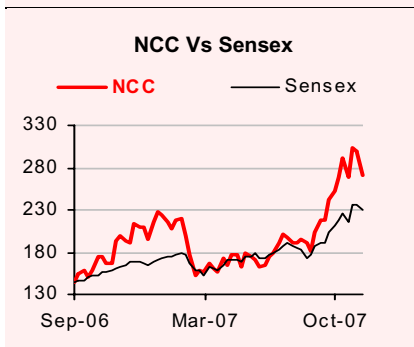


Key data

Sector	Construction
Market Cap	Rs62bn/US\$1.5bn
52 Wk H/L (Rs)	332.5/139
Avg. daily vol. (6 month)	1,391,639

BSE Code	500294
NSE Code	NAGARCON
Bloomberg	NJCC IN
Reuters	NGCN.BO

Sensex	18,737
Nifty	5,617


Shareholding pattern (%)

	30-Jun-07	30-Sep-07
FII's NRI, ADR/GDR	33.9	36.5
MFs and institutions	15.5	17.7
Promoters	24.6	24.3
Others	26.0	21.6

Absolute returns (%)

	1mth	3mth	12mth
NCC	(7.1)	38.3	36.7
Sensex	2.5	24.1	42.6

Nimit Shah
 nimit.shah@religare.in
 +91 22 6655 0128

Sneha Rungta
 sneha.rungta@religare.in
 +91 22 6655 0170

Nagarjuna Construction (NCC)

Accumulate
Current Price: Rs271
Target price: Rs320

We are initiating coverage on Nagarjuna Construction (NCC) with an Accumulate rating and a target price of Rs320. NCC is a well established construction company with a presence across all the key infrastructure verticals which gives it a de-risked business model. We expect earnings to grow at a CAGR of 35% over FY07-10E. The listing of its infrastructure (BOT, BOOT projects) and real estate projects will unlock value in future and be a key trigger for re-rating the stock. Hence our **Accumulate** rating

Diversification across segments de-risks NCC business model. NCC is present across all the key high growth infrastructure verticals which provides the requisite flexibility to its business mix. NCC has recently entered into three new business verticals as a part of its strategy to broad base its revenues.

Established construction company with a strong track record – expected earnings CAGR of 35% over FY07-10E. NCC has the best track record in its peer group - its sales grew at a CAGR of 58% for the last four years. We expect the growth to continue in future. NCC's core construction earnings should grow at a 35% CAGR over FY07-10E led by a 35% CAGR growth in sales.

Infrastructure (BOT, BOOT projects) and real estate projects will be the valuation drivers. Given the government's focus on Public Private Partnership (PPP) models, NCC has formed a subsidiary - NCC Infra Holding Ltd to capture new opportunities in BOT projects. Its other subsidiary – NCC Urban Infrastructures Ltd plans to develop 530 acres. Out of this the current land under development is 286 acres, which translates into a development area of 12.86mn sq feet over the next 4 years. The management has indicated that it may list its subsidiaries and/or get in P/E investments in the next 2-3 years which can unlock value. This along with its recent fund raising means that the risk of further dilution in future is low.

Buy on dips. Our SOTP based 12 month forward target price is Rs320. We have valued the core construction business at Rs260 at a 24 month forward multiple of 18x diluted earnings. We have valued its BOT project at 1x P/BV at Rs17 and real estate projects are valued based on the NAV and BV at Rs42. The key triggers are earnings growth and listing of subsidiaries.

Figure 1: Financials

Year to 31 March	FY05	FY06	FY07E	FY08E	FY09E	FY10E
Net Revenues (Rs mn)	11,885	18,404	28,711	38,331	51,863	70,468
EBITDA (Rs mn)	929	1,651	2,704	4,037	5,424	7,430
PAT adj (Rs mn)	587	1026	1350	1903	2709	3820
EPS (Rs)	4.7	6.0	6.5	8.7	11.8	15.9
EPS diluted (Rs)	4.7	6.0	6.5	8.7	11.8	15.9
EPS growth (%)	46.8	27.3	8.6	33.4	35.3	34.9
P/E (x)	57.5	45.2	41.6	31.2	23.0	17.1
Div. yield (%)	0.2	0.3	0.4	0.5	0.5	0.5
RoE (%)	24.0	16.2	13.6	14.4	14.7	17.0
RoCE (%)	15.5	12.7	9.9	10.3	11.1	12.4
Price/BV (x)	10.4	4.9	5.4	3.7	3.0	2.7
EV/EBITDA (x)	47.7	35.1	24.2	17.4	13.9	10.7
EV/Sales (x)	3.7	3.1	2.3	1.8	1.5	1.1

Source: Company, Religare Institutional Equity Research

Contents

Diversification across segments de-risks NCC business model	3
Established company with a strong track record – expected earnings CAGR of 35% over FY07-10E	7
Infrastructure (BOT, BOOT projects) and the real estate projects will be the valuation drivers	11
Valuations and Recommendations	14
Risks to our call	15
Annexure 1 - Company background	16
Annexure 2 - SWOT analysis of NCC	17
Annexure 3 - Five forces analysis - NCC	18
Stock performance	19
12 month forward rolling band charts	20
Financials	21
Technical view	22

Diversification across segments de-risks NCC business model

De-risked its business model by having a diversified portfolio

NCC is present across all the key high growth infrastructure verticals which provides the requisite flexibility to its business mix. NCC has recently entered into three new business verticals as a part of its strategy to broad base its revenues.

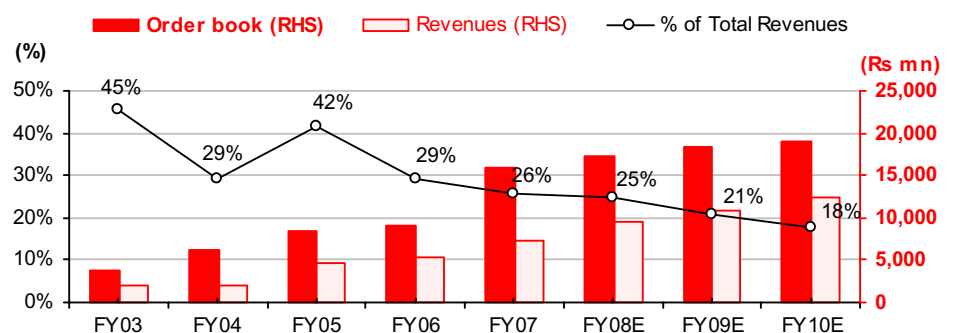
De-risked its business model by having a diversified portfolio

NCC is a well established construction company with a strong track record. It has a diversified business mix and has executed several projects across various sectors. This has helped the company to de-risk its business model and reduce its dependence upon any one particular segment. Thus, it is well positioned to capture the huge opportunity available across various segments. It is present across 6 verticals namely, building and housing, transportation, water and environment, electricals, irrigation and real estate. In order to further broad base the business, NCC has recently forayed into 3 new verticals, namely, oil and gas, metals and power. It has also started an international division to take care of the business outside India.

Construction spending for urban infrastructure is expected to be US\$5.8bn (Rs231bn) in the XIth 5-year Plan.

- Building & Housing** – NCC provides a range of services in this segment which includes construction of industrial & commercial buildings, housing projects, IT parks, shopping malls, sports complexes and hospitals. Its order book grew at a CAGR of 38% over FY04-07 and constituted 22% of the total order book in FY07. The revenue in this segment has grown at a CAGR of 51% over FY04-07. We expect this segment to continue to grow as it will tap the huge construction opportunity that will be provided by its subsidiary NCC Urban Infrastructure. Secondly, construction spending for urban infrastructure is expected to be US\$5.8bn (Rs231bn) in the XIth 5-year Plan.

Figure 1.1: Order book and revenue from Building & Housing



Source: Company, Religare Institutional Equity Research

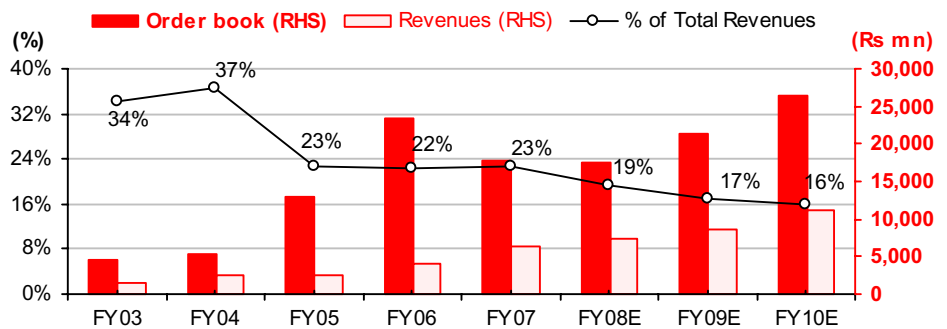
- Transportation** – This segment includes construction, realignment and upgradation of roads and highways and development of roads under BOT schemes. NCC is one of the early entrants into BOT projects and thus has built up the requisite pre-qualifications to be able to tap the huge opportunity that will be provided by NHAI. It currently has 5 BOT projects in its portfolio. These are:

NCC is one of the early entrants into BOT projects

- 👉 Brindavan Infrastructure
- 👉 Western UP Tollway
- 👉 Bangalore Elevated Tollway
- 👉 Orisa-Bhognipur Infrastructure
- 👉 Pondicherry Tindivanam road project

This segment's order book grew at a CAGR of 49% over FY04-07 and constituted about 24% of the total order book in FY07. The revenue in this segment has grown at a CAGR of 35% over FY04-07. We expect the order book in this segment to continue to be robust on the back of a total spending of US\$74.9bn (Rs2994bn) for roads in the XIth 5-year Plan.

