

Institutional Equity Research

NBCC

Infrastructure | India

4QFY17 Result Update | May 30, 2017

CMP* (Rs)	196
Upside/ (Downside) (%)	(1)
Bloomberg Ticker	NBCC IN
Market Cap. (Rs bn)	176
Free Float (%)	25
Shares O/S (mn)	900

HOLD 

Target Price: Rs195

Robust Performance on Operational Parameters; Maintain HOLD

NBCC's reported 4QFY17 performance has topped our estimates mainly on account of a substantial improvement in operating performance. Top-line grew by 5% YoY to Rs23.4bn aided by 114% YoY improvement in real estate revenue. While PMC revenue improved by 6% YoY to Rs20.7bn (89% of total revenue), EPC revenue contracted by 26% YoY to Rs1.6bn. EBITDA improved by a sharp 133% YoY and 225% QoQ to Rs2.05bn, while EBITDA margins stood at strong 8.8% (+483bps YoY and +429bps QoQ). Net profit stood Rs1.75bn (+43% YoY and +174% QoQ) mainly supported by healthy operating performance. Notably, order Book stands at Rs740bn (11.9x FY17 revenue), which offers healthy growth visibility, going ahead. It bagged orders worth Rs320bn in FY17 and expects to secure new projects worth Rs250bn in FY18. **Upwardly revising our earnings estimates by 15% each for FY18E and FY19E to factor in a substantial spike in margins, we reiterate our HOLD recommendation on the stock with a revised Target Price of Rs195 (from Rs170 earlier).**

Healthy Operating Performance Beats Estimates

While revenue stood at Rs23.4bn (+5% YoY), operating profit zoomed by a sharp 133% YoY and 225% QoQ to Rs2.05bn. EBITDA margins surged by 483bps YoY and 429bps QoQ to 8.8%. Notably, other expenditures declined by 65% YoY and 36% QoQ. Net profit grew by 43% YoY and 174% QoQ to Rs1.75bn mainly supported by healthy operating performance and lower tax rate during the quarter.

Robust Order Book offers Promising Growth Visibility

NBCC's current order book stands at Rs740bn (11.9x FY17 revenue), which offers healthy growth visibility, going ahead. Additionally, its subsidiary Hindustan Steel Construction (HSCL) – acquired in Apr'17 – has an order book of Rs80.0bn. Having bagged orders worth Rs320bn in FY17, it expects to secure new projects worth Rs250bn in FY18. The Company will continue to focus predominantly on PMC projects and toned down its expectation from real estate division. We expect NBCC's operating performance to improve further in coming quarters with the revenue flow from high-margin projects and marketing charges from redevelopment projects.

Outlook & Valuation

We continue to view NBCC as a robust growth story owing to its PWO status and niche presence in redevelopment of government's old colonies, while a debt-free balance-sheet and superior return ratios augur well for the Company. We upgrade our earnings forecast by 15% for FY18E and FY19E each mainly to factor in better operational show. We expect 29% CAGR in NBCC's earnings through FY17-FY19E backed by robust order book and likely execution pick-up in redevelopment projects. **We reiterate our HOLD recommendation on the stock with a revised Target Price of Rs195 (30x FY19 EPS).**

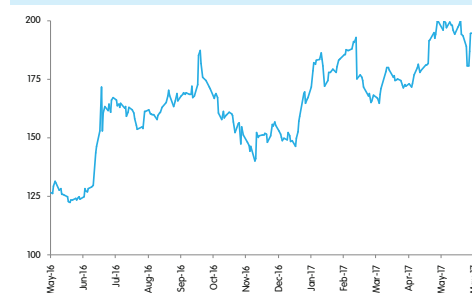
Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales	57,492	62,112	77,576	115,059
EBITDA	2,746	3,342	4,273	6,222
Net Profit	3,087	3,511	4,221	5,801
EPS (Rs)	5.1	3.9	4.7	6.4
DPS (Rs)	2.0	1.1	1.2	1.3
P/E (x)	38.1	50.2	41.8	30.4
P/B (x)	7.9	10.5	9.0	7.3
EV/EBITDA	38.7	48.3	38.1	26.5
RoE (%)	22.0	22.2	23.2	26.5
Divi. Yield (%)	1.0	0.6	0.6	0.7

