

October 10, 2017

NBCC Ltd (NBCC)

₹ 220

Execution pick-up remains key...

We met the management of NBCC. The key takeaways are: -i) execution of several big ticket redevelopment projects to begin soon ii) senses strong opportunities from redevelopment of railway stations and iii) affordable housing segment to be huge opportunity where NBCC would act as land management agency. Overall, we like NBCC's business model given the huge opportunities ahead and expect its revenues and earnings to grow at 37.4% and 32.9% CAGR, respectively, over FY17-19E.

Redevelopment a large chunk of orderbook; to boost execution ahead...

Out of NBCC's current orderbook of ₹ 75000 crore, tenders for ~₹ 25000-30000 crore are yet to be floated. For Nauroji Nagar redevelopment project, NBCC launched one tower and received strong response where it was able to make sales of ~₹ 1100 crore. The company plans to launch three more towers in October, 2017 and expects revenue booking for the project to begin from Q3FY18E onwards. It has already awarded an tender worth ₹ 2000 crore to NCC for the same. For Netaji Nagar & Sarojini Nagar, it would begin sale and construction by Q4FY18E & Q1FY19E onwards, respectively. NBCC has also awarded work for Pragati Maidan project to Shapoorji-Paloni and irrigation project work to Punj Lloyd. For AIIMS project worth ~₹ 5000 crore, NBCC had to make some re-adjustments in DPR, which resulted in a delay. However, the management expects execution to begin in Q4FY18E. Consequently, with tendering and execution set to improve, we expect its revenues and earnings to grow at 37.4% and 32.9% CAGR, respectively, over FY17-19E.

Exhibit 1: Redevelopment colonies project details...

Colonies	Area	Scope of Work	Commercial Construction	Sales Value
Nauroji Nagar	25	Demolish 628 houses	Construct 12 commercial towers to fund project	₹ 12000 crore
Sarojini Nagar	288	Demolish 4687 houses & construct 10655 houses	Construct commercial spaces to fund project	₹ 5000 crore
Netaji Nagar	111	Demolish 2772 houses & construct 4855 houses	Construct commercial spaces to fund project	₹ 15000 crore
Total	424			₹ 32000 crore

Source: Company, ICICIdirect.com Research

Railway redevelopment to be a big opportunity...

The company senses strong opportunities from the railway station redevelopment space. NBCC has already won contracts for redevelopment of 10 railway stations from Ministry of Railways. The management expects an opportunity to the tune of ~₹ 5000-10000 crore over the next few years.

Affordable housing - huge opportunity ahead...

The management believes that affordable housing is a huge opportunity as the government is making conscious efforts to promote low cost housing. It would largely act as a PMC partner in the project. NBCC is also acting as a land management agency for banks who have received large tracts of lands in lieu of bad loans and are eager to monetise them.

Await ramp-up in execution; maintain HOLD...

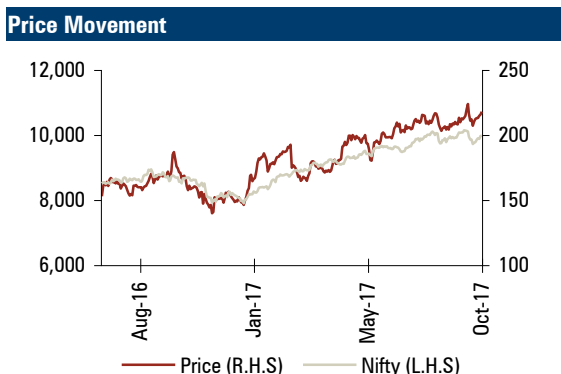
NBCC is set to benefit from strong orderbook, opportunities from railway station redevelopment, affordable housing and other big ticket redevelopment projects. However, we await execution pick-up. Given the rich valuation of the stock (currently trading at ~32x FY19E EPS), we maintain our **HOLD** rating on the stock with an SOTP based target price of ₹ 220 (~32x FY19E EPS).

Rating Matrix		
Rating	:	Hold
Target	:	₹ 220
Target Period	:	12-18 months
Potential Upside	:	0%

Key Financials				
₹ Crore	FY16	FY17E	FY18E	FY19E
Net Sales	5,749.2	6,211.2	7,968.4	11,725.9
EBITDA	345.8	402.4	487.6	786.2
Net Profit	308.4	351.1	414.3	619.9
EPS (₹)	3.4	3.9	4.6	6.9

Valuation Summary				
(x)	FY16	FY17E	FY18E	FY19E
P/E	64.2	56.4	47.8	31.9
Target P/E	64.2	56.4	47.8	31.9
EV / EBITDA	53.4	45.5	38.3	24.5
P/BV	13.3	11.8	10.4	8.9
RoNW (%)	20.7	21.0	21.9	27.9
RoCE (%)	31.1	31.4	32.9	42.0

Stock Data	
Particular	Amount (₹ crore)
Market Capitalization	19,800.0
Total Debt	0.0
Cash	1,133.5
EV	18,666.5
52 week H/L (₹)	229 / 133
Equity capital	120.0
Face value	₹ 2



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We ascribe target price of ₹ 220/share for NBCC based on SOTP methodology

Outlook and Valuation

We like NBCC's business model given the huge opportunities ahead and expect its revenues and earnings to grow at 37.4% and 32.9% CAGR, respectively, in FY17-19E. Further, NBCC is set to benefit from strong orderbook, opportunities from railway station redevelopment, affordable housing and other big ticket redevelopment projects. Given the opportunities and orderbook in place, we would like execution to be ramped up. Furthermore, given the rich valuation of the stock (currently trading at ~32x FY19E EPS), we maintain our **HOLD** rating on the stock with an SOTP based revised target price of ₹ 220 (~32x FY19E EPS).

We value NBCC's PMC business & redevelopment business on the DCF based methodology to capture the long term opportunities in each business. We have considered cost of equity of 12.1% for the PMC business and 13% for the redevelopment space. Based on these assumptions, we value NBCC's PMC business at ₹ 102/share & redevelopment opportunities at ₹ 91/share. The real estate business has been valued at ₹ 19/share (at 1.0x P/BV) while the EPC business has been valued at ₹ 7.0/share (8x FY19E EV/EBIT).

Exhibit 2: SOTP valuation summary

SOTP valuation	Equity Value (₹ crore)	₹ per share	Comments
PMC Business	9147	102	DCF based valuation
Re-development Opportunity	8208	91	DCF based valuation
Real Estate Business	1727	19	at 1x P/BV
EPC	588	7	at 8x FY19E EV/EBIT
Total	19671	219	
Rounded off Target Price		220	

Source: Company, ICICIdirect.com Research

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Strong Buy: > 15%/20% for large caps/midcaps, respectively, with high conviction;

Buy: > 10%/15% for large caps/midcaps, respectively;

Hold: Up to +/-10%;

Sell: -10% or more;



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