Figure 1.2: Order book and revenue from transportation

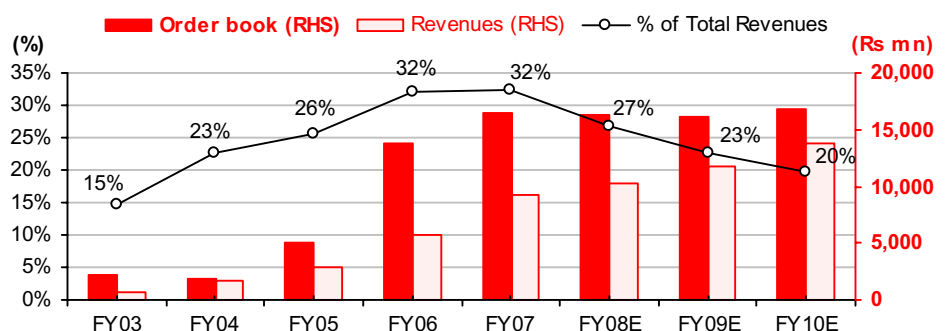


Source: Company, Religare Institutional Equity Research

- Water & environment** – Under this segment, NCC provides a range of services which include construction of water supply projects, water treatment plants, underground drainage works and sewage treatment projects. Its order book in this segment has grown sharply at a CAGR of 110% over FY04-07 and constituted about 23% of the total order book in FY07. The revenue in this segment has grown at a CAGR of 78% over FY04-07. We expect continued order inflows in this segment as we believe NCC will continue to benefit with construction spending expected to be US\$12.5bn (Rs500bn) in the water sector in the XIth 5-year Plan.

NCC will continue to benefit with construction spending expected to be US\$12.5bn (Rs500bn) in the water sector in the XIth 5-year Plan

Figure 1.3: Order book and revenue from water & environment

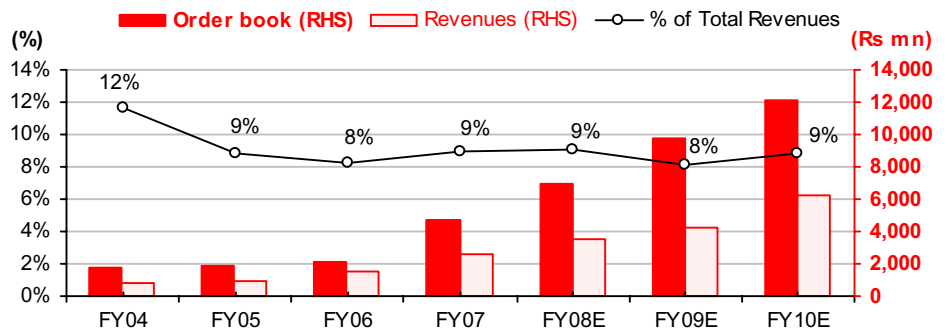


Source: Company, Religare Institutional Equity Research

NCC will continue to benefit as generation capacity in India is expected to grow ~ 10-12% annually

- Electrical** – In this segment, NCC provides design, engineering, erecting, testing and commissioning of transmission lines and substations, project electrification and system improvement projects. The order book has grown at a CAGR of 39% over FY04-07 and constituted about 6% of the total order book in FY07. The revenue in this segment has grown at a CAGR of 44% over FY04-07. NCC will continue to benefit as generation capacity in India is expected to grow ~ 10-12% annually in order to keep pace with a GDP growth rate of 8% p.a.

Figure 1.4: Order book and revenue from electrical



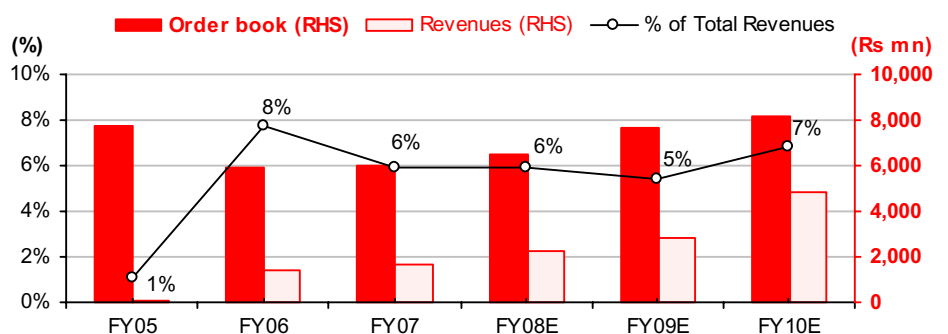
Source: Company, Religare Institutional Equity Research

- Irrigation and hydropower** – NCC began operations in this segment in FY05, gradually expanded its services which currently include construction of dams, lift irrigation and gravity irrigation projects and hydroelectric power projects. It currently has 2 BOT projects in this segment. These are:
 - ☞ Himachal Sorang
 - ☞ Himalayan Green

NCC currently has 2 BOT projects in this segment

The revenue in this segment has grown at a CAGR of 270% over FY05-07. Order inflows will continue to be robust as the construction spending in irrigation is expected to be US\$25.9bn (Rs1033bn) during the XIth 5-year Plan.

Figure 1.5: Order book and revenue from irrigation



Source: Company, Religare Institutional Equity Research

Moving up the project complexity ladder by entering new verticals

NCC is gradually moving up the value chain by entering into new and more complex segments, thus expanding its skill sets. It recently entered the following new sectors, namely:

- Oil and Gas
- Metals
- Power

NCC recently won the largest order in its history from SAIL worth Rs11bn in a consortium with Posco of South Korea

NCC recently won the largest order in its history from SAIL worth Rs11bn in a consortium with Posco of South Korea. It will construct India's largest blast furnace complex for SAIL's West Bengal plant. Thus, by venturing into this new segment, NCC has been able to break L&T's monopoly in the construction of steel plants.

The projects in these sectors are more complex in nature and command higher margins. Hence, successful execution of initial projects in such sectors will help the company to enter the next big league of larger players and compete with them in future.

Industrial construction demand is primarily driven by the oil and gas sector. Going forward, this segment is expected to witness investments of Rs419bn over the next few years, mainly driven by refining and marketing (R&M) and exploration and production (E&P) activities.

Even the steel industry is witnessing a spurt of investments on the back of an upsurge in the global steel demand. Some of the major upcoming projects are the Chatisgarh steel project of Tata Steel, Hazira steel project of Essar Hazira and JSW Steel's expansion plan of 6MT.

International market will further add to its order book

NCC has recently started operations in the international markets by focusing on the transportation, water and building projects in the Middle East. It has already won 2 projects worth Rs8.4bn in FY07 which constitutes 10% of the total order book of FY07. We believe it will continue to receive strong orders from the Middle East due to the huge construction opportunities available there.

NCC has already won 2 projects worth Rs8.4bn in FY07 in the Middle East

Established company with a strong track record – expected earnings CAGR of 35% over FY07-10E

NCC is the fastest growing construction company vis-à-vis its peers and has the most diversified revenue base.

NCC has the best track record in its peer group - its sales grew at a CAGR of 58% for the last four years. We expect the growth to continue in future. NCC's core construction earnings should grow at a 35% CAGR over FY07-10E led by a 35% CAGR growth in sales.

Fastest growing construction company vis-à-vis it's peers

NCC is the fastest growing construction company vis-à-vis its peers and has the most diversified revenue base.

Figure 2.1: Peer comparison

CAGR FY04-07	HCC	IVRCL	NCC
Sales	30.6%	44.5%	55.9%
EBITDA	14.4%	55.5%	66.3%
Adj. PAT	23.7%	64.4%	62.5%

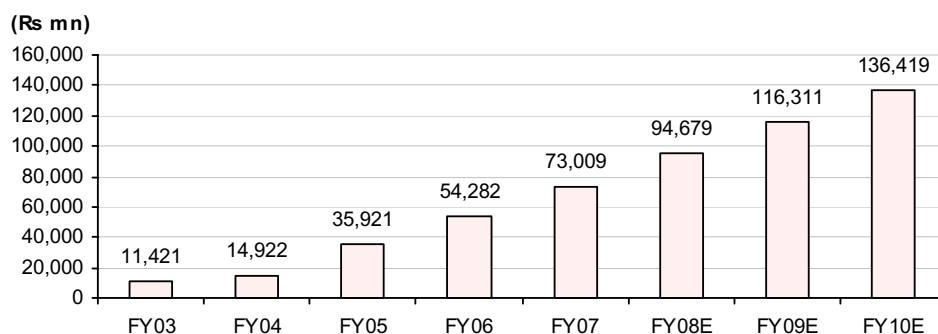
Source: Religare Institutional Equity Research

Robust order book providing revenue visibility

NCC had a robust order book of Rs90bn as on 30th September, 2007 as compared to Rs73bn at the end of FY07. This translates into a book to bill ratio of 2.3x FY08E sales, which provides strong revenue visibility for over next 2-3 years. Its order book comprises of 24% buildings, 20% transportation, 17% water & environment, 4% electrical, 10% irrigation, 1% power, 4% oil & gas, 12% metals and 8% international projects.

