

**CMP Rs 180**
**ACCUMULATE**
**TARGET Rs 197**

CMP	180.0
Price Target	197
Potential Upside	10%
52 week Range	Rs 63 - Rs 185.3
No. Shares (Cr.)	25.7
Free Float (%)	79.7
Market Cap (Rs. Cr)	4618
Avg Daily Volume	239519.0

**One of the Most Diversified Plays on Infrastructure**

Presence across most of the infrastructure verticals like Water & Environment, Building & Housing, Irrigation, Transportation and Electrical makes the company immune from investment slow down from any one particular segment. The exposure to Middle Eastern market, which is currently hit by Dubai Crisis, should provide benefits of regional diversification in the long run.

**Strong Order Book to Support Revenue CAGR of 19% Over FY09-FY12**

Owing to the better than expected order inflows in FY10 the current order book of the company stand at Rs 14814 Cr. We expect the company to continue to benefit from the increased investment in Infrastructure and improved industrial capex scenario. The strong order book is likely to result in revenue CAGR of 19% for the three year period ending FY12.

**Significant Exposure to BOT Projects**

The company has over a period of time moved from just an EPC contractor to an asset owning company. The current BOT portfolio has 264 kilometres of roads under 5 road BOT projects, 1700 MW power plants via 3 power BOT projects and 1 sea port. While one of the BOT project is already operational, the remaining 4 will be operational by the end CY2010 as most of them are already completed or near completion. Thus having already executed most of the construction work, we believe that NCC road BOT projects provide better revenue visibility compared to peers.

**Real Estate Woes Likely to End in FY11**

The real estate exposure of the company has remained a drag for the stock over the last year as the real estate market across the country was in the doldrums. However, the strong macro economic performance of the country during the last few months and encouraging budget makes us believe that the real estate market should revive by FY2011. Having gone through the worst period, we think the real estate exposure of the company should provide a much needed trigger for the stock going forward.

**We advise clients to accumulate the stock at the current market price.**

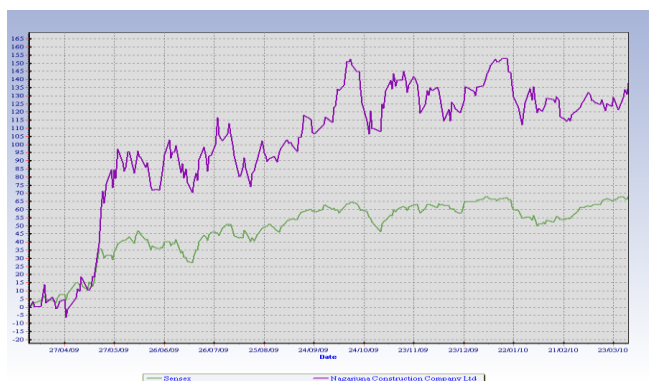
**Our 1 year forward SOTP based price target for the stock stand at Rs 197 implying 9.6% return. EPC business (domestic + international) contributes Rs 167, BOT road projects Rs 13.2, Bot power projects Rs 5.6 and the Real Estate business contributes Rs 11.7 to the TP.**

**Holding Structure**

Promoters	20.23
FII	35.84
Corporate	8.13
Institutions	21.99
Govt	0.05
Public	13.77

**Financials**

	2009	2010 (E)	2011(E)	2012(E)
Net Sales (Rs Cr)	4151.4	4855.3	6124.1	6975.8
Growth (%)	19.5	17.0	26.1	13.9
EPS (Rs)	6.7	8.0	10.3	11.6
OPM (%)	9.0	10.1	9.9	9.8
NPM (%)	3.7	4.2	4.3	4.3
Debt/Equity	0.7	0.5	0.6	0.6
ROE (%)	9.4	10.5	11.3	11.7
ROCE (%)	14.4	15.0	15.7	16.0
PE	25.4	21.4	16.6	14.7