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(2.0)	17.7	(53.7)
Relative to Nifty	(5.5)	9.5	(71.7)

Shareholding Pattern (%)	Dec'16	Mar'17
Promoter	75.0	75.0
Public	25.0	25.0

1 Year Stock Price Performance



Note: * CMP as on May 30, 2017

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Risks to the View

- ▶ Execution delays
- ▶ Slowdown in order inflow
- ▶ Adverse change in government policies

Conference Call – Key Takeaways

- ▶ **Order Book:** Current order book stands at Rs740bn. Having bagged orders worth Rs320bn in FY17, it expects to secure new projects worth Rs250bn in FY18. Without giving any segmental guidance, the Management indicated that PMC order will continue to remain robust, as it is not pursuing aggressively on Real Estate segment. NBCC targets a minimum order ticket size of Rs5.0bn.
- ▶ **Segmental Break-up:** PMC segment accounts for 90% of NBCC's total order book, while Real Estate and EPC segments account for 4% and 6%, respectively. Further, out of 90% PMC orders, redevelopment projects account for 60% and 30% belongs to regular third party PMC contracts.
- ▶ **Revenue & Margin Guidance:** NBCC targets 30% revenue growth in FY18E (excluding HSCL). It expects margins to expand hereon with the likely contribution from high-margin large-ticket projects and marketing charges from re-development projects.
- ▶ **Acquisition:** NBCC acquired 51% stake in a debt-free company, Hindustan Steel Construction (HSCL) in Apr'17 for Rs370mn. HSCL's current order book stands at Rs80.0bn.
- ▶ **Redevelopment Projects:**
 - **Nauroji Nagar:** NBCC is closing Phase-I sale of Rs10.0bn in the first week of Jun'17. It plans to launch sale for Phase-II and Phase-III (with an aggregate value of Rs20.0bn) shortly. NBCC is likely to award civil construction works in Jul'17 and expects to book revenue in 2HFY18.
 - **Netaji Nagar & Sarojini Nagar:** Netaji Nagar and Sarojini Nagar projects are expected to be launched in Oct'17 and Jan'18, respectively.

Exhibit 1: Revised v/s Old Estimates

(Rs mn)	FY18E			FY19E		
	Old	Revised	% change	Old	Revised	% change
Sales	79,424	77,576	(2.3)	114,436	115,059	0.5
EBITDA	3,363	4,273	27.0	5,189	6,222	19.9
EBITDA margins (%)	4.2	5.5		4.5	5.4	
Other Income	2,444	1,634	(33.1)	2,739	1,897	(30.7)
PAT	3,687	4,221	14.5	5,066	5,801	14.5