Its order book grew at a CAGR of 70% over FY04-07 and we expect it to grow at a CAGR of ~23% over FY07-FY10E on the back of strong order inflows at a CAGR of 25% during the same period, on a much higher base.

NCC had a robust order book of Rs90bn as on 30th September, 2007 as compared to Rs73bn at the end of FY07

Figure 2.2: Order book position


Source: Religare Institutional Equity Research

Figure 2.3: Segment wise order break up

Order book (%)	FY03	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E
Building	33	41	23	17	22	18	16	14
Roads	41	36	36	43	24	18	18	19
Water	19	12	14	25	23	17	14	12
Electrical	7	12	5	4	6	7	8	9
Irrigation	0	0	22	11	8	7	7	6
Power	0	0	0	0	2	3	6	8
Oil & Gas	0	0	0	0	5	7	9	11
International	0	0	0	0	10	12	11	10
Metals	0	0	0	0	0	10	11	11
Total OB	100	100	100	100	100	100	100	100

Source: Religare Institutional Equity Research

Segment wise order break up
Sales expected to grow at a 35% CAGR over FY07-10E led by order inflows
Sales expected to grow at a 35% CAGR over FY07-10E led by order inflows

NCC recorded a phenomenal performance over FY04-07 with a sales growth of 56% CAGR on the back of a robust order book. Buildings contributed 26% to the overall revenues, while roads contributed 23%, water & environment 32%, electrical 9%, irrigation 6%, power & oil and gas 1% and international projects 4%.

Figure 2.4: Revenue & segment wise breakup

	FY03	FY04	FY05	FY06	FY07	FY08E	FY09E	FY10E
Building	48	29	42	29	26	25	21	18
Roads	36	37	23	22	23	20	17	16
Water	16	23	26	32	32	27	23	20
Electrical	0	12	9	8	9	9	8	9
Irrigation	0	0	1	8	6	6	5	7
Power	0	0	0	0	1	1	5	8
Oil & Gas	0	0	0	0	0	5	5	8
International	0	0	0	0	4	4	8	7
Metals	0	0	0	0	0	3	7	8
Total Sales (%)	100	100	100	100	100	100	100	100

Source: Religare Institutional Equity Research

We expect sales to grow at a 35% CAGR over FY07-10E on the back of robust order inflows. Its order book has already grown from Rs73bn as at FY07 to Rs90bn as on 30th September, 2007.

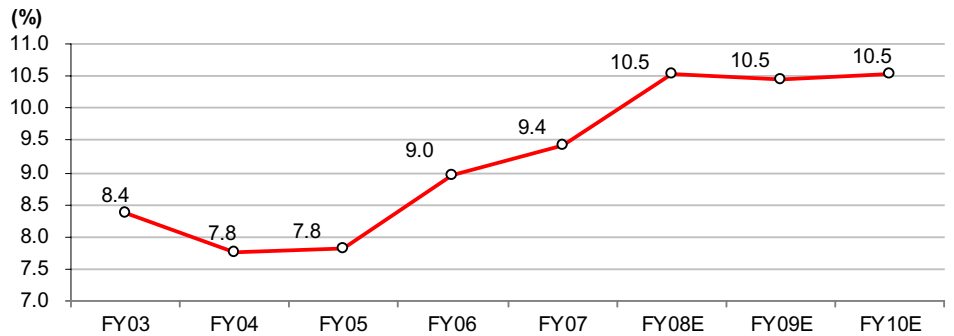
EBITDA margins to expand by 110bps to 10.5% in FY08E

EBITDA margins continuously expanded from 7.8% in FY04 to 9.4% in FY07. The operating profit grew at a 66% CAGR, outperforming sales growth. This was mainly led by

- Improving operational efficiency
- Improving revenue mix
- Reducing raw material cost
- Reducing machinery hire charges

Figure 2.5: Improving EBITDA margins

EBITDA margins to expand by 110bps to 10.5% in FY08E



Source: Company, Religare Institutional Equity Research

We expect EBITDA margins to further improve by 110bps to 10.5% on the back of

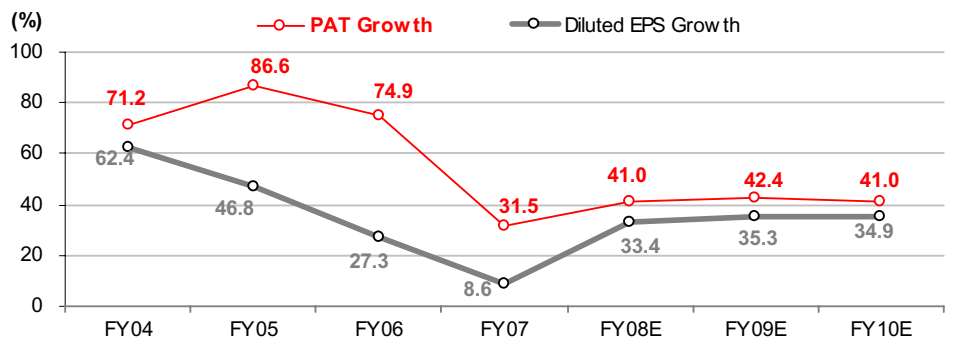
- Greater operating leverage
- Entry into high growth verticals
- A stable pricing scenario

Earnings growth will pick up and return ratios will improve

EPS growth did not keep pace with the Adj PAT growth in the past due to the aggressive dilution done by the management to fund its high working capital requirements, investments in BOT and real estates. While the Adj. PAT grew at a CAGR of 63% over FY04-07 and diluted EPS grew at a 27% CAGR.

Figure 2.6: Future EPS growth in line with PAT growth

Earnings growth will pick up and return ratios will improve as the risk of further equity dilution has diminished



Source: Company, Religare Institutional Equity Research

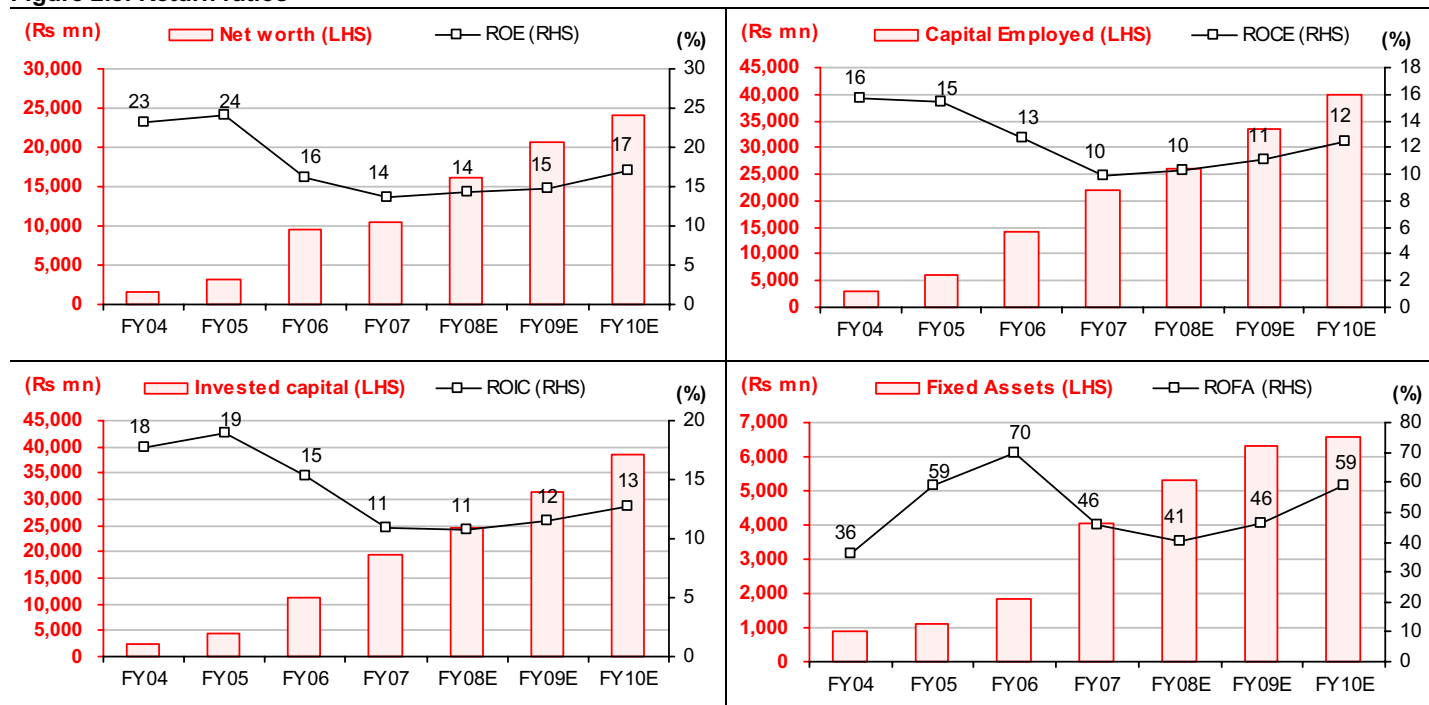
NCC's return ratios have been falling since FY04 primarily due to the equity dilution and the withdrawal of 80IA tax benefits in FY07.