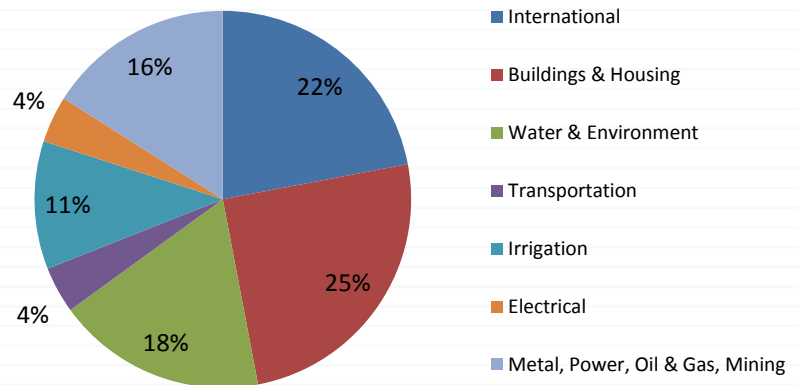
**Price Performance Compared to Sensex**

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### One of the Most Diversified Plays on Infrastructure

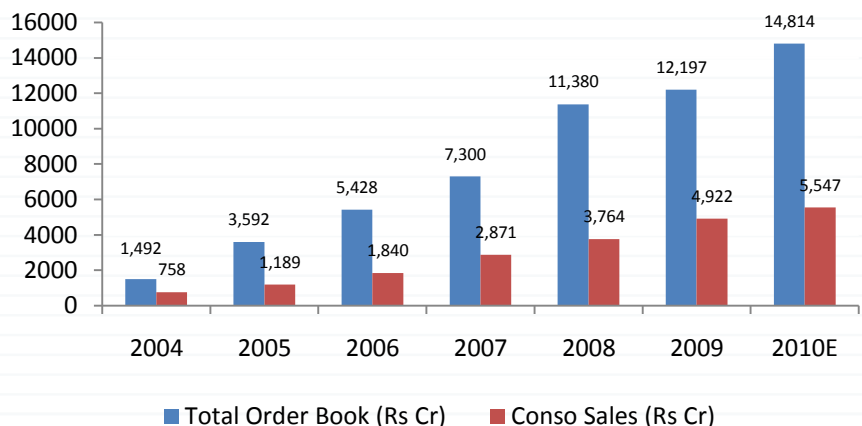
NCC remains one of the most diversified construction players in the construction space having presence across all the major verticals like Water & Environment, Building & Housing, Irrigation, Transportation and Electrical. The company has recently forayed into Power, Mining, Metal and Oil & Gas to capture the growing opportunities. We expect buildings & housing, Oil & Gas, Power and Irrigation to contribute significantly going forward.

The company also started its operations in Middle East in 2005. The company has 2 subsidiaries i.e. NCC International LLC in Muscat and Nagarjuna Contracting Co. LLC in Dubai through which it executes projects in Transportation, Water & Sanitation and Buildings in the region. The regional diversification helps counter slow down in any one region. In just 4-5 years of operations, the international orders now constitute around 22% of the total order backlog.



### Strong Order Book to Support Revenue CAGR of 19% Over FY09-FY12

The company's order book has grown at a CAGR of 33% over the last five years and currently stands at Rs 14814 Cr. The company had positively surprised on order booking front this year and raised its order inflow target for the FY10 from Rs 6300 Cr to Rs 7500 Cr. We believe that company is well on track to achieve its FY10 standalone and consolidated revenue guidance of Rs 4800 Cr and Rs 5500 Cr respectively. Further we expect the company to clock 19% CAGR over the 3 years period from FY09-FY12.



## Significant Exposure to BOT Projects

The company identified and forayed into asset owning space long back and now has a total of 9 BOT projects in its kitty of which 5 are road BOT projects, 3 power BOTs and 1 is a sea port BOT project.

### Road BOT Portfolio – Ready to Kick Start

Roads	Type	Length	Commissioning Ends	% share	Cost	Total Equity	Total Debt	Total Grant	Company share in Equity	Invested So far	Actual/ Expected Commissioning
Brindavan Infrastructure, Bangaluru - Maddur, Karnataka	Annuity	62.60	April 2014	33.33%	247.50	45.00	202.50		15.00	15.00	31/06/2006
Bangalore Elev Tollway, Silk Board - Hosur, Karnataka	Toll	22.00	July 2026	42.00%	880.00	280.72	600.00		114.90	114.90	15/04/2010
OB Infra, Orai - Bhognipur, UP	Annuity	62.80	April 2024	64.00%	584.80	146.20	438.60		93.60	93.60	30/04/2010
Wstern UP Tollway, Meerut - Mujjafar nagar, UP	Toll	78.75	March 2026	51.00%	667.00	156.00	455.00	*127.80	79.56	117.00	15/05/2010
Pondicherry-Tindivanam, Tamil Nadu	Toll	38.00	Jan 2038	75.00%	314.60	67.44	202.21	45.00	33.00	33.00	31/07/2010

Out of the 5 road BOT projects that the company has, 1 is operational and remaining 4 are likely to be operational over the next few months as most of the construction work is either finished or in the ultimate stage of completion.

