5 July 2013

India Construction

Key takeaways from Hyderabad visit

Overweight
Sensex: 19447
Nifty: 5857

Construction companies, especially based in Andhra Pradesh (AP), are currently faced with uncertain times given the prevailing policy environment. To understand the current state of affairs in AP, we met: (1) Mr Pratap Madireddy, CEO, AP Invest; (2) Mr K. Pradeep Chandra, Principal Secretary to the Government of Andhra Pradesh (Industry and Commerce Dept); and (3) managements of NCC, Ramky Infrastructure, and IVRCL.

Policymakers' view

Mr Reddy is of the view that the current condition of AP is due to slow decision-making in all government organisations. He expects improved investment activity only after the state elections in 2014. However, the power situation is likely to improve in the next three years on the commissioning of ~11 GW capacity. Gas-based power plants continue to remain unviable due to constrained fuel availability and its higher prices.

Mr Chandra is of the view that investment is currently robust in coastal area in the power and port sectors. Funding of large projects is, however, a constraint. Also, slowdown in real estate sector is likely to continue.

Companies' view

NCC (Buy; TP: ₹61). The company repaid debt of ~₹3bn in 4QFY13, with cash flow from sale of real estate and Himachal Sorang (power project), and reduced working capital. Benefit of the same is likely to flow in FY14. Further, asset sale and lower working capital would provide liquidity for quicker execution of projects this year.

Ramky Infrastructure (Buy; TP: ₹101). On a stretched balance sheet and working capital constraints, execution has slowed for Ramky. This, coupled with high interest burden, has lowered profitability. With further requirement of equity for BOT projects, balance sheet could be stressed for 3-4 quarters.

IVRCL. Standalone debt stands increased at ₹28bn (net debt: equity: ~1.3x) and consolidated debt at ₹55bn on account of higher working capital and investment in BOT projects. To lower its debt burden, the company has already sold its three road assets and is likely to receive the payment in three months. Further, it is seeking investors for its other five road assets and the Chennai desalination project. It is also considering sale of land at Hyderabad, Vizag, Chennai and Bangalore. As this asset sale materialises in the next 2-3 quarters, it will provide liquidity to execute the present order book.

Our take. Uncertainty over splitting of AP has held up investments and growth. We expect clarity on this, together with elections in 2014 and commissioning of a few major power plants, to trigger growth.

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5 July 2013

NCC

Focus on balance-sheet improvement; Buy

Rating: **Buy**
Target Price: ₹61
Share Price: ₹27

Key takeaways from management meet

Order book stable. NCC's order inflows in FY13 were ₹48.1bn (after deducting a ₹8.5bn power order), less than the work executed, resulting in an order-book drop from ₹202bn a year ago to ₹185.5bn in 4QFY13 (3.2x TTM revenue). Of this, buildings, roads and power comprise 57%. NCC aims at order inflows of ~₹60bn in FY14.

BOT project update. NCC is seeking to exit its two road BOT projects (Bangalore Elevated, Western UP) and some of its real-estate projects. So far, it has been successful in selling real estate worth ₹1bn and has signed a terms-sheet for the sale of its Western UP toll project. It has also exited its Himachal Sorang project. NCC Power has been short-listed by Andhra Pradesh to supply 500 MW. NCC is participating in bidding for PPA in UP and aims to tie up for 990 MW by Mar'14.

Balance-sheet improvement. Sales of real estate, Himachal Sorang and reduced working capital have enabled the company to repay debt of ~₹3bn in 4QFY13; the benefit is likely to flow in during FY14. It aims to further lower debt by ~₹3bn by Mar'14, to below ₹20bn. Its focus on lowering working capital has led reducing debtors to 70 days in FY13, from 88 days in FY12.

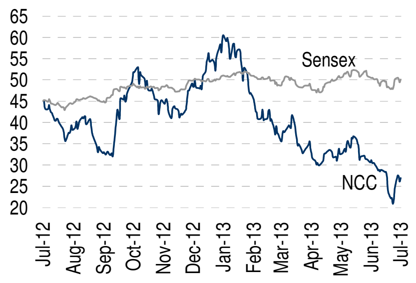
Revenue growth guidance of 15%. The company aims at 15% revenue growth in FY14. We expect it to maintain its ~8% EBITDA margin in FY14/15 supported by the higher proportion of the NCC power project to revenue (mainly through the low-margin BTG component).