The net worth of the company grew at an 86% CAGR over FY04-07, and the capital employed base grew at a 90% CAGR vis-à-vis a 63% CAGR in adjusted PAT.

Figure 2.7: Balance sheet extract

	(Rs mn)								
Y/E to 31 March	FY04	FY05	FY06	FY07E	FY08E	FY09E	FY10E	CAGR FY07-10E	CAGR FY04-07
Equity	115	159	207	417	458	481	481	4.9%	53.9%
Networth	1,628	3,255	9,451	10,390	16,084	20,734	24,160	32.5%	85.5%
Capital employed	3,211	5,969	14,146	21,909	26,119	33,392	40,051	22.3%	89.7%
Invested capital	2,554	4,531	11,336	19,474	24,498	31,217	38,645	25.7%	96.8%
Net fixed assets	907	1,089	1,849	4,043	5,338	6,341	6,598	17.7%	64.6%
Cash	657	1,372	2,809	2,434	1,619	2,174	1,405	-16.7%	54.7%
Adj. PAT	314	587	1,026	1,350	1,903	2,709	3,820	41.5%	62.5%

Source: Company, Religare Institutional Equity Research

Figure 2.8: Return ratios


Source: Company, Religare Institutional Equity Research

However, we expect the return ratios to improve going forward as the risk of further equity dilution has diminished. This is for the following reasons.

- The company has recently raised US\$150mn from the Blackstone group through an issue of 20.2mn equity shares at Rs202 per share. It has also issued 9mn warrants (with an exercise period of 18 months) at Rs225. These funds will be used to make additional investments in public-private infrastructure projects and also expand its capital base enabling it to bid for larger projects going forward.
- Future investments in BOT & real estate will be limited. Moreover, the company plans to either list or bring in P/E investments into the companies over the next 2-3 years. This will make this company self sufficient as far as their funding requirements are concerned and lower the burden on the parent's balance sheet.

Infrastructure (BOT, BOOT projects) and real estate projects will be the valuation drivers

Management has indicated that it may list its subsidiaries and/or get in P/E investments in the next 2-3 years which can unlock value

Given the government's focus on Public Private Partnership (PPP) models, NCC has formed a subsidiary - NCC Infra Holding Ltd to capture new opportunities in BOT projects. Its other subsidiary – NCC Urban Infrastructures Ltd plans to develop 530 acres. Out of this the current land under development is 286 acres, which translates into a development area of 12.86mn sq feet over the next 4 years. The management has indicated that it may list its subsidiaries and/or get in P/E investments in the next 2-3 years which can unlock value. This along with its recent fund raising means that the risk of further dilution in future is low.

Aggressively building up its BOT portfolio

NCC already has 8 BOT projects under its portfolio – 5 in roads, 2 in power and 1 in a seaport. According to the management, all the road BOT projects have an equity IRR of 16-18%, while the power and the seaport projects have an equity IRR of 20%.

- **Brindavan Infrastructure (BITL)** – BICL is a JV between NCC, Maytas and KMC Constructions to construct the Bangalore-Maddur road on an annuity basis. Each of the partners has a 33% stake in it.
- **Western UP Tollway (WUPTL)** – WUPTL is a JV between NCC, Maytas and Gayatri Projects in the ratio of 30:30:40, to construct a toll based national highway from Meerut to Muzzaffar Nagar on NH-58 in Uttar Pradesh.
- **Bangalore Elevated Tollway (BETL)** – BETL is a JV between NCC, Maytas and Soma Enterprises to undertake the construction of an elevated highway project on the Bangalore-Hosur section of NH-7 from the Silk Board Junction to the Electronic City Junction on a toll basis. Each of the partners has a 33% stake in it.
- **OB Infrastructure (OBIL)** – OBIL is a 64:36 JV between NCC and KMC Construction to execute the Orai-Bhognipur section of the national highway in Uttar Pradesh on an annuity basis.
- **Pondicherry Tindivanam Tollway** – This project is a JV between NCC and Maytas to upgrade a section of the road between Tindivanam and Pondicherry in Tamil Nadu.
- **Gautami Power Project** – This project is a JV between NCC, the Maytas, GVK Group and IJM for setting up a 464 MW Gas based combined cycle power plant at Peddapuram in Andhra Pradesh.
- **Himachal Sorang Power Project (HSPPL)** – HSPPL is an SPV formed between NCC, Maytas and SSJV Projects (33% stake each) for setting up a 100MW run-of-river hydro project in Himachal Pradesh on BOOT basis.
- **Himalayan Green** – This project has been awarded by the Sikkim Govt. to the consortium of NCC and SMEC of Australia (50% stake each) to develop a run-of-river 280MW hydro project on BOOT basis.
- **Machilipatnam Port** – This project is a consortium between NCC, Maytas, SREI Infra and Sarat Chatterjee & Co. to develop Machilipatnam as a deep water port in the private sector on BOOT basis.

Aggressively building up its BOT portfolio

Figure 3.1: Details of BOT projects

Details of BOT projects	Road BOT projects					Hydro-Power Projects		Seaport Project
	Brindavan Infra	Western UP	BETL	OB Infra	Pondicheerry Tindivanam	Himachal Sorang	Himalayan Green	Machilipatnam Sea Port
Type of project	Annuity	Toll	Toll	Annuity				
NCC's Stake	33%	30%	33%	64%	33%	50%	25%	25%
Length (Kms) / Capacity (MW)	62.6	79	9.985	62.8	37.92	2 x 50 MW	280 MW	3 berths
Concession period (Yrs)	10	20	20	17.5	30	35	35	35
Project cost (Rs. mn)	2,475	5,350	7,757	5,848	3,060	6000	14,500	16,000
Debt (Rs. mn)	2,025	4,410	6,000	4,386	2,142	4,800	10,150	12,000
Equity (Rs. mn)	450	940	1757	1462	918	1200	4350	4000
Grant (Rs mn)	0	1,270	-160	0	450	0	0	0
Financial closure	-	Aug-06	Oct-06	Oct-06	Nov-07	awaited	awaited	awaited
Exp date of completion	operational	Mar-09	Oct-08	Apr-09	Nov-09	-	-	-
Equity IRR (%)	18%	16%	16%	16%	16%	20%	20%	20%

Source: Religare Institutional Equity Research

The management has indicated that it will increase its BOT portfolio from the present 8 to around 15 to 16 in the next 2 years. It has also indicated that it will either sell a stake in its BOT projects to financial investors or list its BOT subsidiary, thereby unlocking significant value for its shareholders over the next 2-3 years. This will also reduce the burden on NCC's balance sheet for funding the BOT projects.

Real Estate

NCC Urban Infrastructure Ltd has a land bank of 530 acres in cities like Hyderabad, Chennai, Bangalore etc. In Phase 1 the company plans to develop 12.87mn square feet over the next 4 years and estimates revenue of around Rs24bn. The development of the remaining 242 acres will start over the next 12 months.

Figure 3.2: Current land development

Sl. No	PROJECT	Extent of Land	Built up Area / Numbers
1	Gachibowly (Hyderabad)	9.24 Acres	1.13 Mn Sft.
2	Kompally (Hyderabad)- Villas	38.00 Acres	0.68 Mn Sft.
3	Ranchi (Games Village)	55.00 Acres	2.00 Mn Sft.
4	Tulip Tower (Bangalore)	8.00 Acres	0.80 Mn Sft.
5	Vizag Project Madhurawada (Resident+SEZ)	85.00 Acres	3.00 Mn Sft.
6	Poppulaguda (Hyderabad)	9.12 Acres	0.90 Mn Sft.
7	Batchupally (Hyderabad)	25.00 Acres	1.40 Mn Sft.
8	Gajula Ramaram (Hyderabad)	38.00 Acres	1.46 Mn Sft.
9	Symphony Apartments (Chennai)	9.25 Acres	0.57 mn Sft.
10	NCC Premier, JP Nagar, (Bangalore)	2.00 Acres	0.19 Mn Sft.
11	Green Valley (Cochin)	2.16 Acres	0.15 Mn Sft.
12	Nagarjuna Aster Park, (Bangalore)	3.20 Acres	0.35 Mn Sft.
13	Maple Heights, (Bangalore)	2.13 Acres	0.24 Mn Sft.
	Total	286.10 Acres	12.87 Mn Sft.

Source: Religare Institutional Equity Research

Figure 3.3: Land for future development.