Source: RSec Research

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Exhibit 2: Result Summary

(Rs mn)	4QFY17	4QFY16	% yoy	3QFY17	% qoq	FY17	FY16	% yoy
Revenue	23,420	22,308	5.0	14,083	66.3	62,112	57,346	8.3
Expenditures								
Cost of Materials Consumed	42	1,875	(97.8)	19	121.8	100	2,316	(95.7)
Change in WIP	(141)	(2,378)	(94.1)	(527)	(73.3)	(1,523)	(3,000)	(49.3)
% sales	(0.4)	(2.3)		(3.6)		(2.3)	(1.2)	
Work & Consultancy Exps.	20,530	20,833	(1.5)	13,084	56.9	57,035	52,486	8.7
% sales	87.7	93.4		92.9		91.8	91.5	
Employee Costs	727	517	40.6	556	30.7	2,361	2,212	6.7
% sales	3.1	2.3		4.0		3.8	3.9	
Other Exps.	203	577	(64.9)	317	(35.9)	796	1,041	(23.5)
% sales	0.9	2.6		2.2		1.3	1.8	
Total Expenditures	21,361	21,425	(0.3)	13,449	58.8	58,770	55,055	6.7
EBITDA	2,059	884	132.9	634	224.9	3,342	2,291	45.9
EBITDA margins (%)	8.8	4.0	482.8	4.5	429.0	5.4	4.0	138.5
Depreciation	7	7	6.5	7	8.1	26	24	6.4
EBIT	2,051	877	133.9	627	227.1	3,316	2,267	46.3
Finance Costs	2	3	(49.5)	2	0.6	7	13	(45.2)
Other Income	266	842	(68.4)	312	(14.6)	1,568	1,786	(12.2)
Exceptional Items		0					0	
PBT	2,316	1,716	34.9	937	147.1	4,877	4,040	20.7
Tax Exps.	568	493	15.2	300	89.3	1,366	1,170	16.7
% PBT	24.5	28.7		32.0		28.0	29.0	
PAT	1,748	1,223	42.9	637	174.3	3,511	2,870	22.3
Net Margins	7.5	5.5		4.5		5.7	5.0	
EPS (Rs)	1.94	1.4	42.6	0.71	173.2	3.90	3.2	22.3

Source: Company RSec Research

Exhibit 3: Segmental Revenue

(Rs mn)	4QFY17	4QFY16	% yoy	3QFY17	% qoq	FY17	FY16	% yoy
PMC	20,749	19,619	5.8	12,706	63.3	54,917	49,866	10.1
% total	89	88		90		88	87	
Real Estate	1,040	485	114.4	186	458.5	1,853	2,714	(31.7)
% total	4	2		1		3	5	
EPC	1,631	2,205	(26.0)	1,190	37.0	5,341	4,766	12.1
% total	7	10		8		9	8	
Total	23,420	22,308	5.0	14,083	66.3	62,112	57,346	8.3
Less: Inter Segment Sales		0					0	
Net Sales	23,420	22,308	5.0	14,083	66.3	62,112	57,346	8.3

Source: Company

Exhibit 4: Segmental EBIT

(Rs mn)	4QFY17	4QFY16	% yoy	3QFY17	% qoq	FY17	FY16	% yoy
PMC	1,964	1,357	44.7	1,263	55.6	4,697	3,287	42.9
Margins	9.5	6.9		9.9		8.6	6.6	
Real Estate	319	163	95.4	42	659.5	518	1,263	(59.0)
Margins	30.7	33.7		22.6		27.9	46.5	
EPC	157	316	(50.3)	7	2,274.7	607	646	(6.0)
Margins	9.6	14.4		0.6		11.4	13.6	
Unallocated	(123)	(118)		(372)		(938)	(1,143)	
Total	2,318	1,719	34.8	939	146.8	4,884	4,053	20.5

Source: Company

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Profit & Loss Statement

Y/E March (Rs mn)	FY16	FY17	FY18E	FY19E
Income	57,492	62,112	77,576	115,059
% yoy growth	24.4	8.0	24.9	48.3
Operating Expenses	54,747	58,770	73,303	108,837
EBITDA	2,746	3,342	4,273	6,222
EBITDA Margin (%)	4.8	5.4	5.5	5.4
Depreciation & Amortization	22	26	36	51
Finance Costs	368	7	8	11
Other Income	2,069	1,568	1,634	1,897
PBT before excep items	4,425	4,877	5,862	8,057
PBT before extraordinary Items	4,425	4,877	5,862	8,057
Extraordinary Items	(63)	-	-	-
PBT	4,361	4,877	5,862	8,057
Tax	1,274	1,366	1,642	2,256
% Tax	28.8	28.0	28.0	28.0
Net Profit- Reported	3,087	3,511	4,221	5,801
YoY Growth (%)	11.3	13.7	20.2	37.4
Net Profit- Adjusted	3,087	3,511	4,221	5,801
Net Profit Margin (%)	5.4	5.7	5.4	5.0

