

From concept to creation

- NBCC (India) Ltd (NBCC) is one of fastest and largest growing Central Public Sector Enterprises (CPSE), which has built a niche business model, backed by stellar credentials, vast client base and exemplary execution track record. The company's unique business model is underpinned by negative working capital cycle and robust return ratios (25%+).
- NBCC's stellar credentials and vast expertise have grabbed the government's attention and its PWO status has helped it to win various prestigious projects over the years.
- We believe that NBCC will report strong revenue/PAT CAGR of ~29%/30% over FY18-FY20E, led by a healthy order book of ~Rs750bn, primarily driven by the PMC business. In our view, armed with a robust balance sheet, healthy cash flow generation and limited capex, NBCC is expected to report return ratios of 28%/31% in FY19E/FY20E.

Investment Rationale

PWO status gives critical edge vs peers; leads to robust order book, stable margins and strong return ratios

Bestowed with the "PWO status", NBCC has built a niche business model, backed by strong credentials, vast clientele and exceptional track record on execution. We believe that NBCC's growing significance among the government agencies and the open book tendering process safeguard operating margin in the range of 6-8% with minimum downside risk. The distinct business model is underpinned by a negative working capital cycle and robust return ratios (25%+), which along with minimal capex lend solidity as the entire construction work is outsourced to private players.

Redevelopment model to accelerate growth

NBCC has taken big leaps in the redevelopment segment after bagging the redevelopment of New Moti Bagh in New Delhi. It has bagged 3 marquee redevelopment projects in New Delhi accounting for 80% of total size (Rs320bn), which will further accelerate growth. Further, in our view, the scope of redevelopment projects is expected to magnify as other states such as Orissa, Rajasthan, West Bengal etc. are looking to explore this opportunity. We believe that NBCC is well positioned to capitalize on the emerging opportunities given its strong pedigree in design and execution capabilities.

Outlook and valuation

Based on its unique asset-light business model, enviable PWO status, healthy return ratios, negative working capital cycle and robust order book, we foresee strong revenue visibility for NBCC going ahead. At CMP, the stock trades at P/E of 39.3x on FY19E EPS and 30.7x on FY20E EPS and at an EV/EBITDA of 28.8x on FY19E and 22.4x on FY20E. We have assigned a premium multiple to NBCC, valuing it at 40x on its FY20E EPS of Rs7.9, arriving at a TP of **Rs318**. We initiate coverage with a **BUY** rating on the stock.

Financial Snapshot (Consolidated)

(Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	58,264	63,129	79,129	102,468	130,958
EBITDA	3,149	4,102	5,222	6,968	8,905
EBITDA Margin (%)	5.4	6.5	6.6	6.8	6.8
APAT	2,893	3,545	4,233	5,578	7,147
EPS (Rs)	4.8	3.9	4.7	6.2	7.9
EPS (% chg)	4.0	(18.3)	19.4	31.8	28.1
ROE (%)	20.1	21.9	23.6	27.7	31.0
P/E (x)	50.5	61.8	51.8	39.3	30.7
EV/EBITDA (x)	42.7	49.5	38.7	28.8	22.4
P/BV (x)	9.5	12.9	11.6	10.2	8.9

Source: Company, Emkay Research

CMP

Rs 244
as of (1/17/2018)

Rating

BUY

Target Price

Rs 318
12 months

Upside

30.4 %

Change in Estimates

EPS Chg FY18E/FY19E (%)	NA
Target Price change (%)	NA
Target Period (Months)	12
Previous Reco	NA

Emkay vs Consensus

EPS Estimates		
	FY18E	FY19E
Emkay	4.7	6.2
Consensus	4.5	6.6
Mean Consensus TP (12M)	Rs 268	

Stock Details

Bloomberg Code	NBCC IN
Face Value (Rs)	2
Shares outstanding (mn)	900
52 Week H/L	292 / 156
M Cap (Rs bn/USD bn)	219 / 3.42
Daily Avg Volume (nos.)	2,560,894
Daily Avg Turnover (US\$ mn)	10.5

Shareholding Pattern Sep '17

Promoters	75.0%
FIIIs	5.0%
DIIIs	10.7%
Public and Others	9.2%

Price Performance

(%)	1M	3M	6M	12M
Absolute	(3)	2	16	33
Rel. to Nifty	(6)	(3)	7	4

Relative price chart



Source: Bloomberg

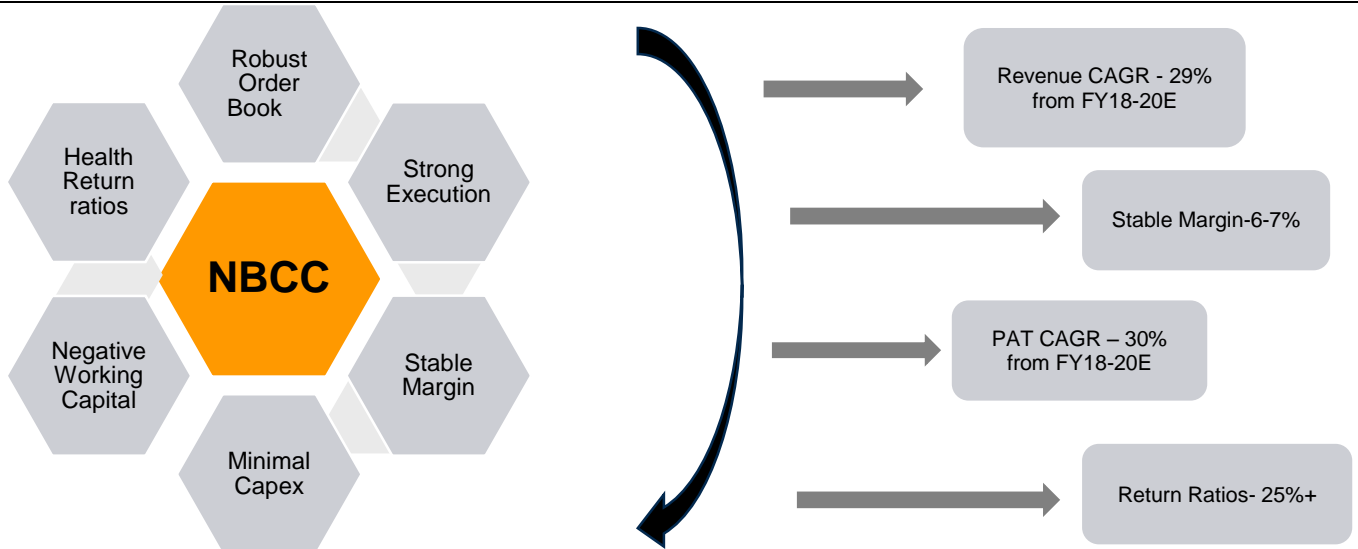
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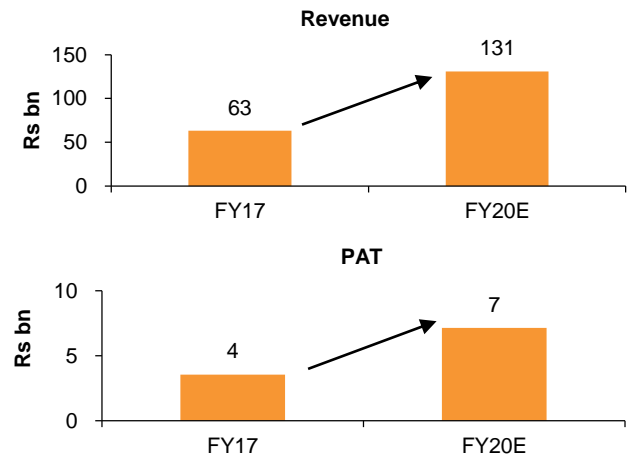
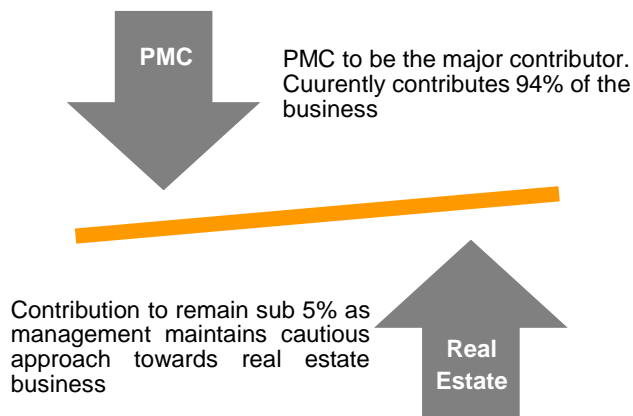
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Strong Business model- Leading to Robust Earnings Visibility & Healthy return ratios

Source: Company, Emkay Research

PMC & Redevelopment model to drive growth going forward

Source: Company, Emkay Research

NBCC - a notch above its peers on all parameters**NBCC on a strong fundamental ground**

Particulars	Mcap (Rs bn)	Order Book (Rs bn)	Revenue Visibility (years)	Asset Turnover (x)	Working Capital (days)	Net D:E (x)	RoE (%)
Larsen & Toubro	1,863	2,575	2.4	3.5	105	1.9	12.6
Sadbhav Engineering	70	77.1	2.3	4.9	248	1.1	11.9
NCC	70	281	3.6	5.8	143	0.4	8.2
PNC Infratech	48	111.5	6.6	2.7	230	0.2	10.3
Ashoka	44	61.1	2.1	0.32	148	2.7	-
KNR Construction	44	35.9	2.0	2.8	65	(0.3)	20.6
ITD Cementation	32	84.8	2.7	4.4	49	0.5	9.1
Ahluwalia	26	32.7	2.3	2.5	67	(0.1)	18.5
Jkumar	25	86.6	5.8	1.1	231	0.2	7.7
NBCC	219	750.0	12.0	73.9	(9)	(0.9)	22

Source: Company, Emkay Research

Rationale behind formation of CPWD and other Government bodies?

Over the years, the government contracts have been beset by a spate of incidents of misappropriation of funds, such as significant rise in scams, rampant corruption, delay in tendering activities, tardy execution etc from private players. This has led to the formation of government agencies such as Central Public Works Department (CPWD) and Central Public Sector Enterprises (CPSE) with an objective of timely execution of public works contracts and efficient utilization & maintenance of assets. Besides, these agencies also act as technical advisors to the GOI.

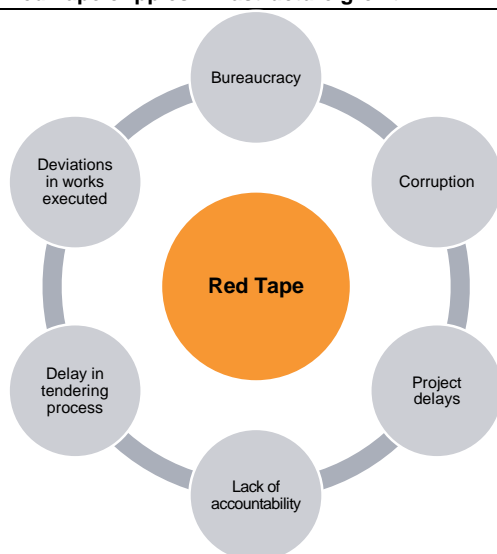
What is the track record of these agencies so far.....