Sl. No.	Name of the Project	Location	Extent of Land Acres
HYDERABAD			
1	Bowrampet Village Qutbullapur Mandal R.R. District	Hyderabad	18.22
2	Banjara Hills	Hyderabad	2.22
3	Sri Sainath Gardens Rudraram Village Patancheru, Medak	Hyderabad	3.38
4	Keesara R.R.District	Hyderabad	23
BANGALORE			
5	Kadubeesanahally	Bangalore	0.32
6	Gunjur Village	Bangalore	2
7	Church Road	Bangalore	0.13
OTHERS			
8	Meyyur Village	Chennai	28.64
9	Gurgaon	Delhi	5
10	Raipur	Raipur	1
11	Nemam Village	Kakinada	150
12	Goa	Goa	9
Total			242.91

Source: Religare Institutional Equity Research

HUDA Real Estate Project. NCC along with ICICI Ventures and Tishman Speyer has won a bid for the development of a 400 acre plot into an integrated township at Tellapur Hyderabad. NCC has a 26% equity stake in the venture. The township will be a mix of commercial and residential complexes as well as recreational space and would come along the proposed Outer Ring Road. The Tellar township will include a total of 25mn sq ft primarily class A residential and office components and associated retail, civic and cultural amenities. According to the management the full potential value of the development will be about Rs 120bn spread over 5 years.

Jubilee Hills Landmark project. Jubilee Hills Landmark Projects Pvt Ltd is a joint venture between NCC, ICICI Ventures and Maytas Properties to develop a 6 acre property in Hyderabad in Jubilee Hills. The project aims at developing a five star deluxe hotel along with commercial office space and a high end residential complex. The total built up area is ~5.8lakh sq ft. The project is awaiting height clearance from the Airport Authority

NCC along with ICICI Ventures and Tishman Speyer has won a bid for the development of a 400 acre plot into an integrated township at Tellapur Hyderabad

Valuations and Recommendations

At the CMP of Rs271, the stock trades at 22.9x FY09E diluted earnings. After adjusting for the value of NCC Urban Infra (Rs42) and BOT projects (Rs17) the stock trades at 17.9x FY09E diluted earnings.

We have valued the company on the SOTP method, and our SOTP value for the company works out to be Rs320/share.

- The core construction business is valued at Rs260/share – 18x 2 year forward diluted earnings.
- NCC Urban Infra at Rs31 - based on NAV
- HUDA Township project at Rs8 – based on BV
- Jubilee Hills at Rs2 – based on BV
- BOT projects at Rs17 – based on 1x P/BV

Figure 4.1: Valuation table

Sum of the parts	Business	Method	Multiple	Value (Rs mn)	Per share value (Rs)
NCC standalone	Construction	P/E 2 year forward	18	62,545	260
NCC Urban Infra (80% stake)	Real estate	NAV	-	7,532	31
Jubilee Hills	Real estate	BV	-	450	2
HUDA	Real estate	BV	-	2,000	8
Gautami Power	Power	P/BV	1	413	2
BOT Project	Road/Power/ Port	P/BV	1	3,674	15
Total	-	-	-	76,614	319

Source: Religare Institutional Equity Research

Figure 4.2: Valuation for BOT projects

Project	% stake	Project cost	Equity NCC's share	Investments upto 09	Equity	P/BV	Value	Per share value
Brindavan Infra	33%	2475	150	150	18%	1	150	0.6
Western UP	30%	5350	280	280	16%	1	280	1.2
BETL	33%	7757	590	590	16%	1	590	2.5
OB Infra	64%	5848	940	940	16%	1	940	3.9
Himachal Sorang	33%	6000	400	200	20%	1	200	0.8
Himalayan Green	50%	14500	2180	1180	20%	1	1180	4.9
Pondicheerry Tindivanam	25%	3060	234	234	16%	1	234	1.0
Machilipatnam Sea Port	25%	16000	1000	100	20%	1	100	0.4
Total		60990	5774	3674	-	-	3674	15.3

Source: Source: Religare Institutional Equity Research

Figure 4.3: Valuation for Real estate

Particulars	2008E	2009E	2010E	2011E	2012E	2013E
Free Cash Flow						
EBIT	1,007	2,014	2,819	3,770	4,625	6,475
Growth in EBIT (%)		100.0	40.0	33.7	22.7	40.0
Tax on EBIT	302	604	846	1,131	1,388	1,943
NOPLAT	705	1,410	1,974	2,639	3,238	4,533
Operating cash flow	705	1,410	1,974	2,639	3,238	4,533
FCF	705	1,410	1,974	2,639	3,238	4,533
% change	nmf	nmf	40%	34%	23%	16%
Total	9,415	-	-	-	-	-
NCC's stake @ 80%	7,532	-	-	-	-	-
Shares outstanding (mn)	240	-	-	-	-	-
Per share value	31	-	-	-	-	-

Source: Religare Institutional Equity Research

Figure 4.4: Cost of equity

Risk free rate	8.0%
Market Risk Premium	6.0%
Adjusted Beta	1.10
Cost of equity	14.6%

Source: Religare Institutional Equity Research

Risks to our call

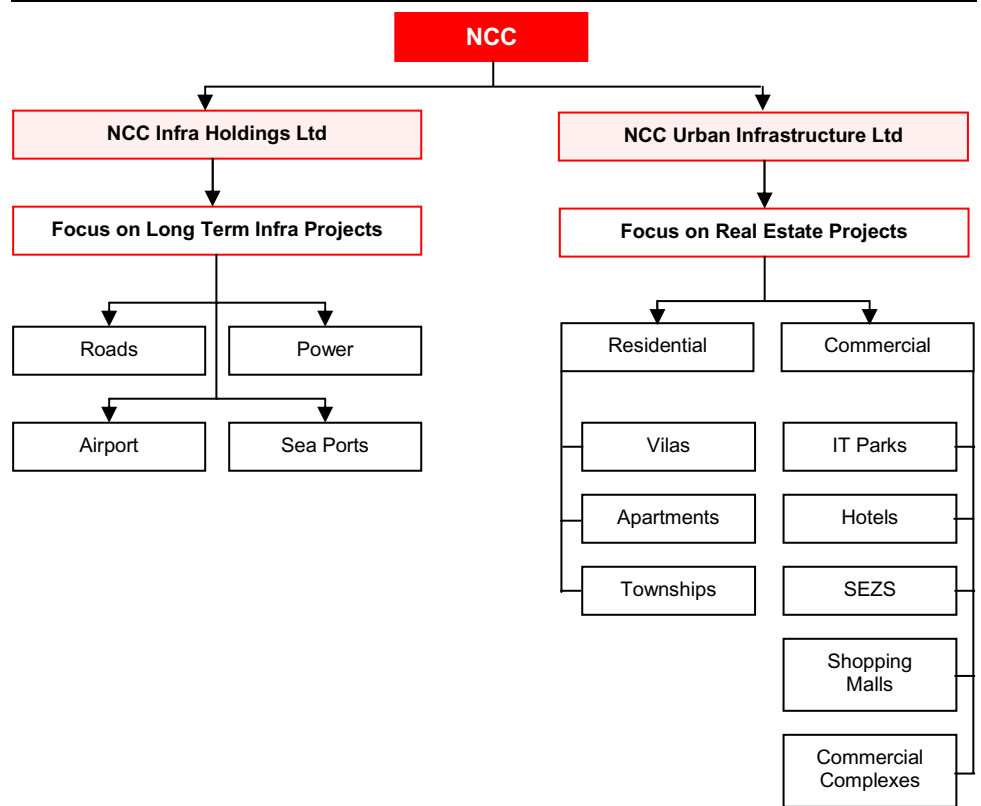
- a) BOT projects are prone to traffic estimates (toll based) and interest rate risk due to high level of debt required. The management while calculating the Equity IRR considers fixed rate of interest whereas the interest rates are reset to the market rate at periodic intervals. This exposes it to interest rate risk and the valuations of the BOT business can vary from estimates.
- b) Other Risks:
- Project execution risk
 - Government spending
 - Scarcity of skilled human resources
 - Rising raw material prices

Annexure 1

Company Background

Nagarjuna Construction (NCC) is a Hyderabad based leading civil construction company promoted by Mr. A.V.S. Raju. Established in 1980, the company has transformed itself from a subcontractor in residential and industrial construction to a diversified infrastructure conglomerate with BOT and real estate projects in its gamut. Today, it has a well-diversified, derisked business mix with a presence across various sectors – buildings and housing, transportation, water and environment, electrical, irrigation and hydropower. Recently, it has also forayed into new verticals like oil & gas pipelines and EPC capabilities in metals and power sector.

Figure 6.1: Corporate structure



Source: Religare Institutional Equity Research, Company

NCC has also tried to geographically derisk its business model by venturing outside India and has opened an office in Dubai to capture the opportunities arising in the Middle East countries. It has also formed a subsidiary company in Muscat and has already won 2 significant projects worth Rs8.4bn, which constitutes about 10% of the order backlog.