Our take. During the quarter, debt has been reduced by ₹3bn through the sale of real-estate projects and reducing debtors, thereby lowering its leverage to 0.9x. We retain our Buy call, with a sum-of-parts target of ₹61, based on 8x PE of the FY14e construction business (₹28) and 1x/0.5x/0.8x P/BV for its road BOT (₹16)/ power (₹10) and real-estate (₹7) businesses. **Risks.** Rise in interest rates, slowdown in order inflows.

Key data	NJCC IN / NCCL.BO
52-week high / low	₹61 / ₹28
Sensex / Nifty	19411 / 5837
3-m average volume	US$2.2m
Market cap	₹6.9bn / US$131m
Shares outstanding	257m

Shareholding pattern (%)	Mar '13	Dec '12	Sep '12
Promoters	20.3	20.4	20.4
- of which, Pledged	*12.7*	*12.7*	*12.7*
Free float	79.7	79.6	79.6
- Foreign institutions	39.1	40.5	39.7
- Domestic institutions	10.3	9.9	8.4
- Public	30.3	29.2	31.6

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY11	FY12	FY13	FY14e	FY15e
Sales (₹m)	50,737	52,505	57,249	65,857	74,418
Net profit (₹m)	1,635	360	722	760	986
EPS (₹)	6.4	1.4	2.8	3.0	3.8
Growth (%)	(15.2)	(78.0)	100.8	5.3	29.7
PE Consol (x)	3.0	14.6	7.7	7.4	5.7
EV/EBITDA (x)	6.2	7.1	6.0	6.8	7.1
PBV (x)	0.3	0.3	0.3	0.3	0.3
RoE (%)	7.1	1.5	3.0	3.0	3.8
RoCE (%)	9.6	6.6	8.1	8.0	7.8
Dividend yield (%)	3.8	1.2	1.2	2.1	2.1
Net gearing (x)	0.99	0.90	0.87	1.15	1.36

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year end 31 Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	50,737	52,505	57,249	65,857	74,418
Revenue growth (%)	6.2	3.5	9.0	15.0	13.0
- Op. expenses	45,884	48,511	52,540	60,574	68,478
EBIDTA	4,854	3,993	4,709	5,283	5,940
EBITDA margins (%)	9.6	7.6	8.2	8.0	8.0
- Interest expenses	2,569	3,840	4,070	4,250	4,480
- Depreciation	685	830	920	1,150	1,250
+ Other income	1,056	1,206	1,259	1,236	1,241
- Tax	1,021	169	255	358	464
Effective tax rate (%)	38.5	32.0	32.0	32.0	32.0
Reported cons.PAT	1,635	360	627	760	986
+/- Extraordinary items	-	-	96	-	-
+/- Minority interest	-	-	-	-	-
Adjusted cons. PAT	1,635	360	722	760	986
Adj. FDEPS (₹/share)	6.4	1.4	2.8	3.0	3.8
Adj. FDEPS growth (%)	(15.2)	(78.0)	(100.8)	5.3	29.7

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	513	513	513	513	513
Reserves & Surplus	23,274	23,597	24,167	24,762	25,584
Networth	23,787	24,111	24,680	25,276	26,097
Minority interest	-	-	-	-	-
Total Debt	24,841	22,341	22,252	30,641	37,041
Def. tax liab. (net)	308	255	231	231	231
Capital employed	**48,935**	**46,707**	**47,164**	**56,148**	**63,369**
Net Fixed assets	7,215	7,610	7,247	7,497	7,247
Investments	12,008	12,402	12,536	18,058	21,058
- of which liquid	-	-	0	-	-
Net Working capital	28,315	26,048	26,581	29,136	33,630
Cash and bank balance	1,397	646	800	1,457	1,434
Capital deployed	**48,935**	**46,707**	**47,164**	**56,148**	**63,369**
Net debt	23,444	21,695	21,452	29,184	35,607
WC (days)	176	189	168	154	154
Book value (₹/sh)	93	94	96	99	102