Since its inception, CPWD has come a long way by successfully completing many marquee projects such as IIT complexes, AIIMS hospitals, food storage godowns, laying of astro-turfs for hockey and construction of multi-storied buildings in Delhi etc. Further, it has forayed into the rough terrains at high altitudes, including construction of roads on the sensitive Indo-China Border (~17,000 feet), and the Himalayan mountain ranges of Uttarakhand and Sikkim. Recently, CPWD has signed MoUs with a few WAQF Boards, Ministry of Shipping and various other clients in order to garner more business.

.....however, over time CPWD's execution has suffered and red tape has increased, resulting in players like NBCC grabbing contracts that usually went to these agencies.

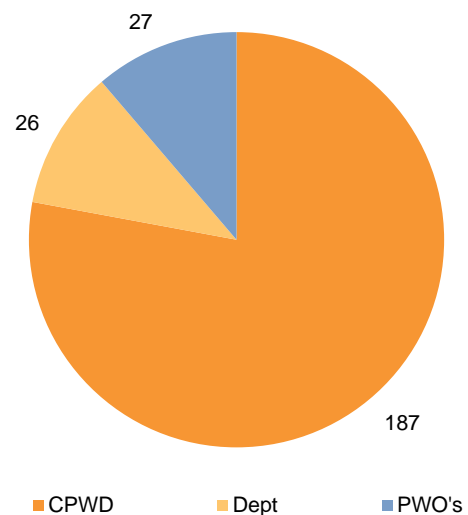
Being one of the key government bodies and implementing agencies for various construction & allied projects, CPWD attracted a lot of attention. But, over time, it fell prey to the vicious trap of red tape and corruption, which in-turn impacted the entire tendering process and the life-cycle of government projects. Further, order awarding activity was affected primarily due to delay in tendering, sending the infrastructure sector into a downward spiral. The following charts amply illustrate the CPWD mess through a case study of the Central Armed Police Forces.

Exhibit 1: Red Tape cripples infrastructure growth

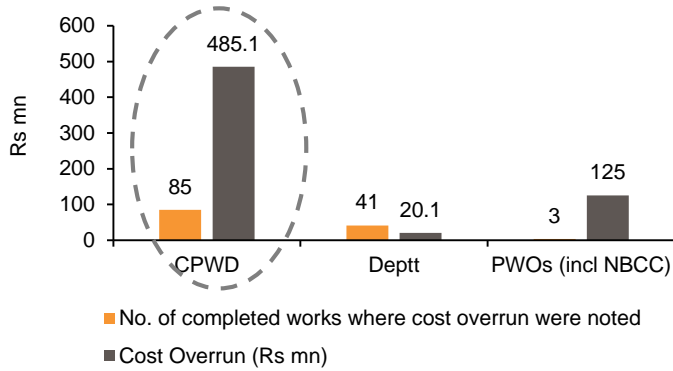


Source: Company, Emkay Research

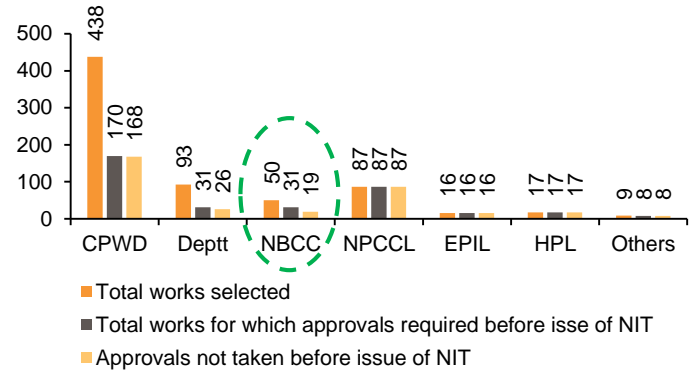
Exhibit 2: Project delays by CPWD have ballooned



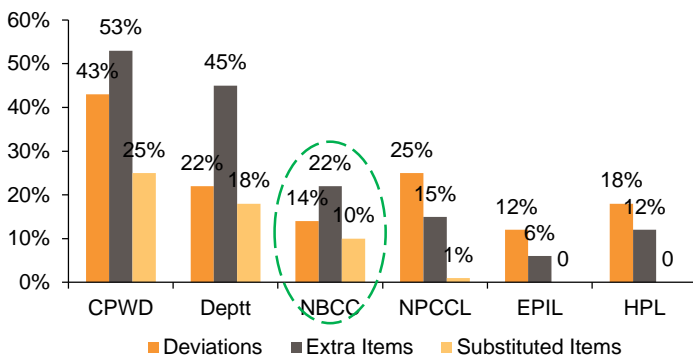
Source: Report on Performance Audit of Construction Activities in Central Armed Police Forces, Emkay Research, Emkay Research

Exhibit 3: CPWD witnessing higher cost overruns both in terms of No. & Value

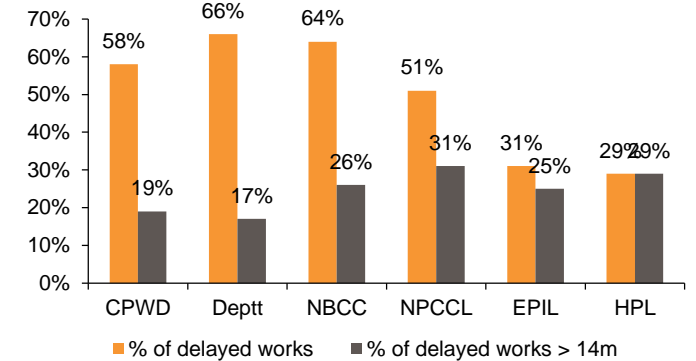
Source: Report on Performance Audit of Construction Activities in Central Armed Police Forces, Emkay Research

Exhibit 4: Details of approvals taken from local authorities by project executing agencies

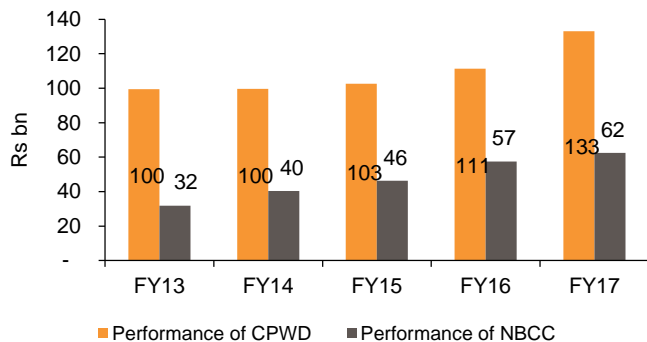
Source: Report on Performance Audit of Construction Activities in Central Armed Police Forces, Emkay Research,

Exhibit 5: NBCC sees the least deviation in project execution

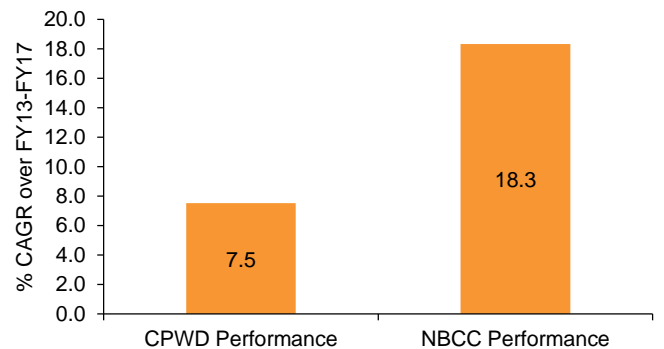
Source: Report on Performance Audit of Construction Activities in Central Armed Police Forces, Emkay Research

Exhibit 7: Delay in completion of works by executing agencies (%)

Source: Report on Performance Audit of Construction Activities in Central Armed Police Forces, Emkay Research

Exhibit 6: NBCC growing faster than CPWD

Source: Company, MOUD, Emkay Research

Exhibit 7: NBCC reported 18.3% CAGR vs CPWD 7.5% CAGR

Source: Company MOUD, Emkay Research

Over the years, the government has formed many government agencies such as CPWD, NBCC, Hindustan Steel Works, Bharat Electronics, Engineers India, etc in order to undertake development of public works in various core sectors and efficiently maintain the Central Government's assets. In our view, NBCC has outperformed its peers such as CPWD across all efficiency parameters as seen in the case study done (see above charts) for the Central Armed Forces.

What next Corporatization/ Privatization?

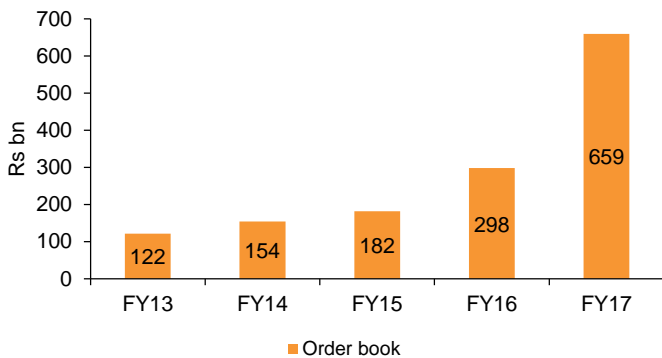
The government has initiated a process to corporatize the CPWD on the lines of NBCC to materially improve its core performance by decentralizing its operations ambit. However, it has been facing a lot of agitations from various unions, employees and opposition parties and hence the process is expected to take at least 4-5 years to complete.