Annexure 2

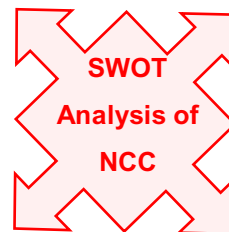
SWOT analysis of NCC

Strengths

- Derisked business model
- Established track record
- Diversified skill sets
- Strong financial position

Opportunities

- \$350bn - \$400bn infrastructure investments expected in the next 5 years
- Increasing focus on BOT/ BOOT projects
- Unlocking potential in the BOT and real estate ventures
- Moving into new verticals and geographies



Weaknesses

- High dilution in last 2 years

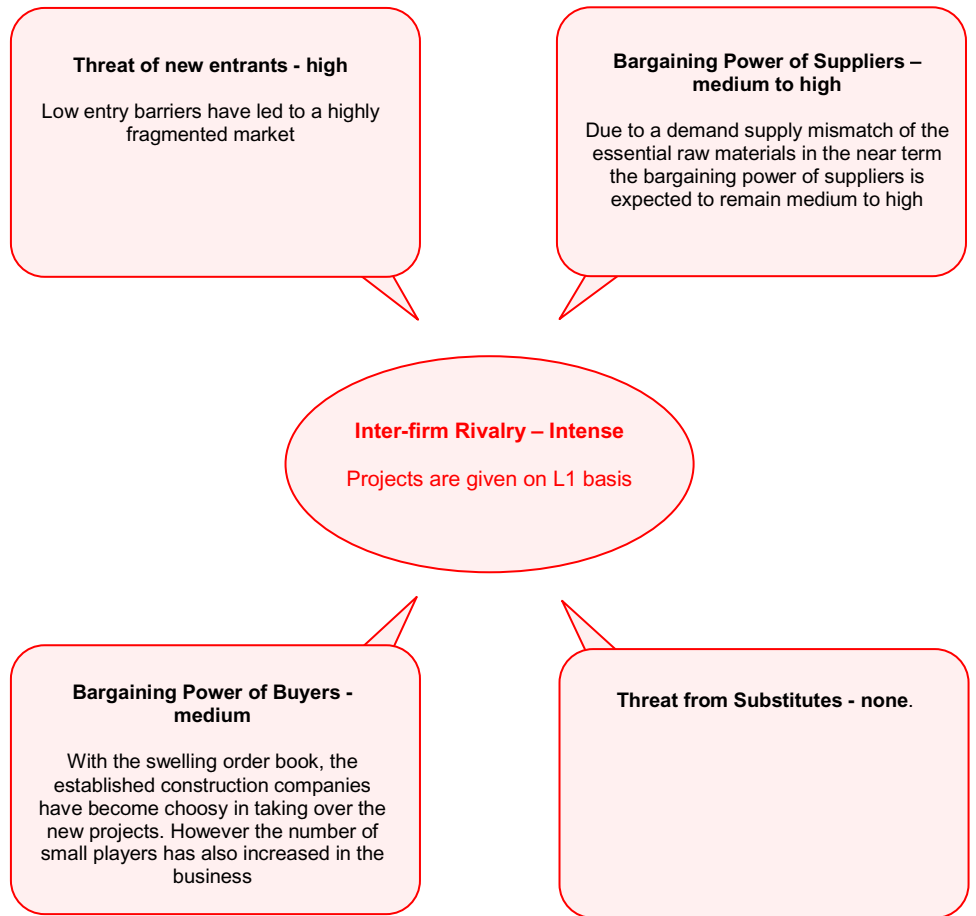
Threats

- Project execution risk
- Scarcity of skilled human resources
- Rising raw material prices
- Interest rate risk
- Traffic risk in toll based projects