We think this is the most prominent feature of the NCC roads BOT portfolio. Of the 4 BOT roads projects yet to be operational, 2 are expected to start in April, 1 in May and 1 in July in 2010. Unlike most of other BOT road developers, where of the total BOT road portfolio many projects have significant portion of construction work remaining, NCC will have all its projects operational late by the year end. Typically in a BOT project quite a lot of uncertainty remains until the project is operational due to issues related to funding, land acquisition and execution. Comparatively NCC's portfolio provides much more revenue visibility and results in higher valuations.

Also, since all the remaining projects are near completion the new NHAI policy to restrict developers to bid for further BOT projects if they have 3 or more BOT projects without having executed financial closure agreement, does not affect NCC. The Management has indicated that this is a big plus for them and they will continue to bid for further road BOT projects.

## Power BOT Portfolio

Power Projects	Capacity	% share	Cost	Total Equity	Debt / Other	Company share in Equity	Invested So far	Expected Commissioning
Himachal Sorang, HP	100.00	67.00%	580.00	116.00	464.00	77.40	70.10	31/03/2011
NCC Power, AP	1320.00	100.00%	6955.00	1738.75	5216.25	886.70	48.60	31/01/2014
Himalayan Green, Sikkim	280.00	54.00%	1960.00	435.00	1525.00	362.60	25.00	31/12/2015

NCC has three power projects entailing in total power capacity of 1700 MW. Of these, NCC Power in AP is the thermal power project whereas the remaining 2 are hydro power projects. While baring the power project in Himachal Pradesh which is expected to be operational in FY11 end, remaining 2 projects are in early stages and will be completed after 4-6 years. Owing to this, we have conservatively valued these projects (i.e. 1 X Investments).

### **Himachal Sorang**

This is a 100 MW power project in Kinnur District of Himachal Pradesh with the total cost at Rs 580 Cr. The financial closure of the project was achieved in June 2007 and the project is expected to be operational by end FY11.

### **NCC Power**

The company intends to develop a 4 x 660 MW thermal power plant based in Somapeta, Srikakulam district in the State of Andhra Pradesh in two phases of 1,320 MW (2 X 660 MW) each. The estimated project cost is Rs. 6955 Cr. NCC currently owns 100.00% of the equity stake in the project. It plans to divest up to 49.00% of its equity stake in the project after achieving financial closure.

### **Himalaya Green**

Himalayan Green Energy Private Limited is a joint venture between NCC and SMEC International Limited of Australia for executing and implementing a 280 MW hydro-electric power projects downstream of the Teesta River in the State of Sikkim. The estimated project cost is Rs. 1960 Cr and the concession period is for 35 years.

### **Vajra (Machilipatnam) Sea Port Project**

Machilipatnam BOOT Seaport Project is a Rs 1590 Cr project to develop an all weather deep water seaport in Andhra Pradesh awarded by the government of AP. NCC holds 25% of the interest in the project and the total concession period of the project is 50 years. The port has 2 berths expandable upto 12 berths with cargo handling capacity of 7 MTPA during phase 1 and 13 MTPA during phase 2. The port is designed to handle ships of 65000 DWT in the base year and 1,50,000 DWT after full development. Apart from the port, there are plans to develop 7000 acres of government land as SEZ which will be provided on a lease basis by the AP government.

The financial closure of the project is not yet achieved and will be achieved by Aug 2010. As the project is in the very initial stage of the development, we have not considered it in our valuations.

## Real Estate Woes Likely to End in FY11

The company has a total developable area of around 28.2 million square feet (msf) (410 acres) in South India, of which 20% is currently under development. Apart from funds required to finish the ongoing projects, the management has refrained from any incremental investments in its real estate business since March 2009 owing to the weakness in the real estate market.