NBCC to gain till the dust settles on CPWD corporatization

Armed with strong performance credentials, formidable track record and vast expertise, NBCC has garnered a lot of attention from the government and its institutions, which is reflected in its robust order book, as bulk of the prestigious government contracts have been won by NBCC at the expense of CPWD. For instance, of the 7 redevelopment projects in Delhi, 3 prime projects (~80% of total orders) were bagged by NBCC. **In our view, we believe that strong players like NBCC will survive for longer and would be preferred by GOI over private players owing to:**

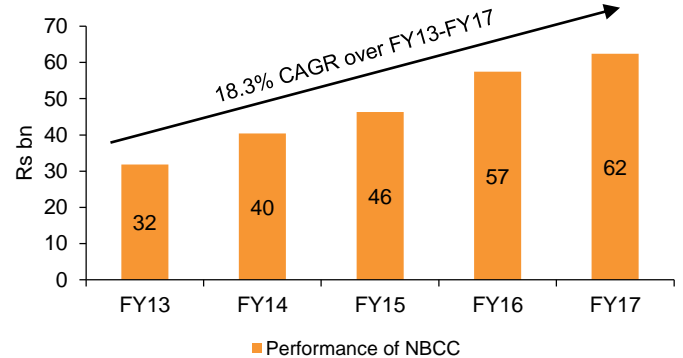
- Fast-track execution
- Increase in ordering activity through faster tendering
- Indirect control over the entire process
- Lower cost overruns resulting into indirect savings
- Transfer of accountability on agencies like NBCC
- Elimination of direct scrutiny of monitoring agencies like CBI, CAG etc

Exhibit 8: NBCC's order book has grown by 5.4x over FY13-FY17



Source: Company, Emkay Research

Exhibit 9: NBCC's sales have grown by 2x over FY13-FY17



Source: Company, Emkay Research

Company background

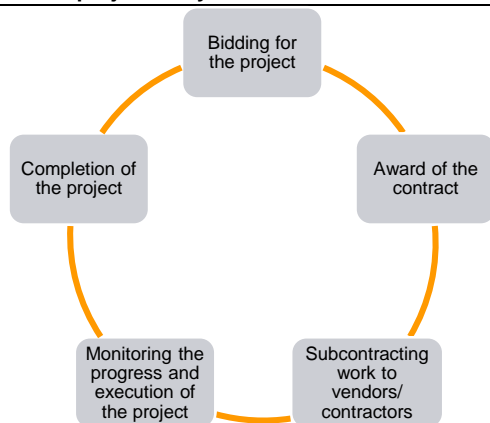
NBCC (India) Ltd (NBCC), a Navratna company, was incorporated in 1960 and caters to 3 segments – Project Management Consultancy (PMC), Real Estate Development and EPC contracting. It is one of the fastest and largest growing Central Public Sector Enterprises (CPSE), which has built a niche business model, backed by strong credentials, vast clientele base and exemplary execution track record. The company's unique business model is underpinned by negative working capital cycle and robust return ratios (25%+). NBCC's stellar credentials and vast expertise have grabbed the government's attention and its PWO status has helped the company to win various prestigious projects over the past few years. Recently, NBCC has been designated as the Land Management Agency of GOI to assist the latter in disposal of land/immovable assets of sick/ loss-making CPSEs to ensure their time-bound closure. Further, there are only 12 complexes in India, which have been awarded the prestigious WTC tag, of which NBCC is developing 1 complex at Nauroji Nagar (one of the biggest projects in India). Currently, the GOI holds a 75% stake in NBCC.

Segment overview

PMC – the crown jewel of the business

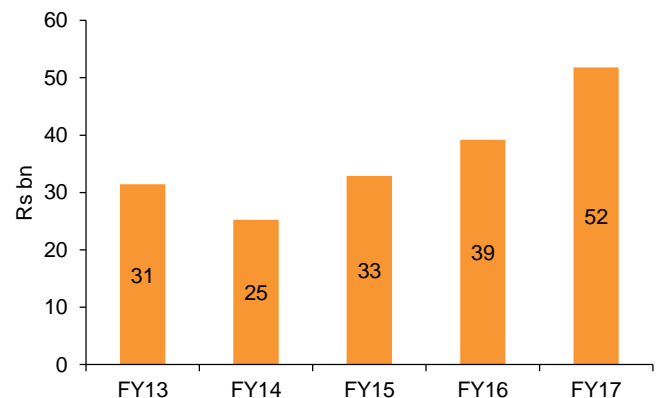
NBCC ventured into PMC in 1972 and has built core strengths with exceptional expertise in various segments such as Roads, Hospitals/Medical Colleges, Institutions, Offices, Airports, Bridges, and Industrial & Environmental Structures etc. NBCC has built a strong business model, which derives its strength from its PWO status (NBCC bags projects on nomination basis with pre-fixed margins). The entire construction activity is sub-contracted to private players, thereby minimizing the risk. Further, the model has negative working capital with negligible gross block and low risk of default, as most of its clients are government entities. The PMC business is the main driving force and contributes ~87%/~96% of sales/EBIT as of FY17. PMC revenues have grown at a CAGR of 11.4% over FY11-FY17 to Rs51.8bn and we expect it to grow at 22% CAGR during FY17-FY20E, driven by a robust order book (largely comprising redevelopment projects).

Exhibit 10: PMC project lifecycle



Source: Company, Emkay Research

Exhibit 11: PMC revenues have expanded 1.7x over FY13-FY17

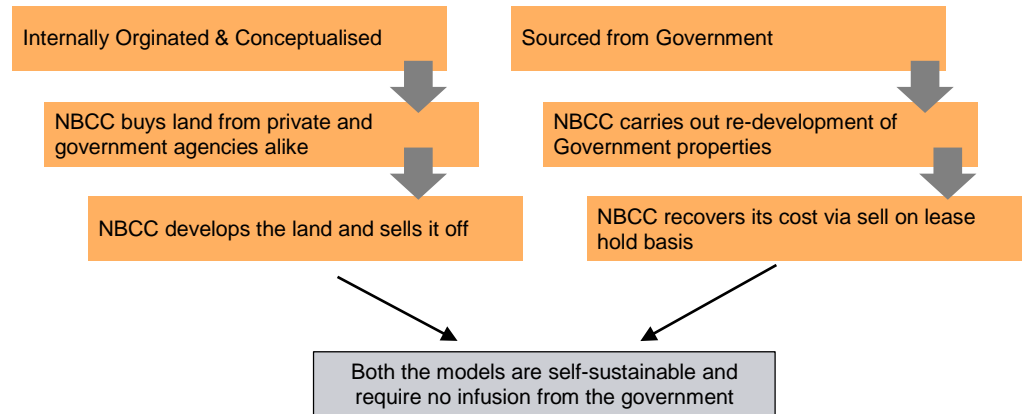


Source: Company, Emkay Research

Real Estate - A disciplined approach to result in long-term value creation

NBCC started the Real Estate division in 1988 by executing commercial real estate projects. However, over the years, the company has gained creditable scale through a disciplined approach. NBCC has employed the prudent strategy of investing a part of its surplus cash in acquiring land parcels, which are not only strategically located but can easily be developed or monetized. As of date, the company has accumulated ~180 acres of land spread across the country, primarily in Tier II & Tier III cities. The Real Estate business contributed ~3% to FY17 sales and ~11% to FY17 PBT. The Real Estate vertical's revenue has grown at a CAGR of ~6% over FY11-FY17 to Rs2.7bn and we expect it to grow at ~12% CAGR over FY17-FY20E, driven by a strong project pipeline.

Exhibit 12: NBCC's business model in Real Estate



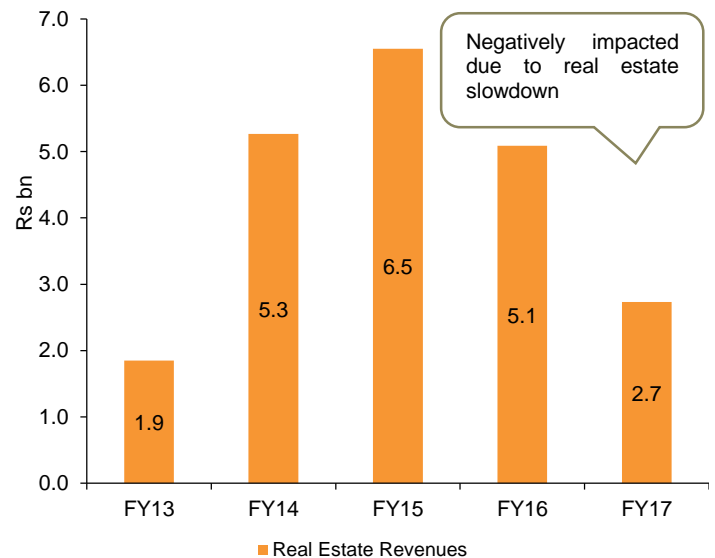
Source: Company, Emkay Research

Exhibit 13: Real Estate Project Life Cycle



Source: Company, Emkay Research

Exhibit 14: Real Estate revenue has grown 1.4x from FY13-FY17



Source: Company, Emkay Research

Investment Arguments:

PWO Status - A strong competitive edge vis-à-vis peers

Being bestowed with the “PWO status”, NBCC enjoys the unique privilege of bagging government contracts on a nomination basis as per the revised General Financial Rules (GFR). This gives a competitive edge to the company over its peers. Further, a series of embezzlement cases in government contracts awarded to private players has come under the scanner of various government authorities such as CAG, CBI etc. To resolve this problem and to shield GOI from any accountability towards such authorities (CAG, CBI etc), the government has been awarding contracts to agencies such as NBCC, CPWD etc. Further, NBCC is designated as the **implementing agency for executing projects under the Jawaharlal Nehru National Urban Renewal Mission (JNNURM), the Pradhan Mantri Gram Sadak Yojna (PMGSY), the Solid Waste Management and Developmental Work in North Eastern Region**, which will aid the company in bagging large chunk of orders under these schemes.

Currently, ~95% plus of order book has been secured by NBCC on a nomination basis. In our view, NBCC and CPWD are the two main competitors in this space. Given NBCC’s stellar excellent track record of executing large contracts (primarily on PMC and EPC mode), we believe it is likely to garner disproportionate amount of work from central as well as various state governments. Further, a successful completion of New Moti Bagh Redevelopment Project in New Delhi (it is considered as one of the finest redevelopment projects done till date in India) has further buttressed NBCC’s reputation in the eyes of GOI. We understand that the recently bagged 3 redevelopment projects worth Rs250bn in FY17 underscore the company’s tremendous potential in the redevelopment space.

Exhibit 15: Rule 126 of GFR

Rule 126 (post 2016 amendments) of General Finance Rule (GFR)

- A Ministry or Department at its discretion may directly execute repair works estimated to cost up to Rs30 lakh.
- A Ministry or Department may, at its discretion, assign repair works estimated to cost above Rs30 lakh and original works of any value to any Public Works Organization, including State Public Works Divisions and other Central Government organizations authorized to carry out civil or electrical works such as the Central Public Works Department (CPWD), the Military Engineering Service (MES), the Border Roads Organization etc. or the construction wings of Ministries of Railways, Defense, Environment & Forests, Information & Broadcasting and Department of Posts and Space etc.
- As an alternative to 126(2), a Ministry or Department may assign repair works estimated to cost above Rs30 lakh and original works of any value to any PSU (set up by the Central or State Govt) to carry out civil or electrical works, or to any other Central/State Govt Organisation/PSU, which may be notified by the MOUD for such purpose after evaluating their financial strength and technical competence.

Source: Ministry of Finance, GOI, Emkay Research

NBCC's dominant position and policy of open book contract ensures minimal risk

Over the past couple of years, NBCC has been able to establish strong credentials and build considerable expertise in executing large-sized projects, which has made it a pre-eminent developer of key government projects, resulting in a healthy order book of Rs750bn (as of Q2FY18). We believe that its growing significance among government agencies has enhanced NBCC's bargaining power, which is evident from the marketing charges of ~1-2% on total sales from most of its redevelopment projects. Moreover, the construction activity for all the projects is outsourced to private players on open book basis to mitigate risks further.