Source: Religare Institutional Equity Research

Annexure 3

Five Forces Analysis – Nagarjuna

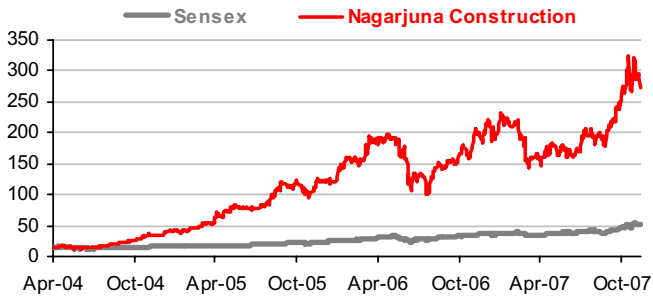


Source: Religare Institutional Equity Research

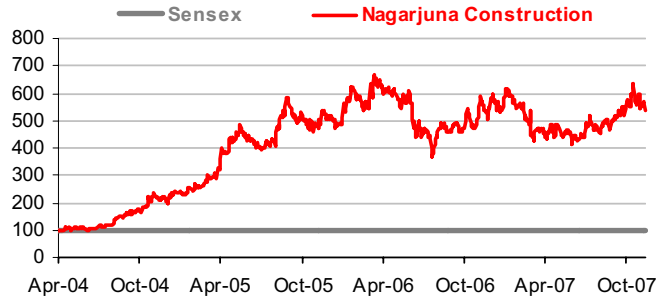
Stock performance

Nagarjuna Construction

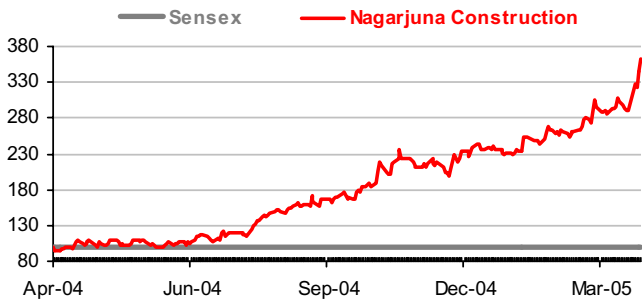
Absolute Perf. From Apr 04



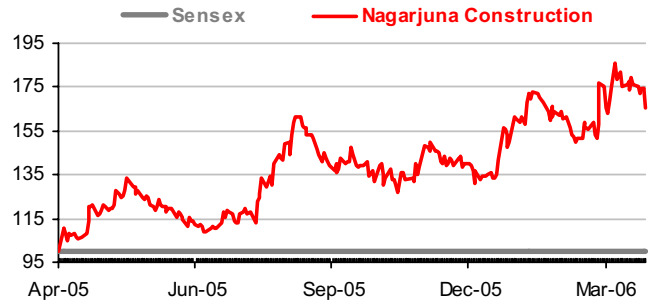
Relative Perf. From Apr 04



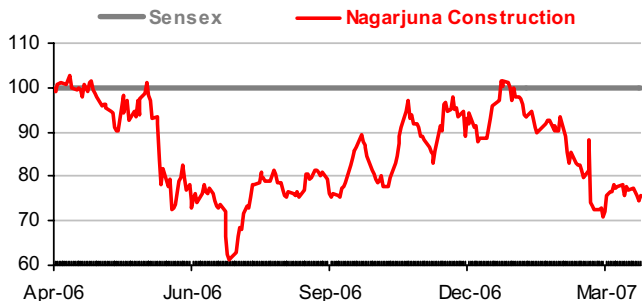
Relative Perf. From Apr 04 to Mar 05



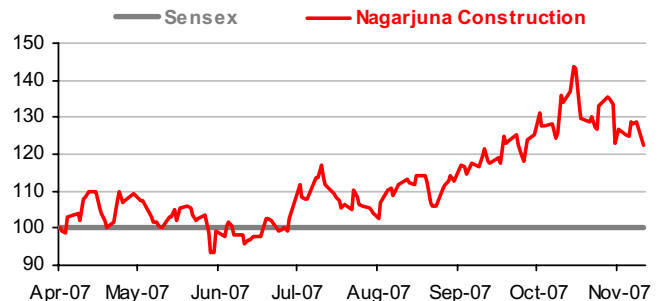
Relative Perf. From Apr 05 to Mar 06



Relative Perf. From Apr 06 to Mar 07



Relative Perf. From Apr 07

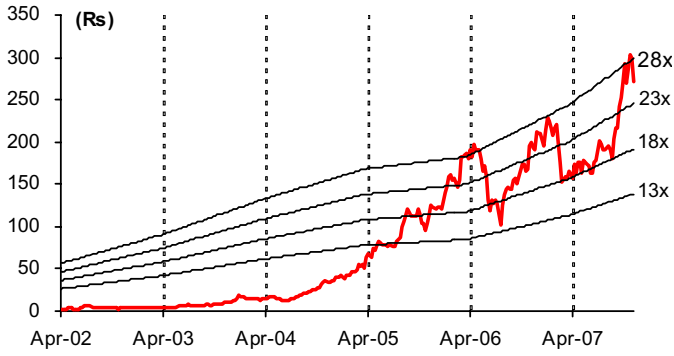


Source: Bloomberg, Religare Institutional Equity Research

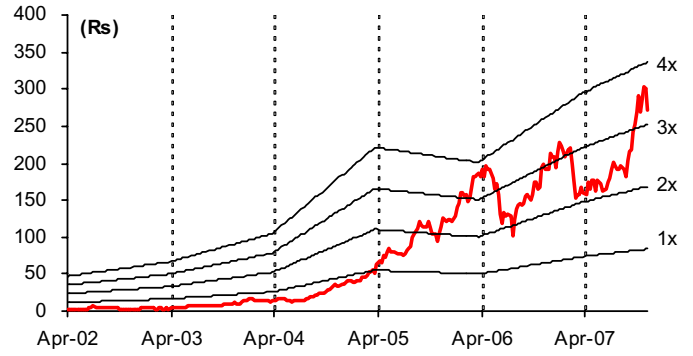
12 month forward rolling band charts

Nagarjuna Construction

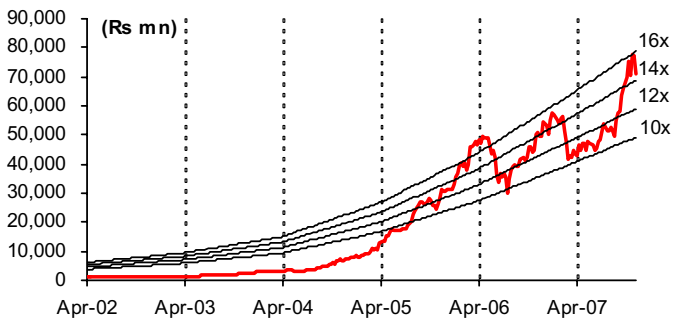
P/E Band



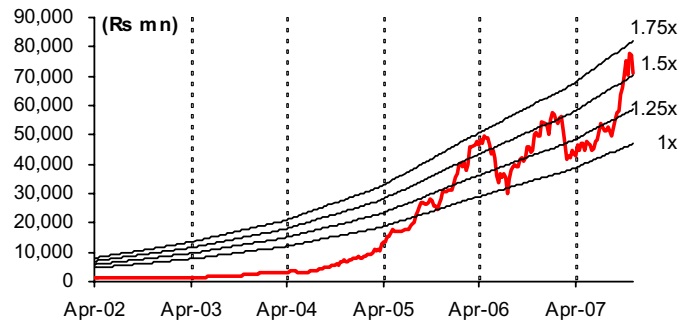
P/BV Band



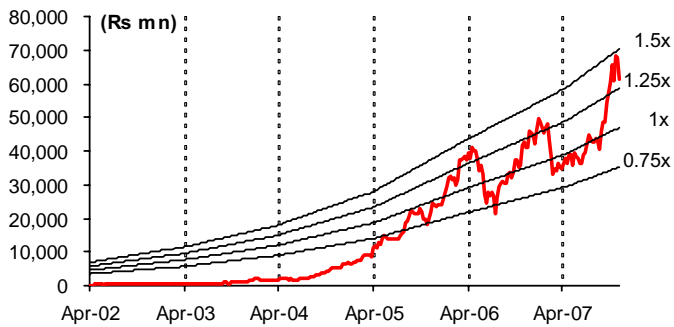
EV/EBITDA Band



EV/Sales Band



Mkt cap/Sales Band



Financials

Income statement

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Net sales	18,404	28,711	38,331	51,863	70,468
EBITDA	1,651	2,704	4,037	5,424	7,430
EBITDA margin (%)	9.0	9.4	10.5	10.5	10.5
Depreciation	182	299	465	592	688
EBIT	1,469	2,405	3,571	4,832	6,742
Other income	85	164	150	150	150
Interest Exp/(Inc)	310	640	853	898	1,133
PBT (operating)	1,244	1,929	2,869	4,084	5,759
PBT margin (%)	6.7	6.7	7.5	7.9	8.2
Extra ord (inc)/exp	(18.4)	105.5	-	-	-
Taxes	223	667	966	1,375	1,939
Minority interest	-	-	-	-	-
PAT(Reported)	1,039	1,157	1,903	2,709	3,820
Less: Extra ordinary income / Others	(13)	193	-	-	-
Adj PAT	1,026	1,350	1,903	2,709	3,820
Adj PAT margin (%)	5.5	4.7	4.9	5.2	5.4

Quarterly – Financials

(Rs mn)

Y/E, 31st March	Q2FY07	Q3FY07	Q4FY07	Q1FY08	Q2FY08
Net sales	6,517	6,998	8,679	7,622	6,772
Changes (%)	78.4	47.2	35.5	17.0	3.9
EBITDA	618	802	727	794	848.2
Changes (%)	65.1	75.5	36.9	44.3	37.3
Margin (%)	9.5	11.5	8.4	10.4	12.5
PAT	324	380	137	360	337
PAT adj	324	380	343	360	337
Changes (%)	59.0	29.4	(1.9)	14.8	3.7
Margin (%)	5.0	5.4	3.9	4.7	5.0
EPS adj (Rs)	1.6	1.8	1.6	1.7	1.6
EPS dil (Rs)	1.6	1.8	1.6	1.7	1.6

Ratios

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Growth					
Net sales (%)	54.9	56.0	33.5	35.3	35.9
EBITDA (%)	52.9	55.2	31.9	35.4	35.7
PAT adjusted (%)	74.9	31.5	41.0	42.4	41.0
EPS adjusted (%)	27.3	8.6	33.4	35.3	34.9
EPS diluted (%)	27.3	8.6	33.4	35.3	34.9
EPS Consl and diluted (%)	-	-	-	-	-

Valuations

P/E (x)	45.2	41.6	31.2	23.0	17.1
P/BV (x)	4.9	5.4	3.7	3.0	2.7
EV/EBITDA (x)	35.1	24.2	17.4	13.9	10.7
EV/Sales (x)	3.1	2.3	1.8	1.5	1.1

Profitability

EBITDA margin (%)	9.0	9.4	10.5	10.5	10.5
Adj PAT margin (%)	5.5	4.7	4.9	5.2	5.4
RoE (%)	16.2	13.6	14.4	14.7	17.0
RoCE (%)	12.7	9.9	10.3	11.1	12.4
RoIC (%)	15.2	10.8	10.8	11.5	12.8

B/S ratios

Inventory days	77.2	51.4	50.0	50.0	50.0
Creditor days	53.9	61.2	60.0	60.0	60.0
Debtor days	59.8	74.0	60.0	60.0	60.0
Working Capital days	177.7	148.9	126.1	125.9	128.3
Net debt/equity	0.5	1.1	0.6	0.6	0.7

* RoIC is calculated on post tax basis

Balance sheet

(Rs mn)

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Liabilities					
Equity share capital	207	417	458	481	481
Total Res. & Surplus	9,245	9,973	15,627	20,253	23,680
Total Shareholders' fund	9,451	10,390	16,084	20,734	24,160
Convertible Debt					
Others Debt	4,629	11,403	9,919	12,543	15,776
Total Loans	4,629	11,403	9,919	12,543	15,776
Deferred tax liability (net)	66	115	115	115	115
Total liabilities	14,146	21,909	26,119	33,392	40,051

Assets

Net fixed assets & others	1,849	4,043	5,338	6,341	6,598
Capital WIP & others	88	186	100	100	100
Total non-current assets	1,937	4,229	5,438	6,441	6,698
Total investments - non current	876	4,767	7,267	8,767	9,617
Current assets					
Inventories	3,893	4,041	5,251	7,105	9,653
Sundry debtors	3,017	5,817	6,301	8,525	11,584
Cash & cash equivalents	2,810	2,435	1,620	2,175	1,406
Cash	2,809	2,434	1,619	2,174	1,405
Liquid investments	1	1	1	1	1
Other current assets	5,960	8,672	10,628	14,380	19,538
Total current assets	15,679	20,964	23,800	32,185	42,181
Total current liabilities	3,910	6,817	8,941	12,125	16,003
Total provisions	457	1,244	1,453	1,881	2,445
Net current assets	11,311	12,903	13,406	18,179	23,733
Misc. expenditure	22	10	10	10	10
Total assets	14,146	21,909	26,119	33,392	40,051

Cash flow

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
Cash from operations					
PBT	1,262	2,186	2,869	4,084	5,759
Tax paid	(437)	(721)	(1,317)	(1,566)	(1,875)
Dep & amortization	494	694	1,318	1,490	1,821
Working capital changes	(4,908)	(2,699)	(1,345)	(4,046)	(6,387)
Others	-	-	-	-	-
Net cash from operations	(3,588)	(540)	1,525	(38)	(682)
Cash from investments					
Capital expenditure	(1,455)	(1,844)	(1,549)	(1,595)	(945)
Sale/purchase of inv & others	(478)	(3,889)	(2,498)	(1,498)	(848)
Net cash from investments	(1,933)	(5,732)	(4,047)	(3,093)	(1,793)
Cash from financing					
Issue of shares & share premium	5,303	31	4,139	2,335	0
Dividend paid	(108)	(245)	(121)	(375)	(394)
Debt change	1,981	6,774	(1,484)	2,624	3,233
Others	(281)	(634)	(853)	(898)	(1,133)
Net cash from financing	6,895	5,926	1,681	3,685	1,706
Net change in cash	1,374	(346)	(842)	555	(769)

