

Equities

4 November 2011 | 8 pages

NCC (NCCL.BO)

Alert: Q2FY12 Disappoints, PAT 48% below CIRA

- Recurring PAT down 77% YoY, 48% below CIRA** – NCC reported Q2FY12 recurring PAT of Rs114mn, down 77% YoY and 48% below our estimates (~57% below consensus). The PAT miss was due to (1) ~11% revenue miss (2) ~24% lower other income/other operating income (3) sharp rise in interest costs (up 89% YoY, ~8% higher than CIRA est.)
- FY12 revenue guidance cut?** NCC has guided for standalone revenues of Rs56bn (NCC indicated Rs59bn after Q1FY12). Management mentioned that it had achieved ~95-96% of budgeted standalone sales in 1HFY12 with minor slippages in Q2FY12 due to delays in (1) road projects in UP due to extraordinary rain, (2) few projects in AP due to labor strikes and political agitations. **Implies 21% YoY growth for H2FY12** – NCC expects incremental revenues of ~Rs5bn in H2FY12 to make up for the shortfall in H1FY12, largely from water, electrical and irrigation segments. where the company has received new orders recently.
- Order Inflow guidance of ~Rs90bn maintained** - The buildings segment contributed to ~55% of the H1FY12 order inflows. Management mentioned that while government sector constituted ~85-90% of the current order book, the share of private orders could go up with their higher presence in the buildings segment. **EBITDA guidance maintained, but PAT remains a worry** – Management was confident of maintaining EBITDA margins at current levels, but indicated that the real issue was at the PAT level.
- Other Takeaways** – (1) The average borrowing rate has gone up by ~50bps QoQ. Management mentioned that the company is now borrowing at ~11.25%. (2) The company has brought down its receivable days to ~104 days (down from ~108 in Q1FY12 and ~105 days in Q4FY11).
- Loan documentation signed for Nelcast project** - The project cost of ~Rs71bn is expected to be funded via debt:equity of 3:1. Management mentioned that the company has signed the loan documentation with REC, PFC and ICICI Bank and expects to declare closure in Nov 2011 after satisfaction of pre-disbursement criteria. An interest rate of ~13% is applicable for the first year. For the coal linkage, NCC expects to import ~15mmt from its mine in Indonesia. NCC has invested ~Rs80-100mn out of Rs150mn, which is its total estimated investment in the mine.
- Update on projects** – (1) All BOT projects are operational except Pondicherry Tindivanam, where the management expects CoD in Nov. (2) the Himachal Sorang project is on track to achieve CoD in Mar 2012. NCC is in discussions for ~100MW short term PPAs where the company expects rates of ~Rs3.50-4.00/kWh. Management indicated an incremental equity requirement of ~Rs200-300mn in the projects.

Company Update

| | |
|------------------------------|-------------|
| Sell | 3 |
| Price (04 Nov 11) | Rs52.80 |
| Target price | Rs53.00 |
| Expected share price return | 0.4% |
| Expected dividend yield | 2.5% |
| Expected total return | 2.8% |
| Market Cap | Rs13,548M |
| | US\$276M |

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



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Figure 1. NCC – 2QFY12 Standalone Results

| | Q2FY11 | Q2FY12 | Q2FY12E | Comments |
|---------------------------------------|---------------|---------------|---------------|---------------------------------|
| Net Sales | 11,986 | 10,902 | 12,202 | 11% below CIRA estimates |
| Growth YoY% | 12% | -9% | 2% | |
| (Increase)/Decrease in Stock in Trade | 455 | 608 | | |
| Consumption of Raw materials | (5,038) | (4,490) | (3,905) | |
| as a % of net sales | 38.2% | 35.6% | 32.0% | |
| Other Construction expenses | (3,998) | (3,618) | (4,576) | |
| as a % of net sales | 33.4% | 33.2% | 37.5% | |
| Labour | (1,236) | (1,388) | (1,586) | |
| as a % of net sales | 10.3% | 12.7% | 13.0% | |
| Staff Cost | (661) | (586) | (610) | |
| as a % of net sales | 5.5% | 5.4% | 5.0% | |
| Other Expenses | (302) | (396) | (366) | |
| as a % of net sales | 2.5% | 3.6% | 3.0% | |
| EBITDA | 1,206 | 1,031 | 1,159 | |
| EBITDA margin% | 10.06% | 9.46% | 9.50% | Margins in line |
| Depreciation | (168) | (202) | (197) | |
| EBIT | 1,038 | 829 | 962 | |
| Interest | (375) | (709) | (658) | 8% higher than expectations |
| Other Income | 54 | 22 | 20 | |
| Other operating income | 28 | 1 | 10 | |
| PBT | 745 | 143 | 334 | |
| Tax | (245) | (29) | (113) | |
| Effective Tax Rate% | 33% | 20% | 34% | |
| Recurring PAT | 500 | 114 | 220 | 48% below CIRA estimates |
| Recurring PAT margin% | 4.2% | 1.0% | 1.8% | |