Balance Sheet

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
Sources of Funds				
Share Capital	1,200	1,800	1,800	1,800
Reserves & Surplus	13,684	14,936	17,856	22,249
Total Shareholder's funds	14,884	16,736	19,656	24,049
Non- Current Liabilities	608	665	773	1,066
Current Liabilities	39,658	47,829	54,099	70,865
Total Liabilities	55,150	65,229	74,529	95,981
Application of Funds				
Gross Fixed Assets	793	993	1,443	2,043
Less: Acc. Depreciation	173	344	235	286
Net Fixed Assets	620	650	1,208	1,758
Deferred Tax Assets (Net)	315	995	995	995
Investments	2,308	1,048	3,096	5,148
Inventories	14,247	15,704	18,341	25,292
Sundry Debtors	20,079	21,866	25,538	35,218
Other Current Assets	71	2,428	2,836	3,911
Cash & Bank Balances	11,335	15,093	13,821	11,670
Loans & Advances	6,175	7,210	8,421	11,612
Total Current Assets	51,907	62,301	68,956	87,703
Other Non-Current Assets	-	234	273	377
Total Assets	55,150	65,229	74,529	95,981

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Cash Flow Statement

Y/E March (Rs mn)	FY16	FY17E	FY18E	FY19E
PBT	4,425	4,877	5,862	8,057
Depreciation	22	26	36	51
Net Change in Working Capital	(1,284)	1,358	(1,587)	(3,943)
Others	(1,047)	144	(144)	-
Tax Paid	(760)	(685)	(1,642)	(2,256)
Net Cash from Oper. Activities	1,356	5,720	2,525	1,909
Capex	(101)	(200)	(450)	(600)
Sale / (Purchase) of Investments	(789)	1,259	(2,047)	(2,052)
Others	859	-	-	-
Net Cash used in Invt. Activities	(31)	1,059	(2,497)	(2,652)
Dividend on Equity Shares paid (Including DDT)	(794)	(2,260)	(1,300)	(1,408)
Money raised from FPO	-	600	-	-
Net Cash used in Fin. Activities	(794)	(1,660)	(1,300)	(1,408)
Net Inc./ (Dec.) in Cash	531	5,120	(1,272)	(2,151)

Key Ratios

Y/E March	FY16	FY17	FY18E	FY19E
Valuation Ratio (x)				
P/E	38.1	50.2	41.8	30.4
P/CEPS	37.8	49.9	41.4	30.1
P/BV	7.9	10.5	9.0	7.3
EV/EBIDTA	38.7	48.3	38.1	26.5
EV/Sales	1.8	2.6	2.1	1.4
Dividend Payout (%)	38.9	28.2	25.6	20.2
Dividend Yield (%)	1.0	0.6	0.6	0.7
Per Share Data (Rs)				
EPS (Basic)	5.1	3.9	4.7	6.4
EPS (Diluted)	5.1	3.9	4.7	6.4
CEPS	5.2	3.9	4.7	6.5
DPS	2.0	1.1	1.2	1.3
Book Value	25	19	22	27
Returns (%)				
RoCE	30.3	29.7	31.0	35.4
RoE	22.0	22.2	23.2	26.5
Turnover ratios (x)				
Asset Turnover (Gross block)	72.5	62.5	53.7	56.3
Inventory (days)	100	96	96	96
Receivables (days)	141	133	133	133
Payables (days)	133	164	155	140
WCC (days)	108	66	74	89
Solvency ratios (x)				
D/E (x)	(0.8)	(0.9)	(0.7)	(0.5)
Current Ratio (x)	1.3	1.3	1.3	1.2

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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