We think that the macroeconomic environment in India has improved dramatically since March 2009 and demand in real estate space should pick-up over the next 2-3 quarters. Significant chunk of NCC's land bank is associated with the IT/ITES industry in the South India and as the outlook for IT/ITES industry has improved we believe that real estate market should follow it after some lag.

## Infrastructure Story in India Remains Intact

We believe investment in infrastructure in India will continue to scale higher going forward. The segments which will receive the most attention are roads & highways, Irrigation and water & environment.

In roads & highways, projects worth more than 3 lakh crore for around 30,000 km are planned to be awarded over the next 4-5 years. The NHAI has recently come over major policy related hurdles in bidding, awarding and executing BOT projects and is all set to aggressively award the roads and highways projects going forward.

Similarly in Irrigation, the government has envisaged 140 million hectares as UIP (ultimate irrigation potential) of which at the end of 10th 5 year plan only 102.8 mha was created. This means a further opportunity to create irrigation infrastructure for 37.1 mha. While some reports suggests irrigation investments during the 11th 5 year plan at around Rs 2,47,400 Cr, the Minister for Water Resources Mr Bansal estimates a total investments of around Rs 7 lakh Cr to achieve the full irrigation potential in the country by the end of 13th 5 year plan i.e 2022.

While the construction opportunities from the traditional segments like roads, irrigation, urban infra, railways and ports remain robust, as the country grows, massive construction opportunities are created from newer verticals as well like MRTS, airports etc. According to crisil research, a total construction opportunity of around Rs 90,000 Cr may arise from the total expected investments of Rs 2,14,300 Cr in the MRTS over the next 7-9 years. Huge opportunity also comes from airport construction space and according to the civil aviation minister Mr Praful Patel, over the next 10 years the number of airports in India will go up from 85 currently to 400.

NCC being one of the most distinguished players in the construction space will likely be a major beneficiary of these upcoming opportunities.

## Order Inflows from Industrial Capex to Remain Robust

Massive capacity additions in various industries will drive the construction opportunities from industrial segments. It is estimated that power capacity to the tune of 75 GW will be added over the next five years. Similarly, a total steel capacity addition of around 51.2 million tonnes has been announced by different companies over the next five years. Over the same timeframe, cement companies have planned adding 90 million tonnes capacity. Demand for construction of various buildings like corporate offices, hospitals, education institutions etc will also result in huge construction opportunities.

## Valuations

	Basis for Valuation	NCC Stake (INR Cr)	Per Share	% Total Value
<b>EPC Business</b>				
Domestic	15 X FY11 Earnings	3958.90	154.29	78.19%
International	12 X FY11 Earnings	321.51	12.53	6.35%
<b>Total</b>		<b>4280.41</b>	<b>166.82</b>	<b>84.54%</b>
<b>BOT Road Projects</b>				
Brindavan Infrastructure, Bangaluru - Maddur, Karnataka	DCF	16.17	0.63	0.32%
Bangalore Elev Tollway, Silk Board - Hosur, Karnataka	DCF	134.97	5.26	2.67%
OB Infra, Orai - Bhognipur, UP	DCF	81.77	3.19	1.61%
Wstern UP Tollway, Meerut - Mujjafar nagar, UP	DCF	71.80	2.80	1.42%
Pondicherry-Tindivanam, Tamil Nadu	1 X Investment	33.00	1.29	0.65%
<b>Total</b>		<b>337.70</b>	<b>13.16</b>	<b>6.67%</b>
<b>BOT Power Projects</b>				
Himachal Sorang, HP	1 X Investment	70.1	2.73	1.38%
NCC Power, AP	1 X Investment	48.6	1.89	0.96%
Himalayan Green, Sikkim	1 X Investment	25	0.97	0.49%
<b>Total</b>		<b>143.70</b>	<b>5.60</b>	<b>2.84%</b>
<b>Real Estate Projects</b>				
Land Under Development	NPV	110.72	4.32	2.19%
JHLP	1 X Investment	58.49	2.28	1.16%
Tellapur Technocity	1 X Investment	82.47	3.21	1.63%
NCC Vizag Urban	1 X Investment	49.88	1.94	0.99%
<b>Total</b>		<b>301.55</b>	<b>11.75</b>	<b>5.96%</b>
<b>SOTP Based 1 years Target Price</b>			<b>197.34</b>	<b>100.00%</b>

Our SOTP based 1 year forward target price of the stock is Rs 197 which implies 9.6% upside from the current price.