Exhibit 16: Key contract conditions (general) which ensure that NBCC operates at minimal risk

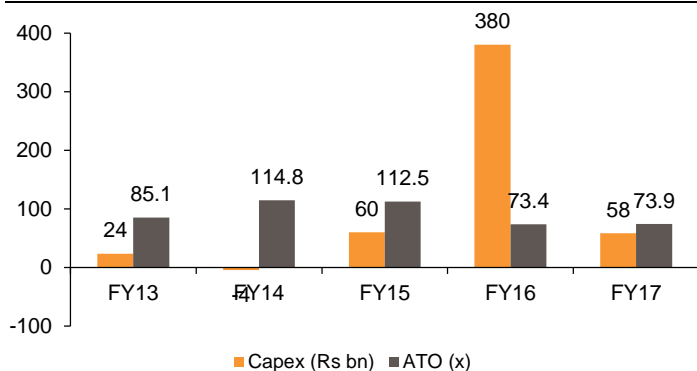
- The rates quoted by the tenderer shall be firm and fixed for the entire period of contract completion and till the handover of the work. No revision in rates or any escalation shall be allowed on account of any increase in prices of materials, labour, POL and Overheads etc or any other statutory increase during the entire contract period or extended contract period.
- No claim on account of any price variation / escalation on whatsoever ground shall be entertained at any stage of the work. All rates as per Bill of Quantities (BOQ) quoted by Contractor shall be firm and fixed for entire contract period as well as extended period for completion of the works. No escalation/price variation clause shall be applicable on this contract.
- The contractor shall be responsible for obtaining necessary approval from the respective authorities for shifting/ re-alignment of existing public utilities. NBCC shall only assist the contractor for liasioning in obtaining the approval from the concerned authorities.
- Tenderer shall be deemed to have considered site conditions whether he has inspected it or not, and to have satisfied himself in all respect before quoting his rates. No claim or extra charges whatsoever in this regard shall be entertained / payable by NBCC at a later date.
- The Contractor shall be responsible for coordinating with service provider/ concerned authorities for cutting of trees, shifting of utilities and removal of encroachments etc. and making the site un-encumbered from the project construction area required for completion of work. This shall include initial and frequent follow-up meetings/ actions/ discussions with each involved service provider/ concerned authorities. The contractor shall not be entitled for any additional compensation for delay in cutting of trees, shifting of utilities and removal of encroachments by the service provider/ concerned authorities.
- All expenses towards mobilization at site (men/materials/machinery) and de-mobilization, including bringing in equipment, workforce, materials, dismantling of the equipment, clearing the site etc shall be deemed to be included in prices quoted, and no separate payment on account of such expenses shall be entertained.
- The contractor shall arrange the land for temporary office, storage accommodation and labour huts at his own cost. It shall get the clearance of local authorities for setting up of a labour camp, and the same is deemed to be included in the rates quoted by the contractor for the works. In the event the contractor has to shift his labour camp at any time during execution of the work on the instructions of local authorities or as per the requirement of the work progress or as may be required by NBCC, he shall comply with such instructions at his cost, and risk and no claim whatsoever shall be entertained on this account.

Source: Company, Emkay Research

PMC – Lends resilience & robustness to business model and ensures strong return ratios

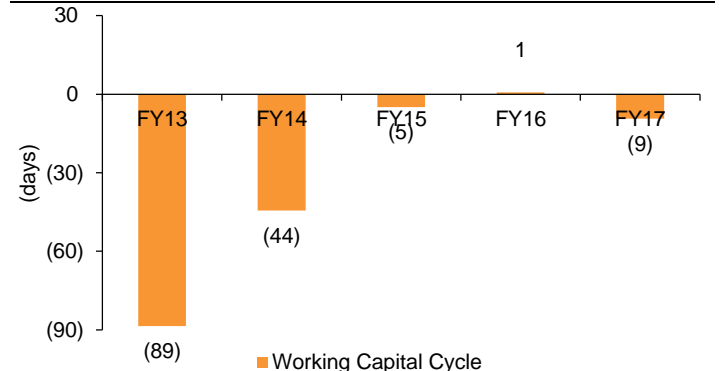
NBCC's PMC business doesn't have any private contract with the order book comprising only government contracts, mitigating the risk of any payment defaults. Further, the company only supervises/manages the projects under the PMC division and earns a pre-fixed margin of 6-8% of the total project value. Notably, the entire construction work of the project is sub-contracted to private contractors on a tender basis. The above factors limit the capex requirement of NBCC, resulting in a high asset turnover ratio. The PMC model being asset light leads to high return ratios (25% plus) and enjoys a negative working capital cycle. In our view, the scope of redevelopment projects is expected to magnify and NBCC is well positioned to capitalize on this opportunity given its strong pedigree in design and execution capabilities demonstrated by completion of several important projects.

Exhibit 17: Minimal Capex High ATO



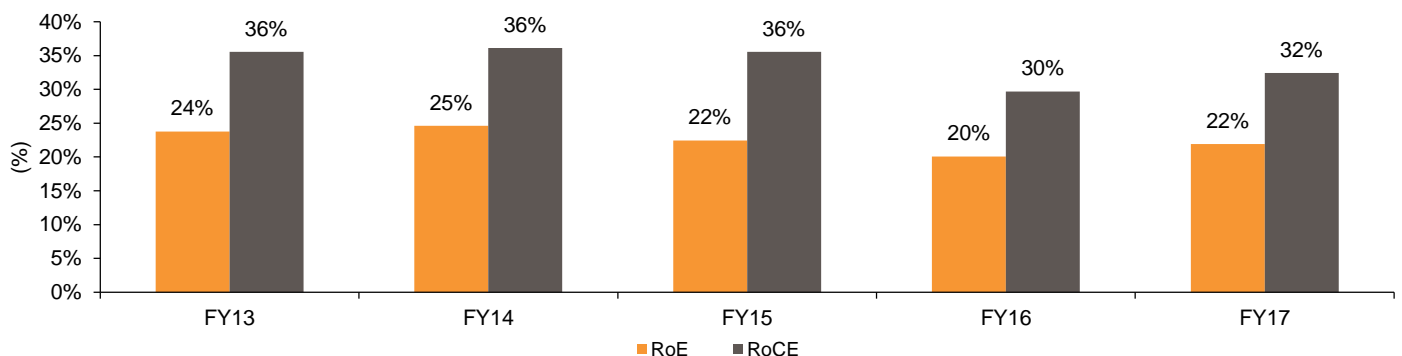
Source: Company, Emkay Research

Exhibit 18: Negative Working Capital Cycle



Source: Company, Emkay Research

Exhibit 19: Higher asset turns and negative working capital cycle lead to strong return ratios



Source: Company, Emkay Research

Redevelopment model – Taking NBCC into a new league

NBCC ventured into redevelopment business in 2007 by bagging the Moti Bagh redevelopment project. The company has proved its credentials and expertise in the redevelopment space by successfully implementing the New Moti Bagh project, which is considered as one of largest Green home complex in the country. Successful completion of this redevelopment project has enabled NBCC to win the government's trust in executing large projects, resulting in healthy order inflows over the past few years. For instance, out of the redevelopment projects for 7 Delhi colonies (Rs320bn) approved by the Cabinet, the company has bagged 3 marquee projects - Sarojini Nagar, Netaji Nagar, Nauroji Nagar - amounting to ~80% of the total size while the remaining 4 projects have been developed by CPWD.

Exhibit 20: NBCC's real estate redevelopment project business' revenue streams**NBCC invests seed money and earns interest**

- up to 12%

NBCC earns PMC margin when it sub contracts work

- 6-8%

NBCC earns marketing margin per property

- 1-2%

Source: Company, Media Articles

Exhibit 21: Profile of Key Redevelopment Projects being done by NBCC

	East Kidwai Nagar	Nauroji Nagar	Netaji Nagar	Sarojini Nagar	Redevelopment of 10 railway stations	AIIMS	Wadala redevelopment
TPC Rs	Rs.53bn	Rs27bn	Rs65bn	Rs155bn	Rs50bn	Rs45bn	Rs32bn
Expected Revenue	Rs.53bn	Rs120-140bn		Rs180-200bn		Rs50bn	Rs32bn
Start Date	Dec-18	Jun-18	1HFY18	1HFY18	Dec-17/Early 18	2HFY18	2HFY18
End Date	Nov-18	Jul-23	Jul-23	Jul-23	2020	2023	2025
Development Activities	77 residential towers & 4 commercial towers	NBCC has the licence to develop as a commercial property under the World Trade Center (WTC) brand. 12 commercial properties over 3mn sq ft are to be developed Sold 1st commercial tower completely	NBCC has license to develop commercial as well as residential complex for government	NBCC would be developing commercial and residential towers for commercial sale.	NBCC in the first phase would redevelop core infrastructure such as platform, lounges, ticketing counters, parking and other passenger amenities, besides building separate arrival and departure terminals on the lines of airports	NBCC to redevelop 2 residential colonies Ansari Nagar and Ayurvigyan Nagar to ease the problem of shortage of staff Accommodation of AIIMS, New Delhi	NBCC would be developing Office Complexes, Residential Staff Quarters, Schools, Hospitals and Customs and GST office at Customs Enclave Plot, Wadala.
Current Status	First Phase completed	(~0.3mn sq ft) for Rs11bn. Launched 2nd tower in Dec'17 and have sold 30-40% already	Yet to commence work	Yet to commence work	Yet to commence work	Yet to commence work	Yet to commence work
Other details	Self-Sustainable model; No govt funding; Cost of construction to be met through lease of entire office space and 10% of residential space for a period of 30 years	Self-sustainable model; NBCC has paid between 20-25mn for the trademark and will pay a nominal annual fee. Cost will be met by selling the commercial space.		Self-sustainable model; NBCC has paid between 20-25mn for the trademark and will pay a nominal annual fee. Cost will be met by selling the commercial space.	NBCC will incur an initial investment of up to 5% of project cost and will charge an interest at the rate not exceeding 12% per year. NBCC will charge 4% of project cost as PMC charges, 3% of cost for preparation of DPR's and 2% of lease revenue for marketing and other services. NBCC would be getting commercial exploration rights of the land under these stations for 45 years. It can build or lease land to hotels, malls, multiplexes and corporates, or even develop it for residential purpose	Self-revenue generating model. Cost to be met by selling the commercial space of 90,000sqm.	Self-revenue generating model. Cost to be met by selling the commercial space.

Source: Company, Media Articles, Emkay Research

Further, under the NITI Aayog initiative (a program undertaken to Transform India), the government has been identifying PSUs that have been financially unviable for a long time by implementing various strategies to undertake restructuring activities and divestment. Most of these PSUs have vast land banks, which can create huge redevelopment opportunities for companies, such as NBCC and CPWD

Real Estate - Large land bank with long-term value proposition

For its Real Estate division, the company has been strategically acquiring land parcels, which can be easily developed and monetized, primarily in Tier II & Tier III cities, by investing a part of its surplus cash. Over the years, the company has accumulated over ~180 acres of prime properties across India. As per the management, the potential value creation from these land parcels is ~Rs50bn (on an investment of Rs20bn). However, given the current demand scenario in the Real Estate sector, NBCC intends to focus more on the PMC and Redevelopment verticals.