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	1,635	360	722	760	986
+ Non cash items	738	777	897	1,150	1,250
Cash profit	2,373	1,137	1,619	1,910	2,236
- Incr/(Decr) in WC	7,683	(2,267)	532	2,556	4,494
Operating cash flow	(5,310)	3,404	1,087	(645)	(2,257)
- Capex	1,928	1,225	557	1,400	1,000
Free cash flow	(7,238)	2,178	530	(2,045)	(3,257)
- Dividend	298	90	90	165	165
+ Equity raised	-	-	-	-	-
+ Debt raised	9,539	(2,499)	(89)	8,389	6,400
- Investments	2,596	394	134	5,522	3,000
- Misc. items	6	(54)	63	(0)	-
Net cash flow	(600)	(751)	154	657	(22)
+ Opening cash	1,997	1,397	646	800	1,457
Closing cash	1,397	646	800	1,457	1,434

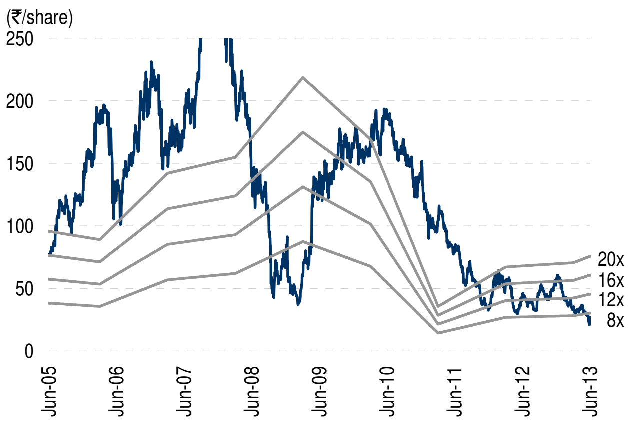
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹27

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E Consol (x)	3.1	15.2	8.0	7.7	5.9
P/E Core (x)	NA	NA	NA	NA	NA
P/B (x)	0.3	0.3	0.3	0.3	0.3
EV/EBITDA (x)	6.3	7.2	6.0	6.8	7.2
RoE (%)	7.1	1.5	3.0	3.0	3.8
RoCE (%)	9.6	6.6	8.1	8.0	7.8
Fixed Asset turnover (x)	6.0	5.4	5.2	5.5	5.7
Dividend yield (%)	3.7	1.1	1.1	2.0	2.0
Dividend payout (%)	15.7	21.4	12.3	18.6	14.3
Interest exp./Sales	5.1	7.3	7.1	6.5	6.0
Debtors (days)	105	91	73	75	75
Revenue growth (%)	6.2	3.5	9.0	15.0	13.0
PAT growth (%)	(15.2)	(78.0)	100.8	5.3	29.7
EBITDA growth (%)	0.3	(17.7)	17.9	12.2	12.4
EPS growth (%)	(15.2)	(78.0)	100.8	5.3	29.7

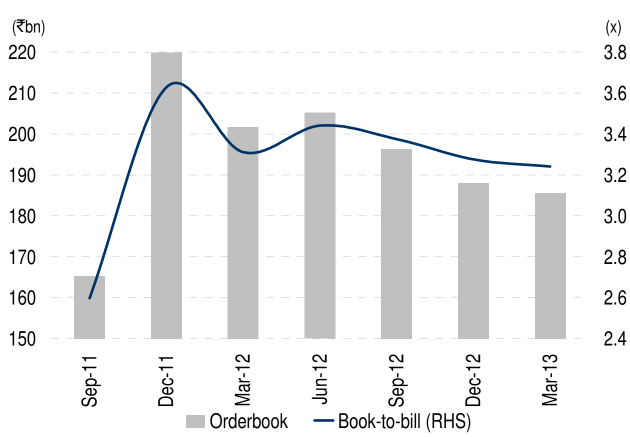
Source: Company, Anand Rathi Research

Fig 5 – PE band



Source: Bloomberg, Anand Rathi Research

Fig 6 – Orderbook vs book-to-bill



Source: Company

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5 July 2013

Ramky Infrastructure

Balance sheet stretched; Buy

Rating: **Buy**
Target Price: ₹101
Share Price: ₹48

Key takeaways from management meet

Order book robust. Ramky Infrastructure's order book stands at ₹120bn (4x FY13 revenue), dominated by transportation (40%), buildings (17%), water (17%) and irrigation (14%). Order inflows during FY13 were ₹13.4bn. The company aims at an order inflow of ₹20bn in FY14.

Revenue and margin dip. Following slower execution due to working-capital constraints, revenue declined 1.8% yoy, while the EBITDA margin stood at 8.9% (down 150bps yoy). Management is aiming at 15-20% growth in FY14 and expects to maintain the margin at present levels. However, due to higher interest costs, the net-profit margin stood at 2% (down 260bps).