We have assigned multiple of 15 and 12 respectively to the earnings of domestic and international EPC business for FY11.

The BOT road projects are valued using DCF and investment values. Since the BOT power projects are yet in the early stages we have valued them all conservatively at their investment value. The Machilipatnam Seaport project is not included in the valuation as financial closure is yet to be achieved.

The ongoing real estate projects are valued using NAV approach and the land bank that is currently sitting idle is conservatively valued at book value. We believe that the real estate ventures have potential to provide significant upside going forward.

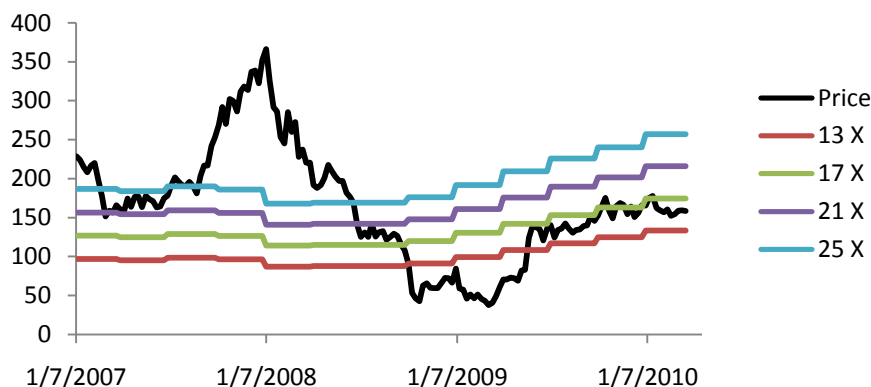
Our target forward P/E multiple of 15 is justified as most of the other construction players like IVRCL Infra, Gammon India, Hindustan Construction and Madhucon Projects are currently trading at higher 1 year forward multiples.

	FY11 E EPS	CMP	PE
IVRCL Infra	9.83	171.95	17
Simplex Infra*	35.53	460	13
Gammon India*	14.49	236.45	16
HCC*	5.26	138.8	26
Madhucon Projects*	9.62	168.8	18

\* Bloomberg Mean Estimates

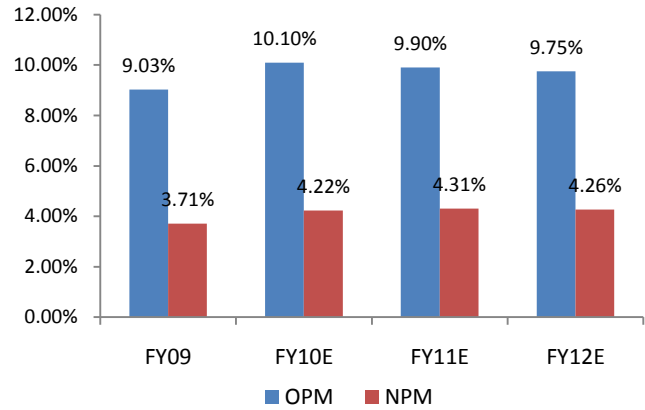
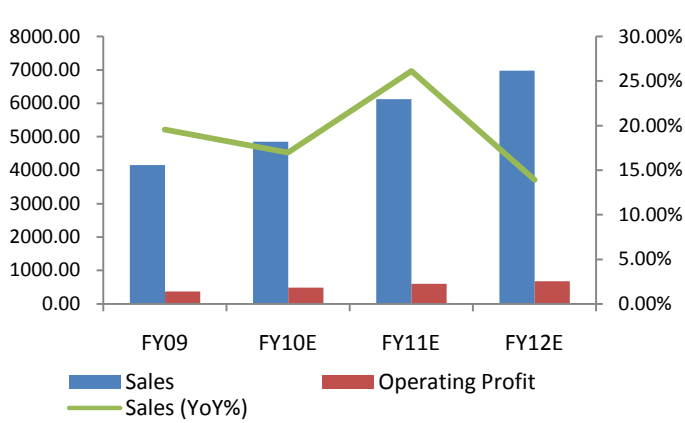
Also, the stock has over the last year traded between the forward multiples of 13 & 17 and we believe it will continue to trade at the higher end of this range in the foreseeable future owing to robust and well diversified order book and strong execution track record of the company.