Exhibit 22: Land bank spread across prime locations

Raipur	Faridabad	Cuttack
Noida	Bhubaneswar	Bhubaneswar
Alwar	Kolkata	Patna
Lucknow	Gurgaon	Cochin
Ghaziabad	Okhla	Ahmedabad
Meerut	Vadodara	Khekhra

Source: Company, Emkay Research

Foray into new segments...de-risking the order book

In addition to tapping opportunities in the redevelopment of colonies and development of railway stations, NBCC has started exploring other avenues to grow its order book. Owing to its strong credentials, the company secured the 1st phase of the Vidarbha Irrigation project worth Rs11bn in FY17. Recently, NBCC has bagged its maiden project worth Rs20bn in the Road segment, which includes construction of the Kotdwar-Ramnagar Kandi Road under the Green Road project from the Ecotourism Development Corporation of Uttarakhand. NBCC has bagged both these projects on PMC basis with a stable margin of 7% of total project cost.

Opportunities galore; NBCC in a sweet spot

Over the years, NBCC has gained tremendous expertise and credentials from various governments/institutions/companies, enabling it to execute projects across sectors of different scale and risk profile. In our view, the Central Government has rolled out various social infrastructure schemes, which will ensure regular order inflows to NBCC in the near term.

Redevelopment of sick PSU land banks – The next big trigger

We believe that NBCC has enormous business opportunities in the field of redevelopment of old government colonies in India. Delhi alone has identified 20-30 government colonies for redevelopment in prime locations, which are to be built out over an aggregated area of 1,100 hectares. Of these, only 9-10 colonies have been awarded by government till date. As per our understanding, the average ticket size of each project would be ~Rs30-40bn, translating into significant business opportunities for NBCC. Further, other states such as Odisha, Madhya Pradesh, West Bengal and Rajasthan are also exploring redevelopment opportunities. For instance, NBCC has formed a JV with the Rajasthan government for undertaking redevelopment of two projects. Other states such as Odisha, Madhya Pradesh and West Bengal are also exploring redevelopment of properties spread across 20-30 acres each. We believe that the scope for redevelopment projects would magnify, and NBCC is well positioned to capitalize on these emerging opportunities.

Under the NITI Aayog initiative (a program undertaken to Transform India), the government has been identifying PSUs that have been financially unviable for a long time by implementing various strategies to undertake restructuring activities and divestment. Most of these PSUs have huge land banks, which can create huge redevelopment opportunities for companies such as NBCC and CPWD. In addition, the company has signed an MoU with Air India in FY14. Some of the key properties in the agreement include: a) 3.5 acre land parcel at Baba Khark Singh Marg, New Delhi, b) 1.3 acre of commercial plot in Anna Salai, Chennai and c) 3 lakh sq ft of Air India office space at Nariman Point, Mumbai.

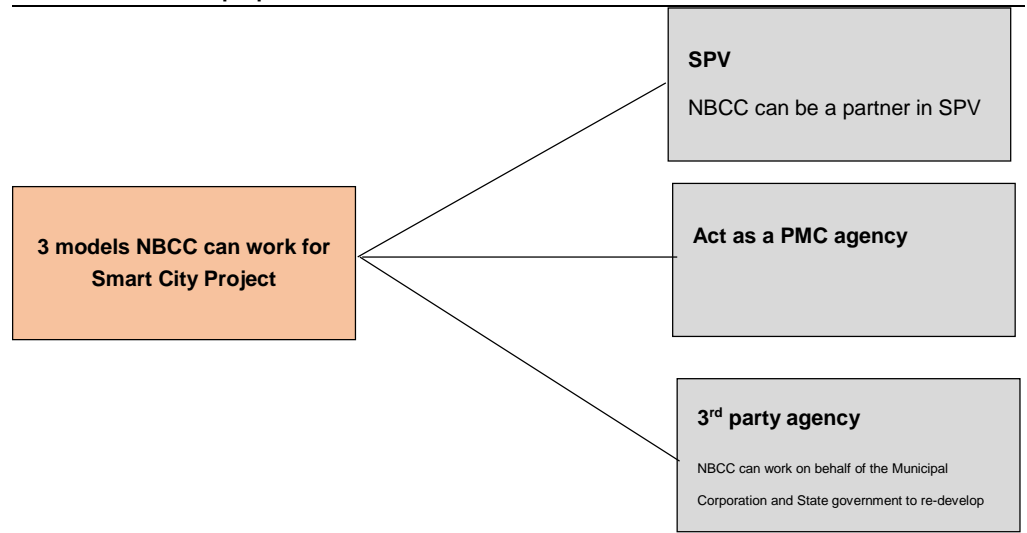
Moreover, the company signed a MoU with the National Waqf Development Corporation Ltd (NAWADCO) in Sept'14 to develop 4 waqf properties as institutional and commercial projects, including Gulistan Shadi Mahal, Masjid-e-Mavalli, Dargah Hazrat Attaullah Shah in Bengaluru and Takiya Chand Shah in Jodhpur with a total construction cost of Rs4-5bn. Further, NAWADCO has identified several other waqf properties, including 1 in Delhi, 2 in Rajasthan, 6 in Madhya Pradesh and 7 in Karnataka, set to be developed over the next 10 years. We believe the above growth avenues provide NBCC a bigger opportunity to explore and can meaningfully add to its order book. However, we have not included any of the above-mentioned orders in our existing order book estimates. NBCC is also in talks with government of Maharashtra for the redevelopment of Dharavi project and authorities in UP for the redevelopment of old government colonies in cities such as Varanasi, Gorakhpur, Agra, Shahjahanpur etc.

Recently, NBCC has also been appointed by GOI to monetize the spare land parcels of 74 sick PSUs, which are presently lying unproductive. GOI believes this would help sick PSUs to unlock value and clear their dues. As per media reports, the surplus land available with 74 loss-making PSUs aggregates to over 50,000 acres and NBCC will be charging a fee of 0.5% for the sale of each land parcel as prescribed in DPR.

Smart Cities:

In the Union Budget 2014-15, GOI proposed development of 100 Smart Cities to drive economic growth and improve the quality of life by promoting local development and harnessing cutting-edge technology. GOI has identified 20 such cities and has earmarked an investment outlay of ~Rs475bn for the same. However, the concept of Smart Cities is at a very nascent stage and work related to its policies and framework is progressing gradually. We believe that Smart Cities present huge business opportunity for companies like NBCC and CPWD once the requisite approvals are obtained.

NBCC has already articulated its plans to the 98 Smart City candidates and is eyeing 20% market share (Rs6tn opportunity). Given that each Smart City requires investments worth Rs200-300bn, monetization of land would be a preferred route and given NBCC's expertise in land monetization and redevelopment projects, it will certainly emerge as a preferred choice for executing Smart City projects.

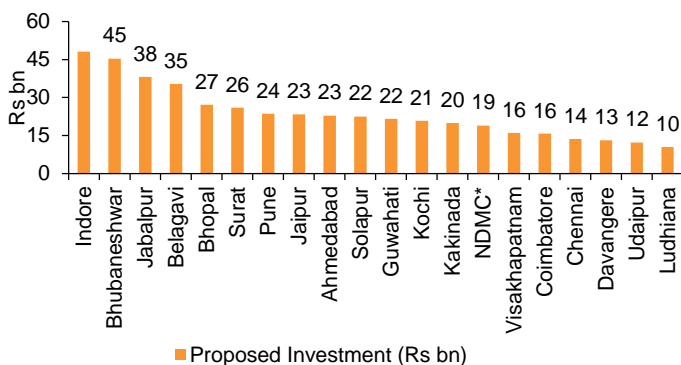
Exhibit 23: NBCC's proposed model for Smart Cities

Source: Company, Media Articles, Emkay Research

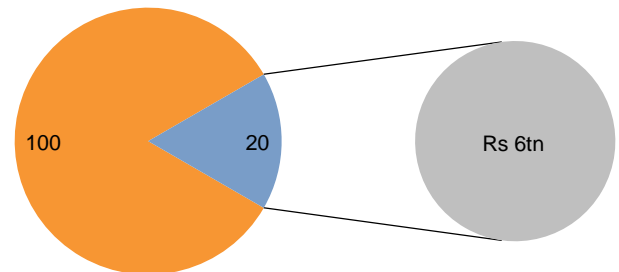
Exhibit 24: NBCC prequalification status for Smart Cities projects

NBCC qualifies for Smart City Mission			
Scope of work under Smart City Mission		NBCC Eligibility	
Urban Mobility		Water Management	
Integrated Multi-Modal Transport	●	Smart Meters & Management	●
Intelligent Traffic Management	●	Water Supply Distribution/ Sewerage & Storm Water Drainage	●
Smart Parking	●	Leakage identification	●
Business Parks/ Industrial Parks/ Warehousing and Distribution	●	Water Control Monitoring	●
Energy Management		Solid Waste Management	
Power Generation/ Transmission Projects	●	Solid Waste Management	●
Solar Power Projects	●	Recycling of Waste for Industrial Use	●
Renewable Sources of Energy	●	Treatment for waste water	●
Energy Efficient & Green Buildings	●	Others	
E-governance Management		Tele-medicine & Tele-education	○
Electronic Service Delivery	●	Incubation/Trade Facilitation Centres	○
Video Crime Recording	●		

Source: Company, Emkay Research

Exhibit 25: Proposed investments in Smart Cities

Source: Company, Emkay Research

Exhibit 26: NBCC eyeing Rs6tn worth of opportunity from 20 Smart Cities

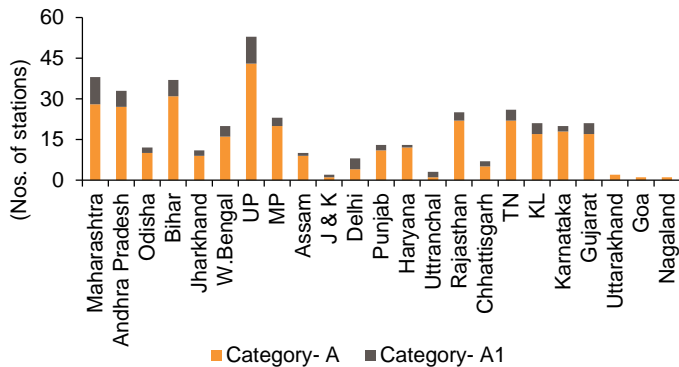
Source: Company, Emkay Research

Indian Railways – Another key focus area

Offers investment opportunity worth Rs1tn for modernization

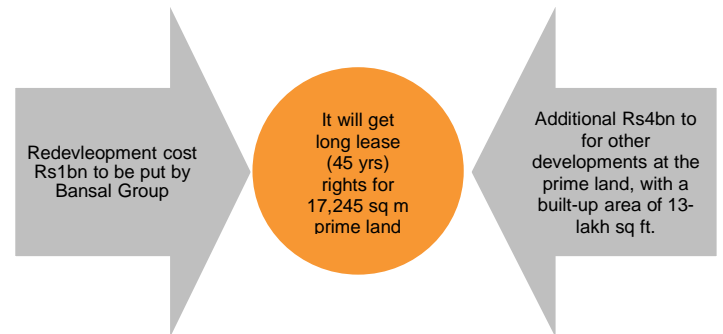
Over the last few decades, investments in the Railway sector have remained subdued, which has resulted in growing congestion, low quality of services, poor safety and decline in passenger & freight revenues. Identifying quality of service and safety of citizens as key priorities, GOI announced redevelopment activities for 400 railway stations at an investment outlay of Rs1tn. Out of the 400 stations identified, the redevelopment process has begun on 65 stations and construction has already started on 2 stations. Most of the stations are being redeveloped on PPP model by modifying the Swiss Challenge Model and the entire cost would be recovered through commercial development at these stations.