Balance sheet stretched. On the higher working capital required and investment in BOTs, debt increased from ₹9.5bn a year ago to ~₹12bn in FY13, taking net gearing to 1.1x. Working-capital days have increased from 141 to 162.

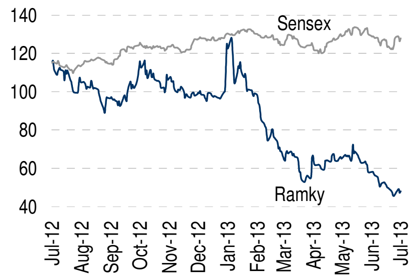
BOT projects update. Of the total ~₹10bn required, ₹4.3bn has been invested by the company towards its BOT projects. The remaining equity would be funded through internal accruals in the next 2-3 years. The equity requirements are more back-ended.

Our take. On the back of a stretched balance sheet and working capital constraints, execution has slowed. With further equity funding required for its BOT projects, the company's balance sheet is likely to be stressed for 3-4 quarters. At the current price, the stock trades at a P/BV of 0.3x FY14/15 consensus estimates. We have a Buy rating on the stock, with a sum-of-parts target of `101, based on 4x PE of the FY14e construction business (₹63) and 0.5x P/BV for its for its investment in Road and other projects (₹38). **Risk:** Rise in interest rates.

Key data	RMKY IN / RAMK.BO
52-week high / low	₹265 / ₹86
Sensex / Nifty	19411 / 5837
3-m average volume	US$0.22m
Market cap	₹6.0bn / US$113m
Shares outstanding	57.2m

Shareholding pattern (%)	Mar '13	Dec '12	Sep'12
Promoters	67.8	67.3	67.8
- of which, Pledged	*7.9*	*7.9*	*7.9*
Free float	32.2	32.7	32.2
- Foreign institutions	0.6	0.7	0.8
- Domestic institutions	4.4	5.3	5.9
- Public	27.2	26.2	25.5

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY11	FY12	FY13	FY14e	FY15e
Sales(₹m)	27,305	30,943	30,386	37,762	42,671
Net profit(₹m)	1,574	1,437	599	903	982
EPS(₹)	27.5	25.1	10.5	15.8	17.2
Growth(%)	32.3	(8.7)	(58.3)	50.7	8.7
PE Core(x)	0.4	0.4	1.0	0.7	0.6
EV/EBITDA(x)	3.0	3.6	4.4	5.1	4.9
PBV(x)	0.3	0.3	0.3	0.3	0.2
RoE(%)	23.9	15.5	6.1	8.8	9.0
RoCE(%)	21.7	16.8	11.0	12.1	11.7
Dividend yield(%)	9.4	9.4	9.4	10.4	10.4
Net gearing(x)	0.6	0.9	0.9	1.4	1.4

Source: Company, Anand Rathi Research

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Quick Glance – Financials and Valuations

Fig 1 – Income statement (₹m)

Year end 31 Mar	FY11	FY12	FY13	FY14e	FY15e
Net revenues	27,305	30,943	30,386	37,762	42,671
Revenue growth (%)	46.7	13.3	(1.8)	24.3	13.0
- Op. expenses	24,441	27,716	27,686	34,364	38,831
EBIDTA	2,864	3,227	2,700	3,399	3,840
EBITDA margins (%)	10.5	10.4	8.9	9.0	9.0
- Interest expenses	689	1,177	1,697	1,900	2,200
- Depreciation	193	291	419	450	475
+ Other income	139	375	322	300	300
- Tax	548	697	307	445	483
Effective tax rate (%)	25.8	32.7	33.9	33.0	33.0
Reported cons.PAT	1,574	1,437	599	903	982
+/- Extraordinary items	-	-	-	-	-
+/- Minority interest	-	-	-	-	1.00
Adjusted cons. PAT	1,574	1,437	599	903	982
Adj. FDEPS (₹/share)	27.5	25.1	10.5	15.8	17.2
Adj. FDEPS growth (%)	32.3	(8.7)	(58.3)	50.7	8.7

Source: Company, Anand Rathi Research

Fig 2 – Balance sheet (₹m)

