

January 27, 2010

Rating	Reduce
Price	Rs149
Target Price	Rs136
Implied Upside	(-) 9.1%
Sensex	16,290

(Prices as on January 27, 2010)

### Trading Data

Market Cap. (Rs bn)	38.3
Shares o/s (m)	256.6
Free Float	79.8%
3M Avg. Daily Vol ('000)	1,945.9
3M Avg. Daily Value (Rs m)	314.2

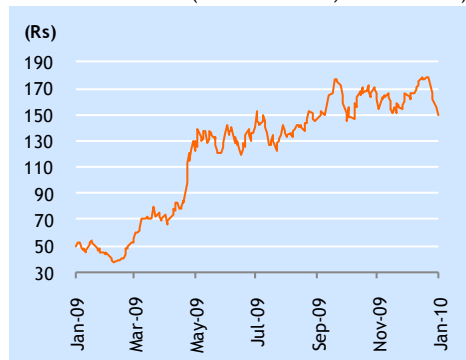
### Major Shareholders

Promoters	20.2%
Foreign	35.3%
Domestic Inst.	22.0%
Public & Others	22.5%

### Stock Performance

(%)	1M	6M	12M
Absolute	(9.9)	6.2	200.9
Relative	(3.8)	0.3	113.1

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



Source: Bloomberg

- Revenues below estimate:** Nagarjuna Construction Company (NCC) has clocked a growth of 16.1% in core revenues for Q3FY10 at Rs11.8bn. However, sales were below our estimates of Rs13.5bn. EBITDA margins expanded by 156bps YoY to 9.9%; this was above our estimates on account of savings in raw material. PAT was marginally below our estimates at Rs479m, registering a YoY growth of 32% as against our estimates of Rs502m.
- Order book position:** Currently, NCC has an order book of Rs148bn (approx. Rs7.2bn order intake in Q3FY10), with an execution period of 30 months. The company has reversed Rs9bn order pertaining to 'Harmony' project in Dubai.
- Update on projects and subsidiaries:** Investments outstanding in BOT subsidiaries stood at Rs600m. For the 660\*2MW power project, NCC has invested Rs400m as equity from the total participation of Rs15bn.
- Valuation:** At CMP of Rs149, the stock is trading at 21.1x FY10E and 20x FY11E earnings. On account of slower growth and lack of clarity on the subsidiaries, we maintain 'Reduce'.

Key financials (Y/e March)	FY09	FY10E	FY11E	FY12E
Revenues (Rs m)	41,514	45,163	51,701	61,033
Growth (%)	19.5	8.8	14.5	18.0
EBITDA (Rs m)	3,737	4,466	5,079	5,876
PAT (Rs m)	1,535	1,820	1,920	2,172
EPS (Rs)	6.7	7.1	7.5	8.5
Growth (%)	(5.2)	5.8	5.5	13.1
Net DPS (Rs)	1.3	1.4	1.4	1.2

Source: Company Data; PL Research

Profitability & valuation	FY09	FY10E	FY11E	FY12E
EBITDA margin (%)	9.0	9.9	9.8	9.6
RoE (%)	9.4	9.6	8.7	9.1
RoCE (%)	13.8	13.9	13.7	14.2
EV / sales (x)	1.1	1.1	1.0	0.9
EV / EBITDA (x)	12.1	11.2	10.4	9.3
PE (x)	22.3	21.1	20.0	17.6
P / BV (x)	2.0	1.8	1.7	1.6
Net dividend yield (%)	0.9	0.9	0.9	0.8

Source: Company Data; PL Research

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Q3FY10 Result Overview

(Rs m)