Exhibit 27: Modernization of 400 stations — Colossal opportunity



Source: Company, Emkay Research, "Category 'A' classifies for stations with an annual passenger earning between Rs6-50Cr and Category 'A1' classifies for stations with annual passenger earning of more than Rs50C

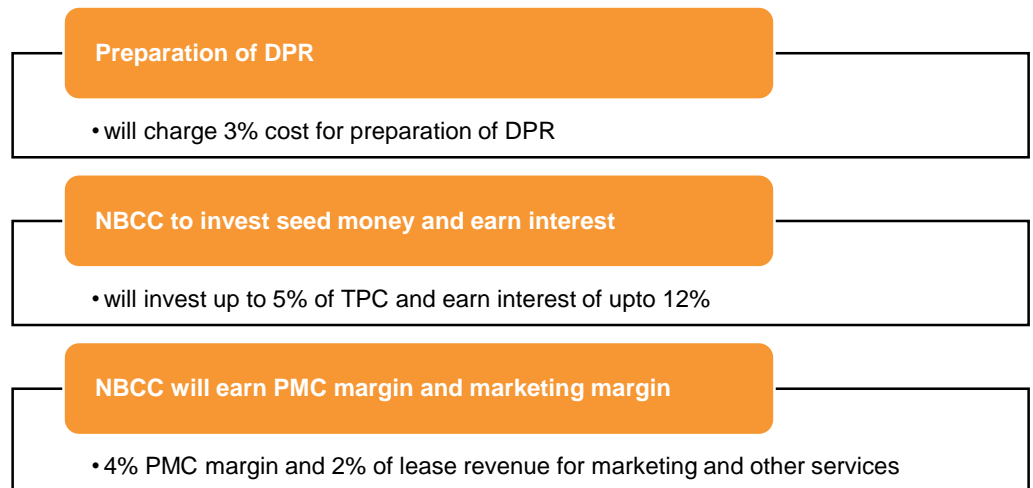
Exhibit 28: Working of India's 1st private railway station - Habibanj



Source: Media Articles, Emkay Research

NBCC has already signed a MOU with the Rail Development Authority for the redevelopment of 10 railway stations and the redevelopment work is to be completed in 3 years.

Exhibit 29: NBCC's revenue stream from station redevelopment

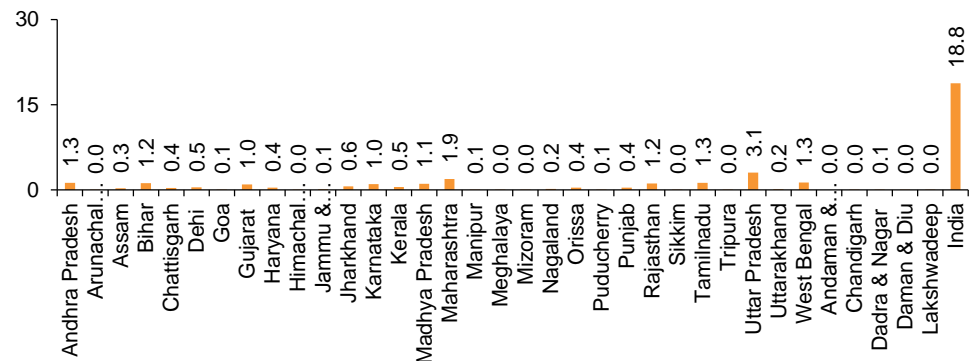


Source: Company Data. Media Articles, Emkay Research

Ready to tap opportunities in mass housing

Under the Pradhan Mantri Awas Yojana (PMAY), GOI plans to provide homes to 18mn households in urban India and ~30mn households in rural India by 2022. As of April'17, GOI has approved construction of ~1.9mn urban houses, of which only 103,000 have been constructed so far. In order to construct quality mass houses faster and in a cost-effective fashion, NBCC has signed a MoU with a Hungarian company – Gremound Engineering. Gremound has a unique concrete technology, which uses special ingredients for faster construction of Mass Housing Projects. In our view, NBCC's tie-up with Gremound will help it to grab upcoming opportunities in the mass housing segment in India going ahead.

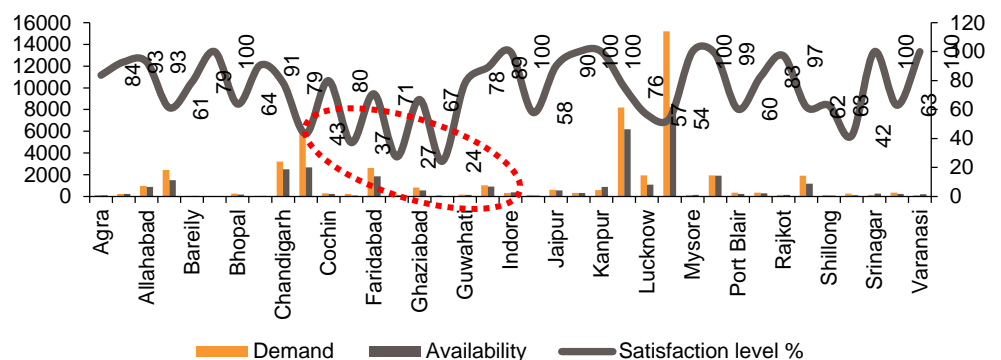
Exhibit 30: Housing Shortage in States and UTs (mn units)



Source: Report of the Technical Group on Urban Housing Shortage, Company, Emkay Research

The Directorate of Estates is responsible for the administration and management of GOI Estates (Residential/Office Accommodation) in the metropolitan cities of Delhi, Mumbai, Kolkata and Chennai and few other cities. As per the latest study done by the Directorate of Estates, in majority Indian cities the demand for Residential/Office Accommodation for government employees is far higher than supply. As per the survey, the current supply is able to satisfy on an average ~75% of the overall demand. However, it has been observed that the demand-supply mismatch widens when one moves towards Tier III and Tier IV cities such as Goa (24% gap), Gangtok (27% gap), Dehradun (37% gap), Siliguri (42% gap) etc (see chart below).

Exhibit 31: Demand-Supply of General Pool Residential Accommodation (GPRA)



Source: Directorate of Estates, Company, Emkay Research

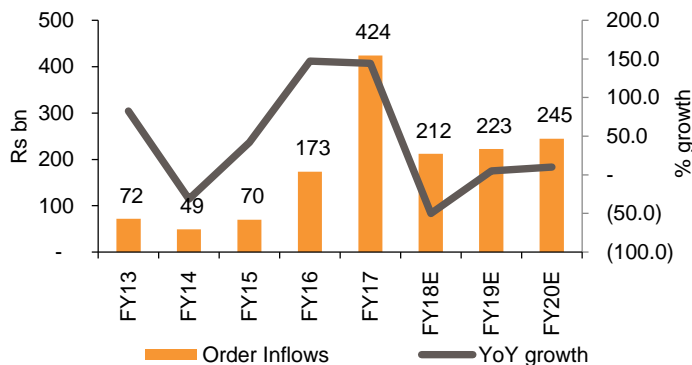
In our view, given NBCC's exceptional execution track record, healthy credentials, vast expertise in the Housing sector and robust balance sheet, the company has ample scope to tap upcoming business opportunities in this sector.

Financial Analysis

Order book to grow at a CAGR of 16% over FY17-FY20E

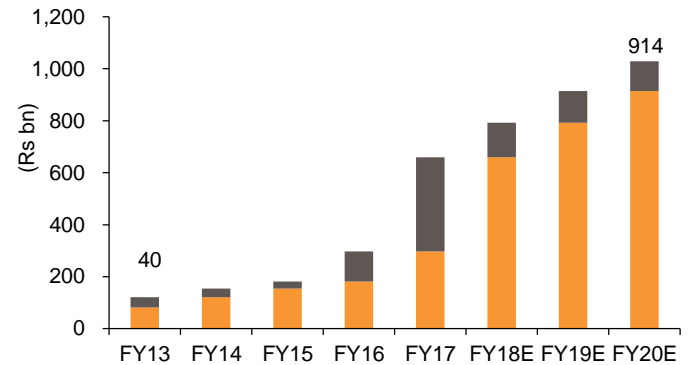
NBCC's order book has grown at a CAGR of ~52% over FY12-FY17, led by healthy order inflows from both the center and state governments. During FY17, the company secured orders worth ~Rs424bn, taking the order book to ~Rs659bn (up 121%). These accrued orders translated into a comfortable order book-to-sales ratio of 10x FY17 revenue, providing a healthy revenue visibility cushion for the next few years. Given the large opportunity size and higher base, we expect NBCC's order book to grow at a CAGR of 16% over FY17-FY20E.