Year end 31 Mar	FY11	FY12	FY13	FY14e	FY15e
Share capital	572	572	572	572	572
Reserves & Surplus	8,318	9,099	9,698	10,267	10,914
Networth	8,890	9,671	10,270	10,839	11,486
Minority interest	-	-	-	-	1
Total Debt	6,757	9,532	10,855	16,032	19,532
Def. tax liab. (net)	32	57	29	129	229
Capital employed	**15,678**	**19,260**	**21,154**	**27,000**	**31,247**
Net Fixed assets	3,653	4,121	4,053	4,103	4,128
Investments	2,141	3,586	4,060	7,552	10,307
- of which liquid	-	-	-	-	-
Net Working capital	8,885	10,824	12,338	13,537	13,072
Cash and bank balance	999	729	703	1,808	3,740
Capital deployed	**15,678**	**19,260**	**21,154**	**27,000**	**31,247**
Net debt	5,758	8,803	10,152	14,224	15,792
WC (days)	97	116	139	125	114
Book value (Rs/sh)	155	169	180	189	201

Source: Company, Anand Rathi Research

Fig 3 – Cash-flow statement (₹m)

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
PAT	1,574	1,437	599	903	982
+ Non cash items	231	316	392	550	575
Cash profit	1,805	1,753	991	1,453	1,557
- Incr/(Decr) in WC	3,262	1,939	1,514	1,200	(465)
Operating cash flow	(1,457)	(186)	(523)	254	2,022
- Capex	2,460	758	352	500	500
Free cash flow	(3,917)	(945)	(874)	(246)	1,522
- Dividend	299	301	301	335	335
+ Equity raised	3,353	(355)	301	-	-
+ Debt raised	2,018	2,776	1,323	5,177	3,500
- Investments	1,540	1,445	475	3,491	2,755
- Misc. items	-	-	-	-	-
Net cash flow	(385)	(269)	(26)	1,105	1,932
+ Opening cash	1,384	999	729	703	1,808
Closing cash	999	729	703	1,808	3,740

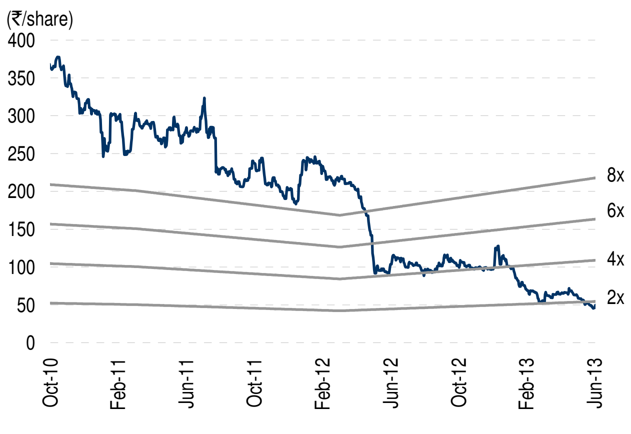
Source: Company, Anand Rathi Research

Fig 4 – Ratio analysis @ ₹48

Year-end: Mar	FY11	FY12	FY13	FY14e	FY15e
P/E (x)	1.7	1.9	4.6	3.0	2.8
P/E Core (x)	0.4	0.4	1.0	0.7	0.6
P/B (x)	0.3	0.3	0.3	0.3	0.2
EV/EBITDA (x)	3.0	3.6	4.8	5.0	4.8
RoE (%)	23.9	15.5	6.0	8.6	8.8
RoCE (%)	21.7	16.8	11.3	12.2	11.6
Fixed Asset turnover (x)	9.8	7.0	5.9	6.9	7.1
Dividend yield (%)	9.4	9.4	9.4	10.4	10.4
Dividend payout (%)	16.4	17.9	42.9	31.7	29.1
Interest exp./Sales	2.5	3.8	5.6	5.0	5.2
Debtors (days)	142	201	215	215	215
Revenue growth (%)	46.7	13.3	(1.8)	24.3	13.0
PAT growth (%)	53.2	(8.7)	(58.3)	50.7	8.7
EBITDA growth (%)	47.1	12.7	(16.3)	25.9	13.0
EPS growth (%)	32.3	(8.7)	(58.3)	50.7	8.7