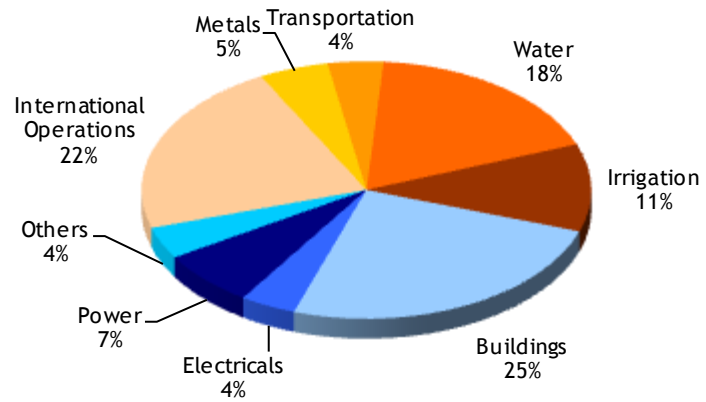
Y/e March	Q3FY10	Q3FY09	YoY gr. (%)	Q2FY10	9MFY10	9MFY09	YoY gr. (%)
<b>Net Sales</b>	<b>11,865</b>	<b>10,221</b>	<b>16.1</b>	<b>10,666</b>	<b>32,535</b>	<b>30,241</b>	<b>7.6</b>
<b>Expenditure</b>							
Consumption of Raw Materials	5,167	4,002	29.1	3,816	11,776	11,346	3.8
<i>% of Net Sales</i>	<i>43.5</i>	<i>39.2</i>		<i>35.8</i>	<i>36.2</i>	<i>37.5</i>	
Increase/Decrease in WIP	(335)	540		(60.0)	(134)	(1,595)	
<i>% of Net Sales</i>	<i>(2.8)</i>	<i>5.3</i>		<i>(0.6)</i>	<i>(0.4)</i>	<i>(5.3)</i>	
Subcontracting and other expenses	2,796	3,179	(12.0)	2,800	8,873	9,708	(8.6)
<i>% of Net Sales</i>	<i>23.6</i>	<i>31.1</i>		<i>26.3</i>	<i>27.3</i>	<i>32.1</i>	
Other Construction Expenditure	1,184	1,056	12.2	1,067	3,422	3,096	10.5
<i>% of Net Sales</i>	<i>10.0</i>	<i>10.3</i>		<i>10.0</i>	<i>10.5</i>	<i>10.2</i>	
Personnel Cost	462	458	0.9	453	1,370	1,477	(7.3)
<i>% of Net Sales</i>	<i>3.9</i>	<i>4.5</i>		<i>4.2</i>	<i>4.2</i>	<i>4.9</i>	
Labour cost	1,175.6	945.8	24.3	1,158.2	3,242.7	2,842.7	14.1
<i>% of Net Sales</i>	<i>9.9</i>	<i>9.3</i>		<i>10.9</i>	<i>10.0</i>	<i>9.4</i>	
Other Expenditure	240.6	263.4	(8.7)	257.7	695.7	758.9	(8.3)
<i>% of Net Sales</i>	<i>2.0</i>	<i>2.6</i>		<i>2.4</i>	<i>2.1</i>	<i>2.5</i>	
Total Expenditure	10,690	9,367	14.1	9,492	29,244	27,635	5.8
<b>EBITDA</b>	<b>1,176</b>	<b>853</b>	<b>37.8</b>	<b>1,032</b>	<b>3,291</b>	<b>2,606</b>	<b>26.3</b>
<i>Margin (%)</i>	<i>9.9</i>	<i>8.3</i>	<i>156.0</i>	<i>9.7</i>	<i>10.1</i>	<i>8.6</i>	<i>1,011.5</i>
Depreciation	133	119	11.7	129	389	410	(5.2)
<b>EBIT</b>	<b>1,043</b>	<b>734</b>	<b>42.0</b>	<b>903</b>	<b>2,902</b>	<b>2,196</b>	<b>32.1</b>
Interest	306	238	28.6	322	974	751	29.8
Other Income	19	54	(65.2)	13	52	320	(83.8)
<b>PBT</b>	<b>756</b>	<b>550</b>	<b>37.3</b>	<b>646</b>	<b>1,979</b>	<b>1,765</b>	<b>12.2</b>
Tax	277	188	47.7	206	680	608	11.8
<i>Tax Rate (%)</i>	<i>36.7</i>	<i>34.1</i>		<i>31.9</i>	<i>34.3</i>	<i>34.5</i>	
<b>Recurring Pat</b>	<b>479</b>	<b>363</b>	<b>32.0</b>	<b>439</b>	<b>1,300</b>	<b>1,157</b>	<b>12.4</b>



## Highlights

### Order book break-up

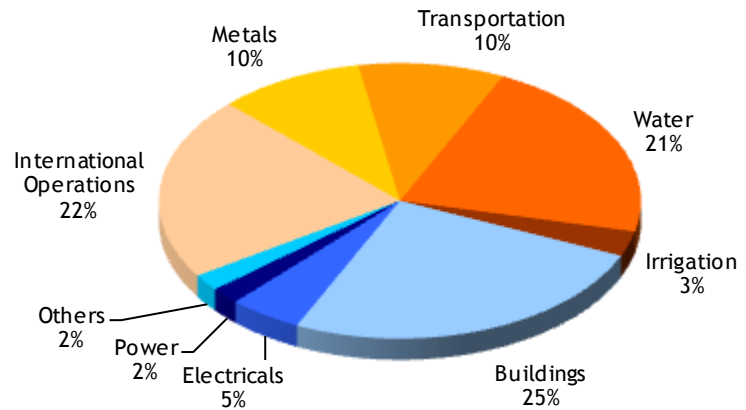
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Source: Company Data, PL Research

### 9MFY10 revenue break-up

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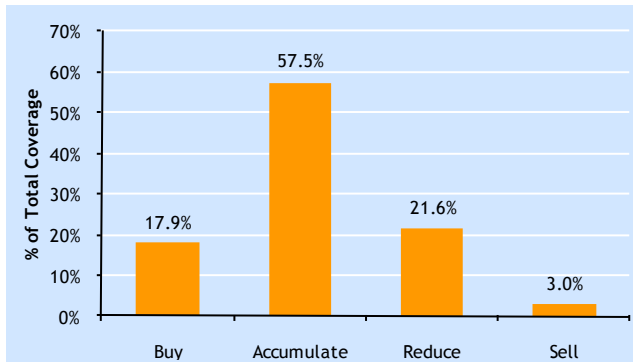
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#### Rating Distribution of Research Coverage



#### PL's Recommendation Nomenclature

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

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