Exhibit 32: Robust order inflows over FY18-FY20E



Source: Company, Emkay Research

Exhibit 33: Order book to grow at CAGR of 16% over FY17-FY20E



Source: Company, Emkay Research

Exhibit 34: Key orders won recently

Sr. No.	Scope of work	Month	Amount Rs mn
1	Social Housing project in Mauritius	Dec-17	1,500
2	Reconstruction of Manora Ammdar Niwas Building at Nariman Point	Nov-17	4,000
3	Up-gradation and maintenance of Purana Quila, New Delhi		
4	Construction of Multi Storey Commercial Space at GPRA Colony, New Delhi (Given to NCC)	Oct-17	19,490
5	Construction of office complex & residential quarters for Department of Customs & Excise Dept, Mumbai	Sep-17	32,000
6	Planning, Designing and Construction of Expansion of Sports Injury Center, New Delhi	Sep-17	4,640
7	Business Secured in July	Jul-17	1,310
8	Redevelopment of 10 railway station with smart city features	Jun-17	
9	Business Secured in July	April-17	3,152
10	Planning Designing & Construction of new office Complex at New Delhi	May-17	2,268

Source: Company, Emkay Research

Exhibit 35: Key MOU's/EOI's signed recently

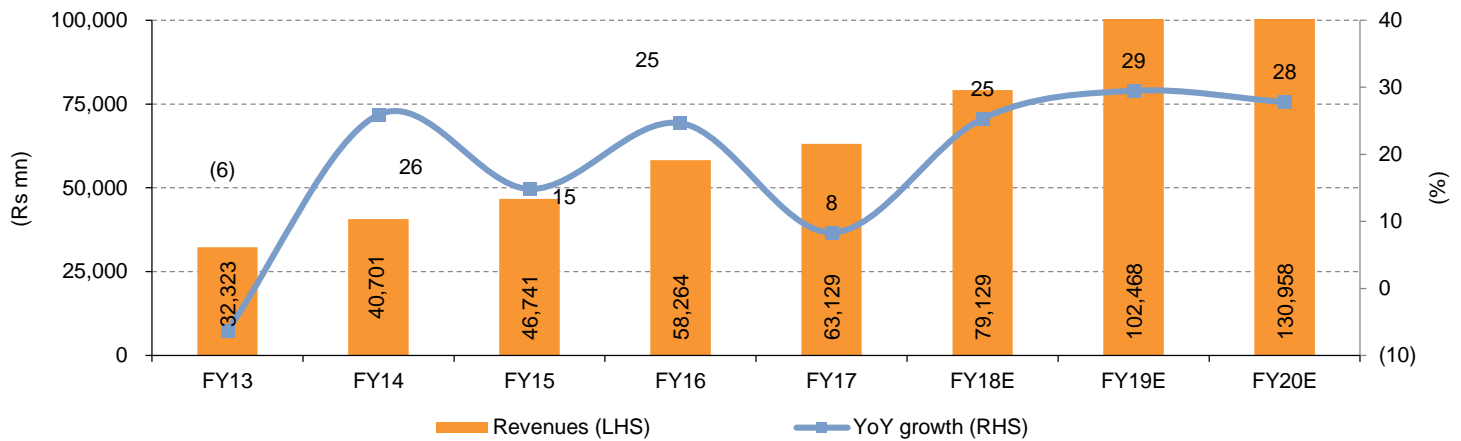
Sr. No.	Scope of work	Month	Amount Rs mn
1	EOI for adoption of Purana Qila, Heritage Project which has been accepted by Ministry of Tourism	Oct-17	
2	MoU with Fortum Oyj-Finland for developing charging infrastructure in India	Oct-17	
3	Up-gradation and maintenance of Purana Quila, New Delhi		
4	MOU with Belarusian company JSV "Belzarubezhstroy" for joint participation in upcoming infrastructure and energy development projects in India & Republic of Belarus	Aug-17	
5	MoU with South Delhi Municipal Corporation (SDMC), for developing its HQ	July-17	5,250
6	JV with Govt of Maharashtra and a private entity to develop smart industrial city at Pen, Maharashtra	May-17	
7	Signing of Memorandum of Business Exploration with BOLIX SA, Poland to promote External Thermal Insulation and Composite Systems(ETICS) for construction of Green Buildings	Apr-17	

Source: Company, Emkay Research

Consolidated revenues to grow at 28% CAGR over FY17-FY20E

NBCC's revenue has grown at a CAGR of ~13% over FY12-FYF17, mainly led by robust order inflows, particularly in the PMC and Redevelopment segments. Going forward, we expect the company's consolidated revenue to grow at a CAGR of 28% over FY17-FY20E, fueled by PMC services on newly awarded projects and pick-up in the execution of projects awarded in FY16 and FY17, respectively.

Exhibit 36: Revenue to cross Rs100bn by FY19E

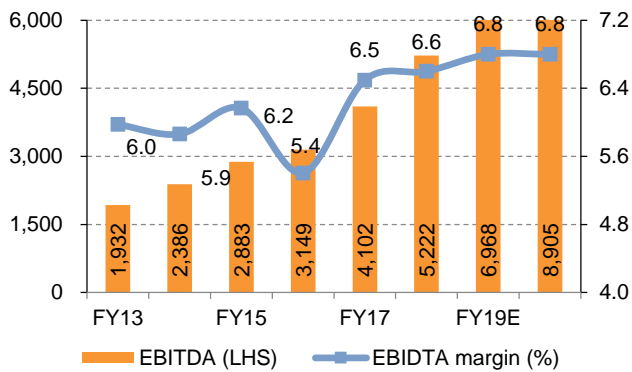


Source: Company, Emkay Research

Margin to remain stable; Profit to grow at a CAGR of 24.6% over FY17-FY20E

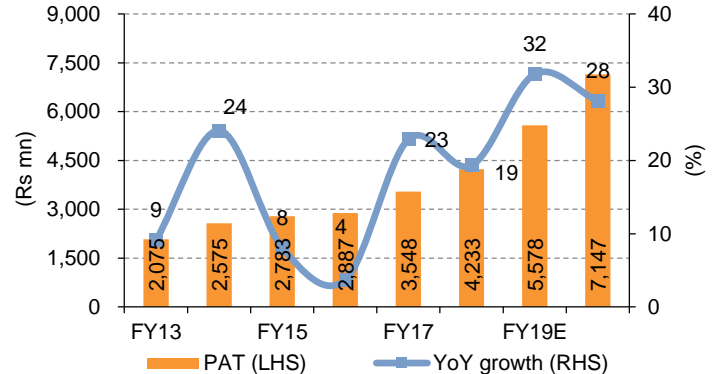
We expect the margin to remain in the 6-7% range, mainly on the back of higher share of the low-margin PMC segment. In the PMC segment, EBITDAM for execution would remain in the 5-10% range, depending on negotiations with the clients and ticket size of the projects. Furthermore, NBCC enjoys marketing margins of 1-2% of total sales for most of its Redevelopment projects. We believe that a higher proportion of Redevelopment projects and higher other income would translate into a PAT CAGR of 24.6% over FY17-FY20E.

Exhibit 37: Stable margin profile



Source: Company, Emkay Research

Exhibit 38: Profit to grow at a CAGR of 24.6% over FY17-FY20E

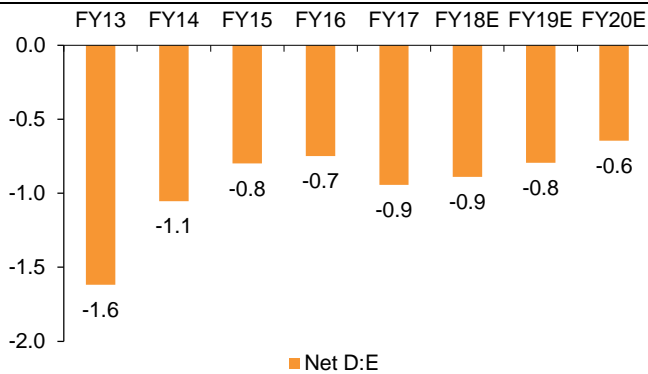


Source: Company, Emkay Research

Strong Balance sheet; Healthy return ratios

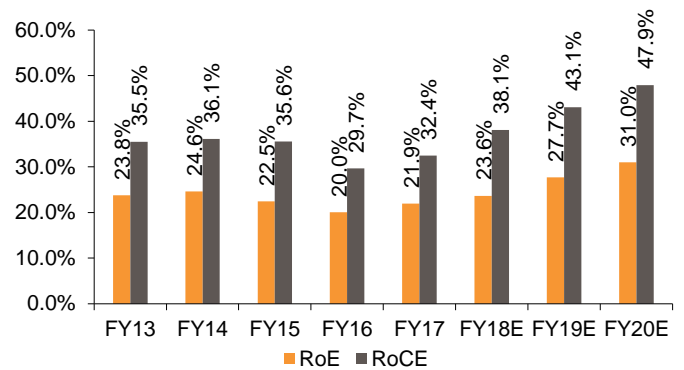
NBCC's balance sheet continues to be on a strong wicket despite headwinds faced by the entire Construction and Real Estate industry. NBCC's PMC business has helped the company to become a net cash company (FY17 net cash of ~Rs16bn). On the back of NBCC's resilient business model and strong balance sheet, it has been able to generate healthy return ratios of 25%+.

Exhibit 39: Zero debt; net cash of ~Rs16bn



Source: Company, Emkay Research

Exhibit 40: Return ratios to improve further over FY17-FY20E



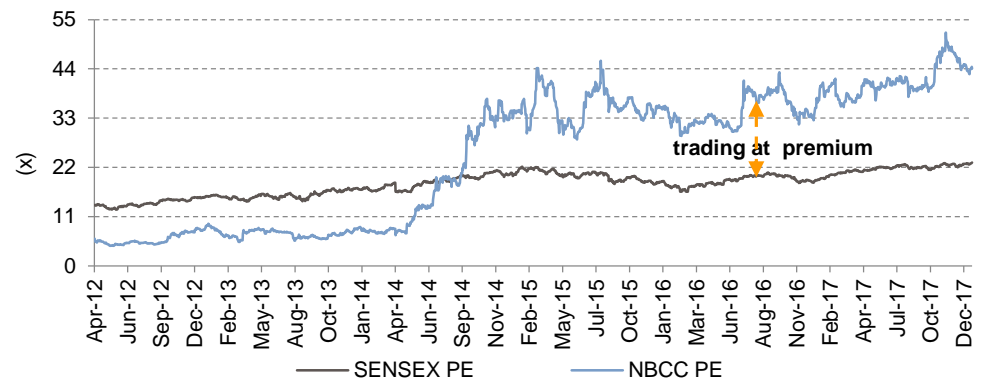
Source: Company, Emkay Research

Valuation

Based on its unique-asset light business model, enviable PWO status, healthy return ratios, negative working capital cycle and robust order book, we foresee strong revenue visibility for NBCC going ahead. We expect the company to report a strong revenue/PAT CAGR of 29%/30% over FY18-FY20E. At CMP, the stock trades at P/E of 39.3x on FY19E EPS and 30.7x on FY20E EPS and at an EV/EBITDA of 28.8x on FY19E and 22.4x on FY20E. We have assigned a premium multiple to NBCC, valuing it at 40x on its FY20E EPS of Rs7.9, arriving at a TP of **Rs318**. We initiate coverage with a **BUY** rating on the stock.

The premium valuation assigned is mainly on the back: a) healthy order book-to-sales ratio of 10x giving strong revenue visibility, b) added advantage of PWO status to drive healthy order inflows, c) strong balance sheet with comfortable cash position and d) negative working capital cycle in its core business segment - PMC.