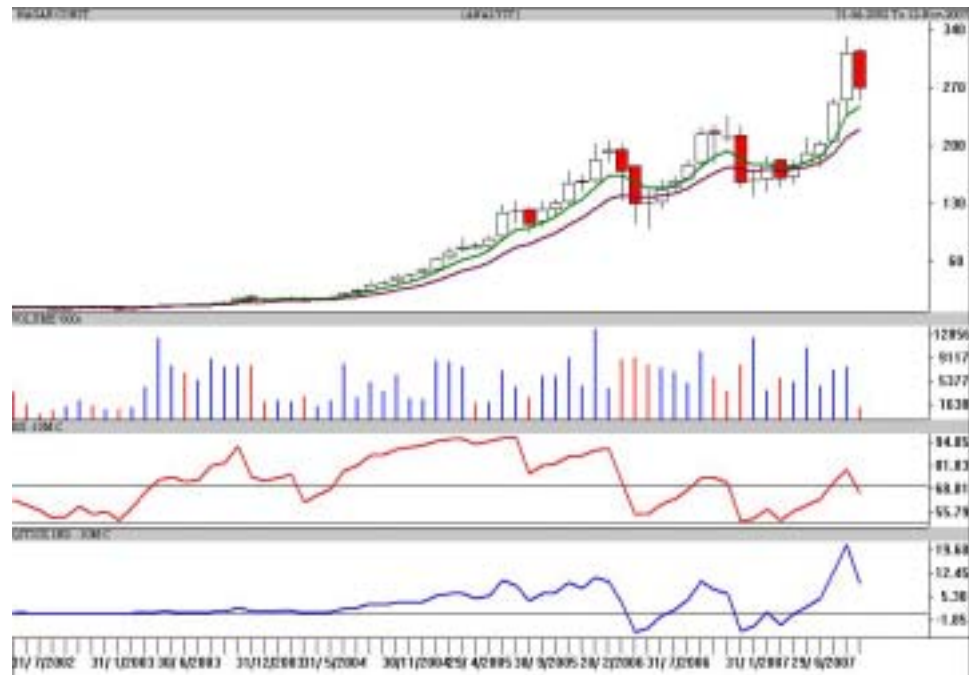
Per share data

Y/E, 31st March	FY06	FY07	FY08E	FY09E	FY010E
EPS adjusted	6.0	6.5	8.7	11.8	15.9
EPS diluted - wtd	6.0	6.5	8.7	11.8	15.9
EPS Consl and diluted	-	-	-	-	-
CEPS	7.1	8.0	10.8	14.4	18.8
Book value	55.3	50.2	73.6	90.1	100.5
Dividend	0.8	1.2	1.4	1.4	1.4
O/s shs.-actual (mn)	206.6	208.5	228.8	240.4	240.4
O/s shs.-diluted (mn)	206.6	208.5	228.8	240.4	240.4
O/s shs wtd / diluted (mn)	170.9	206.9	218.6	230.0	240.4

Technical View

Nagarjuna Const

Close Price Rs.271.30



The monthly candlestick chart of Nagarjuna Construction shows a bearish candle as it has corrected with the overall market. The monthly averages are positively phased and are currently pegged at Rs.246 (6 months ema) and Rs.216 (12 months ema). These will act as strong support in declines from a medium to long term perspective.

The mechanical oscillators are indicating strength, implying that corrections should be used as buying opportunities from a medium to long term perspective. In the near term support is pegged in the Rs.255-268 area. Resistance in the medium term is pegged in the Rs.320-332 area. This will act as a bottleneck and once overcome could see Nagarjuna Construction move up to Rs.375 in the long term.

Religare Institutional Equity Team

Name	Sector	E-Mail ID	Telephone
Sangeeta Purushottam (<i>Head Institutional Business</i>)		sangeeta.p@religare.in	+91 22 6655 0102
Research - Equity			
Arvind Jain	Auto, Steel Pipes	arvind.jain@religare.in	+91 22 6655 0140
Kunal Sheth	Capital Goods / Power Utilities	kunal.sheth@religare.in	+91 22 6655 0141
Manak Gaushal	Cement, Logistics	manak.gaushal@religare.in	+91 22 6655 0106
Nimit Shah	Construction, Real Estate	nimit.shah@religare.in	+91 22 6655 0128
Suryaneel Kumar	FMCG, Hotels	suryaneel.kumar@religare.in	+91 22 6655 0156
Harshad Deshpande	Information Technology	harshad.deshpande@religare.in	+91 22 6655 0116
Abneesh Roy	Media	abneesh.roy@religare.in	+91 22 6655 0176
Pareesh Jain	Metals	pareesh.jain@religare.in	+91 22 6655 0117
Dikshit Mittal	Oil & Gas	dikshit.mittal@religare.in	+91 22 6655 0115
Vikas Sonawale	Pharmaceuticals	vikas.sonawale@religare.in	+91 22 6655 0112
Naveen Kulkarni	Telecom	naveen.kulkarni@religare.in	+91 22 6655 0185
Archit Kumar	Auto, Steel Pipes, Textiles	archit.kumar@religare.in	+91 22 6655 0190
Sneha Rungta	Logistics, Construction, Cement	sneha.rungta@religare.in	+91 22 6655 0170
Technical research - Equity			
Vidur Pendharkar		vidur.p@religare.in	+91 22 6655 0109
Sales - Equity			
Paresh Mehta		paresh.mehta@religare.in	+91 22 6655 0108
Aisha Udeshie		aisha.udeshie@religare.in	+91 22 6655 0107
Ankur Varman		ankur.varman@religare.in	+91 22 6655 0103
Dealing - Equity			
Rajeev Gupta (<i>Head - Dealing and Sales trading</i>)		rajeev.g@religare.in	+91 22 6655 0104
Jayesh Balsara		jayesh.balsara@religare.in	+91 22 6655 0186
Govind Satam		govind.satam@religare.in	+91 22 6655 0181
Vinita Pandya		vinita.pandya@religare.in	+91 22 6655 0180
Production, Database and administration			
Mandar Deokar		mandar.deokar@religare.in	+91 22 6655 0157
Vishal Randive		vishal.randive@religare.in	+91 22 6655 0160
Sachin Jadhav		sachin.jadhav@religare.in	+91 22 6655 0189

Rating definition

Buy	: > 15% returns relative to Sensex	Accumulate	: +5 to +15% returns relative to Sensex
Sell	: > (-)15% returns relative to Sensex	Reduce	: (-) 5 to (-) 15% returns relative to Sensex
Hold	: Upto + / (-) 5% returns relative to Sensex		

Religare Securities Ltd. Taj Building, 210, D.N. Road, Mumbai - 400001

For inquiries contact:
Email: institutionalsales@religare.in
Phone: 6655 0000

DISCLAIMER: Religare Securities Limited (Religare) has two independent equity research groups: Institutional Equities (Institutional Equity Research) and Priority Client Group (Religare Research). Religare Institutional Equity Research is aimed to service the institutional clients of Religare Securities Limited including the Portfolio Management Services of Religare whereas Religare Research is published with a view to service all segments of clients including Retail, HNIs and Institutional clients and PMS.

This document has been prepared by Religare Securities Limited – Institutional Equities. Affiliates of Religare- Institutional Equities may have issued other reports that are contrary with and reach different conclusion from the information presented in this report. The views and opinions expressed in this document may or may not match or may be contrary with the views, estimates, rating and target price of the Priority Client Group of Religare Securities Limited.

We are not soliciting any action based upon this material. This report is not to be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. It is for the general information of clients of Religare-Institutional Business. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Religare-Institutional will not treat recipients as customers by virtue of their receiving this report. We have reviewed the report, and in so far as it includes current or historical information, it is believed to be reliable. It should be noted that the information contained herein is from publicly available data or other sources believed to be reliable. Neither Religare, nor any person connected with it, accepts any liability arising from the use of this document.

This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for any investment decision. The investment discussed or views expressed may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The recipients of this material should rely on their own investigations and take their own professional advice. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. Price and value of the investments referred to in this material may go up or down. Past performance is not a guide for future performance. Certain transactions -including those involving futures, options and other derivatives as well as non investment grade securities - involve substantial risk and are not suitable for all investors. Reports based on technical analysis centers on studying charts of a stock's price movement and trading volume, as opposed to focusing on a company's fundamentals and as such, may not match with a report on a company's fundamentals.

Opinions expressed are our current opinions as of the date appearing on this material only. We do not undertake to advise you as to any change of our views expressed in this document. While we would endeavor to update the information herein on a reasonable basis, Religare, its subsidiaries and associated companies, their directors and employees are under no obligation to update or keep the information current. Also there may be regulatory, compliance, or other reasons that may prevent Religare and affiliates from doing so. Prospective investors and others are cautioned that any forward-looking statements are not predictions and may be subject to change without notice.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Religare and affiliates to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

Religare and its affiliates, officers, directors, and employees may: (a) from time to time, have long or short positions in, and buy or sell the securities thereof, of company (ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company (ies) discussed herein or act as advisor or lender / borrower to such company (ies) or have other potential conflict of interest with respect to any recommendation and related information and opinions. Without limiting any of the foregoing, in no event shall Religare, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Copy right in this document vests exclusively with Religare. This information should not be reproduced or redistributed or passed on directly or indirectly in any form to any other person or published, copied, in whole or in part, for any purpose, without prior written permission from Religare. We do not guarantee the integrity of any e-mails or attached files and are not responsible for any changes made to them by any other person.

The analyst for this report certifies that all of the views expressed in this report accurately reflect his or her personal views about the subject company or companies and its or their securities, and no part of his or her compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this report. Analyst's holding in the stocks mentioned in the report: **NIL**