**1 Year Forward PE Multiple - Historical Range**

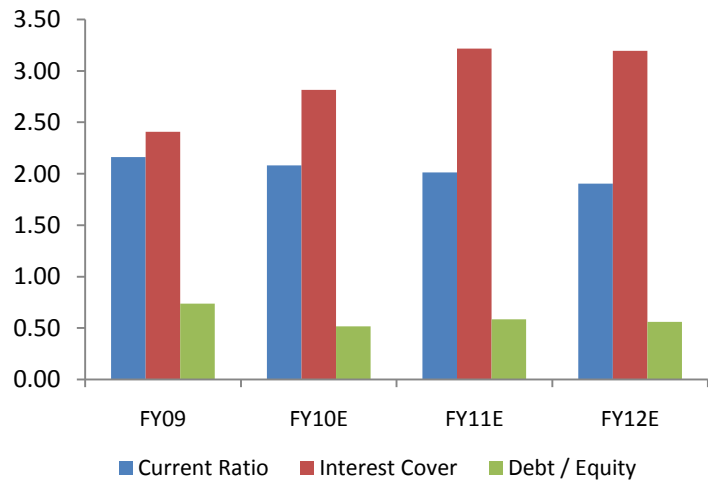
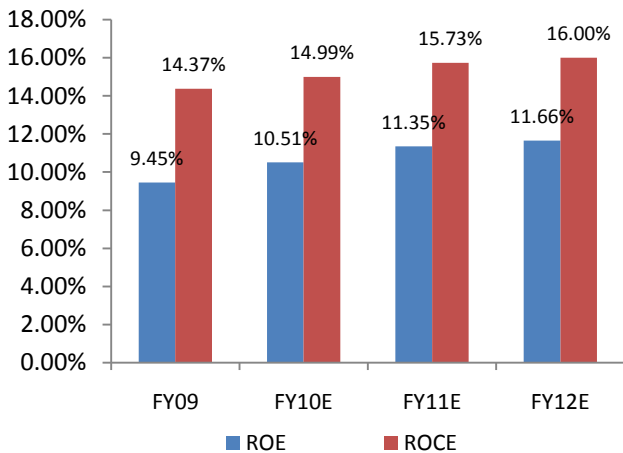