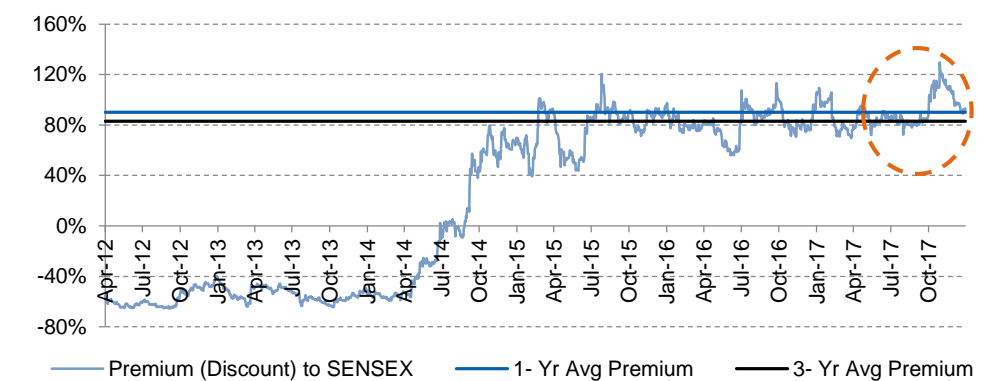
Exhibit 41: PE comparison of NBCC vs Sensex



Source: Company, Bloomberg, Emkay Research

It has been noted that over the last few years, NBCC has been trading at a premium to the BSE Sensex. On a one-year forward P/E basis, NBCC has traded at an average premium of 90%/83% to Sensex for 1 year/3 years. We believe that the company would continue to trade at a premium to the Sensex and our premium multiple of 40x is justified, bolstered by its unique business model, healthy order book, high return ratios and strong balance sheet.

Exhibit 42: NBCC trades at a premium to Sensex's 1-year and 3-year average PE



Source: Company, Bloomberg, Emkay Research

Key risks

Over Dependence on government contracts: The PMC segment contributes ~95% to the company's total revenue. Furthermore, ~95% of the company's PMC order book is awarded by government entities on a nomination basis. Thus, any change in the government policy or shift in the awarding procedure from nomination basis to tendering basis would increase the competitive intensity in the segment, which in turn would hamper the company's order book visibility as anticipated.

High reliance on sub-contractors: NBCC provides management and consultancy services under all its segments and sub-contracts the entire construction activity to various companies during the project lifecycle. Thus, any default or delay of work by the sub-contractors or non-availability of sub-contractors could stretch execution cycle of the projects, which in turn would dent the projects' profitability.

Slowdown in Real Estate industry: The company's PMC and Real Estate order book is primarily dependent on the pick-up in Real Estate activities and new project launches initiated by GOI and developers. Launch of new projects and increase in awarding of redevelopment projects represent huge opportunities for NBCC for its project and management services. Therefore, any major slowdown in the Real Estate industry as a whole could trigger a decline in the company's PMC and Real Estate order book growth, and curtail its profitability.

Exhibit 43: Key management

Name	Designation	Description
Dr. Anoop Kumar Mittal	Chairman and Managing Director	Mr. Anoop Mittal joined NBCC in the year of 1985, and subsequently succeeded as the CMD of the company on 1st April'2013. He holds a Bachelor's degree in Civil Engineering from Thapar Institute of Engineering & Technology. He has also been conferred as "Doctor of Philosophy" by the Chancellor, Singhania University, Rajasthan, by virtue of his attaining eminence in the field of Civil & Construction Engineering. His extensive knowledge and expertise in the field of construction is manifested by some successful executions of landmark projects. Currently as CMD, Dr. Mittal oversees policy and strategic decision making of the company.
Shri S.K. Pal	Director (Finance)	With over three decades of vast experience, Mr. Pal serves as the Director (Finance) and Chief Finance Officer of the company since he joined in 2013. He is an ACS, ACA and holds a B.Com Degree from Goenka College of Commerce, University of Calcutta. Currently, Mr. Pal is the overall in-charge of the Law & Contract Engineering Divisions, Board / RTI Sections, and Training & CSR Divisions of the Corporation. Prior to joining NBCC, Mr. Pal has served at the Ircon International Ltd. (IRCON), another CPSU under the Ministry of Railways as General Manager (Finance).
Shri Rajendra Chaudhari	Director (Commercial)	Shri Chaudhari is a Civil Engineering Graduate from Maharaja Sayajirao University, Baroda (Gujarat) and serves as the Sr. Executive Director (Commercial) of the company. He joined the company in 2005 and since then he served the company in various important capacities. Known for his penchant in digital dynamics, Mr. Chaudhari's expertise is spread across various verticals such as –real estate segment, consultancy, systems, administration and CSR.

Source: Company, Emkay Research

Key Financials (Consolidated)**Income Statement**

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Net Sales	58,264	63,129	79,129	102,468	130,958
Expenditure	55,115	59,027	73,906	95,500	122,053
EBITDA	3,149	4,102	5,222	6,968	8,905
Depreciation	25	26	52	54	60
EBIT	3,124	4,076	5,170	6,914	8,845
Other Income	999	878	1,271	1,345	1,734
Interest expenses	13	7	396	512	655
PBT	4,110	4,947	6,046	7,746	9,925
Tax	1,198	1,403	1,814	2,169	2,779
Extraordinary Items	(6)	3	0	0	0
Minority Int./Income from Assoc.	(19)	(1)	(1)	(1)	(1)
Reported Net Income	2,887	3,548	4,233	5,578	7,147
Adjusted PAT	2,893	3,545	4,233	5,578	7,147

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
Equity share capital	1,200	1,800	1,800	1,800	1,800
Reserves & surplus	14,213	15,138	17,079	19,636	22,912
Net worth	15,413	16,938	18,879	21,436	24,712
Minority Interest	13	10	10	10	10
Loan Funds	53	0	0	0	0
Net deferred tax liability	(880)	(1,000)	(1,000)	(1,000)	(1,000)
Total Liabilities	14,598	15,949	17,889	20,447	23,723
Net block	618	650	698	744	784
Investment	2,959	1,955	2,955	3,955	4,955
Current Assets	50,136	62,214	69,343	83,544	101,436
Cash & bank balance	11,598	15,987	16,796	18,398	19,501
Other Current Assets	4,564	4,433	4,472	5,112	5,931
Current liabilities & Provision	39,115	48,870	55,107	67,797	83,453
Net current assets	11,022	13,343	14,236	15,747	17,983
Misc. exp	0	0	0	0	0
Total Assets	14,598	15,949	17,889	20,447	23,723

Cash Flow

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E	FY20E
PBT (Ex-Other income) (NI+Dep)	4,110	4,947	6,046	7,746	9,925
Other Non-Cash items	(336)	(515)	1	1	1
Chg in working cap	(1,263)	1,007	(83)	90	(1,133)
Operating Cashflow	1,764	4,664	4,202	5,723	6,074
Capital expenditure	(102)	(42)	(100)	(100)	(100)
Free Cash Flow	1,663	4,622	4,102	5,623	5,974
Investments	(966)	1,144	(1,000)	(1,000)	(1,000)
Other Investing Cash Flow	706	241	0	0	0
Investing Cashflow	(361)	1,343	(1,100)	(1,100)	(1,100)
Equity Capital Raised	0	0	0	0	0
Loans Taken / (Repaid)	(53)	(57)	0	0	0
Dividend paid (incl tax)	(794)	(2,018)	(2,293)	(3,021)	(3,871)
Other Financing Cash Flow	10	(5)	0	0	0
Financing Cashflow	(838)	(2,080)	(2,293)	(3,021)	(3,871)
Net chg in cash	565	3,927	809	1,601	1,104
Opening cash position	6,691	7,256	11,183	11,992	13,593
Closing cash position	11,598	15,987	16,796	18,398	19,501

Source: Company, Emkay Research

Key Ratios

Profitability (%)	FY16	FY17	FY18E	FY19E	FY20E
EBITDA Margin	5.4	6.5	6.6	6.8	6.8
EBIT Margin	5.4	6.5	6.5	6.7	6.8
Effective Tax Rate	29.1	28.4	30.0	28.0	28.0
Net Margin	5.0	5.6	5.3	5.4	5.5
ROCE	29.7	32.4	38.1	43.1	47.9
ROE	20.1	21.9	23.6	27.7	31.0
RoIC	565.2	(417.7)	(268.2)	(366.9)	(670.0)

Per Share Data (Rs)	FY16	FY17	FY18E	FY19E	FY20E
EPS	4.8	3.9	4.7	6.2	7.9
CEPS	4.9	4.0	4.8	6.3	8.0
BVPS	25.7	18.8	21.0	23.8	27.5
DPS	0.0	0.0	0.0	0.0	0.0

Valuations (x)	FY16	FY17	FY18E	FY19E	FY20E
PER	50.5	61.8	51.8	39.3	30.7
P/CEPS	51.4	62.9	52.5	39.9	31.2
P/BV	9.5	12.9	11.6	10.2	8.9
EV / Sales	2.3	3.2	2.6	2.0	1.5
EV / EBITDA	42.7	49.5	38.7	28.8	22.4
Dividend Yield (%)	0.0	0.0	0.0	0.0	0.0

Gearing Ratio (x)	FY16	FY17	FY18E	FY19E	FY20E
Net Debt/ Equity	(0.7)	(0.9)	(0.9)	(0.9)	(0.8)
Net Debt/EBIDTA	(3.7)	(3.9)	(3.2)	(2.6)	(2.2)
Working Cap Cycle (days)	(3.6)	(15.3)	(11.8)	(9.4)	(4.2)

Growth (%)	FY16	FY17	FY18E	FY19E	FY20E
Revenue	24.7	8.4	25.3	29.5	27.8
EBITDA	9.2	30.3	27.3	33.4	27.8
EBIT	9.3	30.4	26.9	33.7	27.9
PAT	3.7	22.9	19.3	31.8	28.1

Quarterly (Rs mn)	Q2FY17	Q3FY17	Q4FY17	Q1FY18	Q2FY18
Revenue	12,575	14,260	26,407	15,562	13,280
EBITDA	751	773	2,023	722	858
EBITDA Margin (%)	6.0	5.4	7.7	4.6	6.5
PAT	691	645	1,715	613	812
EPS (Rs)	0.8	0.7	1.9	0.7	0.9

Source: Company, Emkay Research

Shareholding Pattern (%)	Dec-16	Feb-17	Mar-17	Jun-17	Sep-17
Promoters	75.0	75.0	75.0	75.0	75.0
FII	4.0	3.6	5.0	4.8	5.0
DII	10.3	9.8	9.0	10.5	10.7
Public and Others	10.7	11.6	11.0	9.7	9.2

Source: Capitaline

Emkay Rating Distribution

BUY	Expected total return (%) (Stock price appreciation and dividend yield) of over 25% within the next 12-18 months.
ACCUMULATE	Expected total return (%) (Stock price appreciation and dividend yield) of over 10% within the next 12-18 months.
HOLD	Expected total return (%) (Stock price appreciation and dividend yield) of upto 10% within the next 12-18 months.
REDUCE	Expected total return (%) (Stock price depreciation) of upto (-) 10% within the next 12-18 months.
SELL	The stock is believed to underperform the broad market indices or its related universe within the next 12-18 months.

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