Source: Citi Investment Research and Analysis estimates

NCC

Valuation

Our sum-of-the-parts-based (SOTP) target price for NCC of Rs53 per share is based on the company's five distinct parts - the cash contract business, BOT projects, real estate projects, and land bank. We value the core construction business at a P/E of 6x Dec-12E FD EPS (a discount to our target multiple for L&T, given difference in scale and skill sets), to derive a value of Rs37 per share. We value its international subsidiaries at Rs5 based on a P/E of 4x Dec-12E, at a discount to its core construction business given lower visibility. We value its BOT projects at Rs16 per share, using the P/BV method to value its share in these projects (and applying a 20% holding company discount to account for execution risks) and value NCC Urban at Rs13 based on a 30% discount to estimated NAV (in-line with second-tier real estate companies in our coverage universe). We have also removed the value of investments in the Dubai Harmony project and Sompert power project land given lack of clarity on these investments (Rs18 per share).

Risks

Key upside risks that could prevent the shares reaching our target price include: 1) fall in material prices, 2) fall in interest rates and 3) pick up in order inflows and execution.

Appendix A-1

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NCC (NCCL.BO)

Ratings and Target Price History Fundamental Research

Analyst: Deepal Delivala

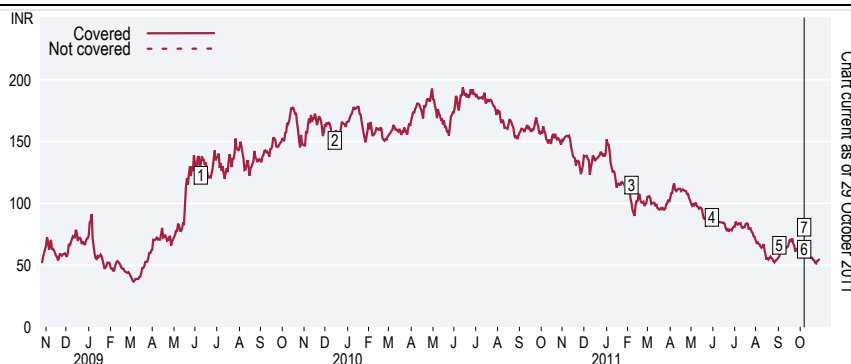


Chart current as of 29 October 2011

| | Date | Rating | Target Price | Closing Price |
|---|-----------|--------|--------------|---------------|
| 1 | 9-Jun-09 | *1M | *162.00 | 132.10 |
| 2 | 15-Dec-09 | 1M | *195.00 | 150.90 |
| 3 | 6-Feb-11 | 1M | *128.00 | 104.10 |

* Indicates change

| | Date | Rating | Target Price | Closing Price |
|---|-----------|-----------------------------|--------------|---------------|
| 4 | 31-May-11 | *3M | *85.00 | 86.15 |
| 5 | 2-Sep-11 | 3M | *53.00 | 57.30 |
| 6 | 7-Oct-11 | Stock rating system changed | | |

| | Date | Rating | Target Price | Closing Price |
|---|----------|--------|--------------|---------------|
| 7 | 7-Oct-11 | *3 | 53.00 | 57.50 |

Rating/target price changes above reflect Eastern Standard Time

NCC (NCCL.BO)
Ratings and Target Price History
Best Ideas Research
Relative Call (3 Month)

Analyst: Deepal Delivala



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|--|------------------------|-------------|-------------|------------------------|-------------|-------------|
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