## Financial Snapshot

### Operating Performance



### Return Ratios and Liquidity & Gearing Ratios





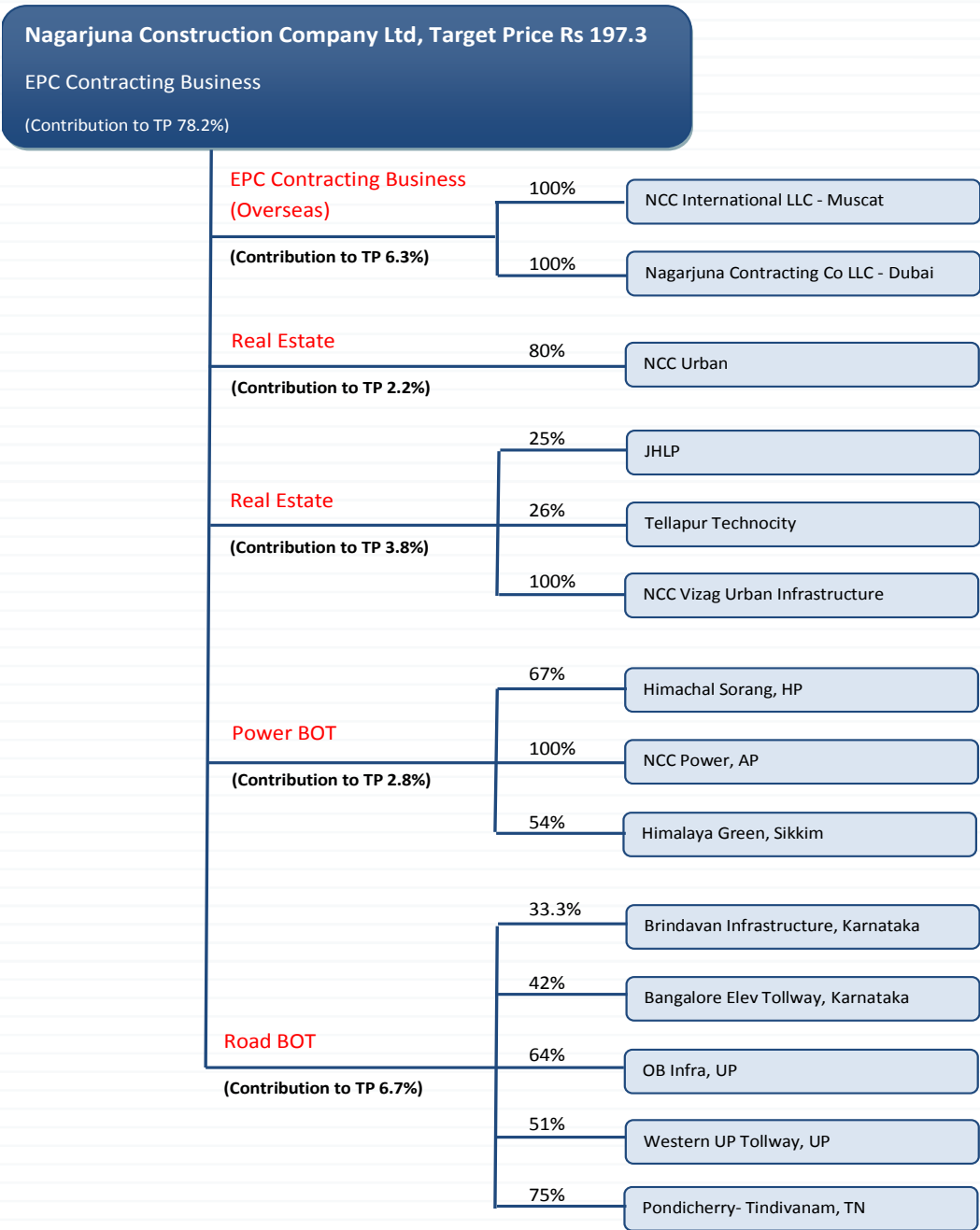
## Financial Statements

Income Statement					Balance Sheet				
	(Rs Cr)					(Rs Cr)			
	2009	2010E	2011E	2012E		2009	2010E	2011E	2012E
<b>Net Revenues</b>	4151.4	4855.3	6124.1	6975.8	Cash and Equi.	134.5	181.8	208.2	251.8
<i>Growth %</i>	19.5	17.0	26.1	13.9	Receivables	1026.0	1387.1	1648.4	1814.0
<b>COGS</b>	3497.2	4054.2	5116.7	5831.8	Inventories	749.5	822.3	1071.4	1200.9
<b>Gross Profit</b>	654.2	801.1	1007.4	1144.0	Loans and Advances	1448.4	1763.5	1912.6	2071.9
<i>Growth %</i>	13.2	22.5	25.7	13.6	Other Current Assets	3.0	3.0	3.0	3.0
<b>SG&amp;A Expenses</b>	279.5	310.7	401.1	463.9	Investments	740.2	740.2	865.3	1025.0
<b>Core EBITDA</b>	374.7	490.4	606.3	680.1	Gross Fixed Assets	623.3	763.3	928.3	1066.7
<i>Growth %</i>	4.1	30.9	23.6	12.2	Net Fixed Assets	459.2	541.7	636.6	692.3
<b>Other Income</b>	70.0	41.8	35.4	48.8	CWIP	28.1	28.1	28.1	28.1
<b>Other Exp. &amp; Adj</b>	1.1	0.0	0.0	0.0	<b>Application of Funds</b>	<b>4589.1</b>	<b>5467.7</b>	<b>6373.5</b>	<b>7087.0</b>
<b>EBITDA</b>	443.6	532.2	641.7	729.0	Accounts Payable	636.0	817.1	984.4	1147.7
<b>Depreciation</b>	53.3	57.5	70.1	82.7	Advances from Clients	626.8	805.4	970.2	1131.1
<b>EBIT</b>	390.3	474.7	571.5	646.3	Other Current Liabilities	291.3	374.3	451.0	525.7
<i>Growth %</i>	9.4	21.6	20.4	13.1	Provisions	86.7	86.7	86.7	86.7
<b>Interest Exp</b>	162.1	168.5	177.6	202.2	Deferred Tax Liabilities	18.8	21.6	25.2	29.2
<b>EBT</b>	228.2	306.1	393.9	444.0	Loan Funds	1243.9	1143.9	1423.9	1493.9
<b>Tax</b>	74.3	101.0	130.0	146.5	Reserves and Surplus	1639.8	2167.4	2380.8	2621.4
<b>Net Earnings</b>	153.9	205.1	263.9	297.5	Stock Option & Other	0.0	0.0	0.0	0.0
<i>Growth %</i>	-5.0	33.3	28.7	12.7	Equity Capital	45.8	51.3	51.3	51.3
					<b>Sources of Funds</b>	<b>4589.1</b>	<b>5467.7</b>	<b>6373.5</b>	<b>7087.0</b>