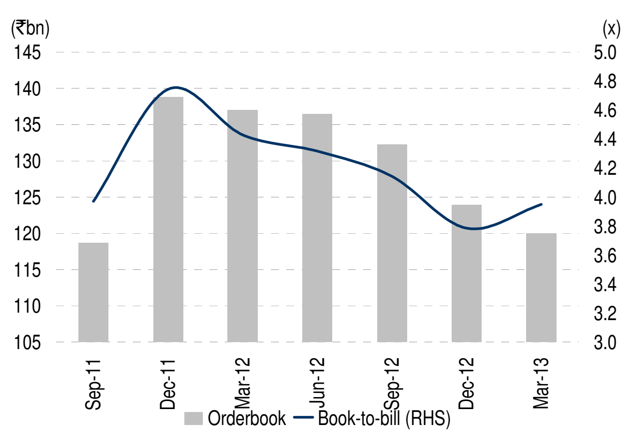
Source: Company, Anand Rathi Research

Fig 5 – PE band



Source: Bloomberg, Anand Rathi Research

Fig 6 – Orderbook vs book-to-bill



Source: Company

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5 July 2013

IVRCL

Rating: **NR**
Target Price: NA
Share Price: ₹16

Execution concerns, asset sale to help

Key takeaways from management meet

Order book robust. IVRCL's order book of ₹225bn (4.5x TTM revenue) comprises ₹60bn of in-house projects. Water & environment (40%), transportation (23%), buildings (22%) and power (5%) continue to dominate the order book. Order inflows during FY13 were ₹50bn and the company has orders of ₹35bn at the L1 stage. It plans to bid for more EPC projects and keep away from BOT projects for the time being.

Revenue and margin dip. Following slower execution due to working capital constraints, revenue has been flat, while the EBITDA margin came at 8% (down 20bps yoy). Management is aiming at revenue of ₹60bn in FY14 and expects to maintain the margin at present levels.

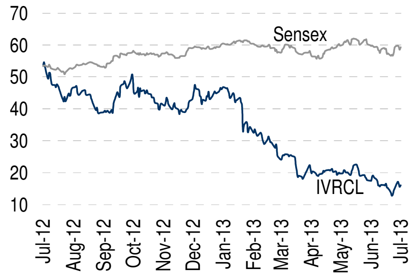
Asset sale to de-lever balance sheet. On more working capital required and investment in BOTs, standalone debt increased to ₹28bn (net debt: equity – ~1.3x) and consolidated debt now stands at ₹55bn. To lower its debt burden, the company has already sold its three road assets to TRIL Roads Pvt. Ltd. The monies are likely to be received in three months. Further, the company is seeking investors for its five other road assets and Chennai desalination project. It is also considering sale of land at various locations like Hyderabad, Vizag, Chennai and Bangalore. As this asset sale materialises in the next two-three quarters, it would provide the requisite liquidity to the parent company to execute the present order book.

Our take. We believe the asset sale is likely to provide the necessary liquidity to the company and help improve execution. At the ruling price, the stock quotes at a P/BV of 0.3x FY14 consensus estimates.

Key data	IVRC IN / IVRC.BO
52-week high / low	₹55 / ₹12
Sensex / Nifty	19411 / 5837
3-m average volume	US$0.22m
Market cap	₹4.9bn / US$89m
Shares outstanding	306.8m

Shareholding pattern (%)	Mar '13	Dec '12	Sep'12
Promoters	13.7	13.7	13.7
- of which, Pledged	-	-	-
Free float	86.3	86.3	86.3
- Foreign institutions	21.5	28.2	23.4
- Domestic institutions	4.7	7.2	2.9
- Public	60.1	50.9	60.0

Relative price performance



Source: Bloomberg

Key financials (YE Mar)	FY08	FY09	FY10	FY11	FY12*
Sales (₹m)	36,606	49,804	54,929	56,515	61,780
Net profit (₹m)	2,105	2,260	2,111	1,574	181
EPS (₹)	7.9	8.5	7.9	5.9	0.7
Growth (%)	44.5	7.3	(6.6)	(25.4)	NA
PBV (x)	0.3	0.2	0.2	0.2	0.2
PE (x)	2.0	1.9	2.0	2.7	NA
EV/EBITDA (x)	3.6	4.1	3.5	4.6	5.5
RoE (%)	14.4	13.3	11.5	8.2	0.9
RoCE (%)	14.4	12.7	14.3	11.6	12.3
Net gearing (%)	55.4	71.6	78.2	98.3	117.0

*Source: Company, Anand Rathi Research (*FY12 is 15 months ending June 2012)*

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Appendix

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