Cash Flow Statement					Financial Ratios				
	(Rs Cr)								
	2009	2010E	2011E	2012E		2009	2010E	2011E	2012E
EBT Before Ex.ordinary Itms	228.2	306.1	393.9	444.0	<b>Profitability</b>				
Depreciation	53.3	57.5	70.1	82.7	Core EBITDA margins	9.0	10.1	9.9	9.8
Other Adjustments	97.1	126.7	142.2	153.4	Net Profit Margins	3.7	4.2	4.3	4.3
Changes in WC	-395.5	-308.2	-252.4	-57.2	<b>Return</b>				
Tax Paid	131.9	98.2	126.4	142.5	ROE	9.4	10.5	11.3	11.7
<b>Cashflow from Operations</b>	<b>115.0</b>	<b>280.5</b>	<b>480.2</b>	<b>765.4</b>	ROCE	14.4	15.0	15.7	16.0
Capital Expenditure	-7.5	-140.0	-165.0	-138.4	<b>Liquidity and Gearing</b>				
Investments	-76.6	0.0	-125.1	-159.7	Cash Conversion Cycle	86.4	96.0	93.7	95.0
Loans to Subsidiaries	-81.9	0.0	0.0	0.0	Current Ratio	2.2	2.1	2.0	1.9
Interest/Dividend received	68.9	41.8	35.4	48.8	Debt/Equity	0.7	0.5	0.6	0.6
<b>Cashflow from Invstmnts</b>	<b>-97.0</b>	<b>-98.2</b>	<b>-254.7</b>	<b>-249.3</b>	Interest Cover	2.4	2.8	3.2	3.2
Proceeds from Borrowings	350.1	-100.0	280.0	70.0	<b>Per Share</b>				
Issue of Shares, QIP	0.0	367.3	0.0	0.0	EPS	6.7	8.0	10.3	11.6
Intrst/Divi paid & Other	-191.5	-205.9	-226.4	-257.5	Operating Cashflow PS	5.0	10.9	18.7	29.8
<b>Cashflow from Financing</b>	<b>158.6</b>	<b>61.5</b>	<b>53.6</b>	<b>-187.5</b>	BVPS	73.7	86.5	94.8	104.2
<b>Net Change in Cash</b>	<b>176.5</b>	<b>243.7</b>	<b>279.2</b>	<b>328.6</b>	<b>Valuation</b>				
					Price/Earning	25.7	21.6	16.8	14.9
					Price/BV	2.3	2.0	1.8	1.7

## Company Description

Hyderabad based Nagarjuna Construction is one of the leading EPC players in the country which was incorporated in 1990. The company went public in 1992 and today is one of the most diversified EPC contractors in the country with execution capabilities in roads, power, irrigation, water & environment, mining, oil & gas, electrical and buildings. The company owns roads (5), power (3) and sea port (1) BOT projects. NCC is also into real estate business and has around 410 acres land bank mainly in South India. It caters to Middle Eastern construction market (22% of the total order book) via its subsidiaries NCC International LLC in Muscat and Nagarjuna Contracting Co. LLC in Dubai.



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## RATING INTERPRETATION

<b>BUY</b>	Expected to appreciate more than 20% over a 12m period
<b>ACCUMULATE</b>	Expected to appreciate upto 20% over a 12m period
<b>OUTPERFORMER</b>	Expected to outperform Sensex/Sector by 5 to 15%
<b>UNDERPERFORMER</b>	Expected to underperform Sensex/Sector by 5 to 15%
<b>SELL</b>	Expected to depreciate more than 20% over a 12m period
<b>NOT RATED</b>	No specific call on the stock

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