COMPANY UPDATE

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NBCC (INDIA) LTD

PRICE: RS.196 **RECOMMENDATION: BUY**
TARGET PRICE: RS.229 **FY20E PE: 23.3X**

NBCC (India) Ltd, a Navratna PSU with major presence in project management consultancy space in building segment is focusing on execution of its order book. In the last 4 years (FY15-18E), the company has grown its order book by ~4x to ~Rs 800 bn which gives strong revenue growth visibility for the next 5 years. On the other hand, the revenue has grown less than 1.5x in the same period. The company is focusing on execution and expects strong revenue growth in FY19E as most of the redevelopment projects would contribute meaningfully in the year. It has begun work on Rs 100 bn of new projects in the past 6 months which will be completed in the next two years. Further, it has strong pipeline of new projects from development of railways land, armed forces land, Dharavi, etc which would support its future order book. We believe that the company's top management getting clean chit would be sentimentally positive and ends the overhang of corruption changes on stock performance. The stock is presently trading at PE of 34.7x and 23.3x based on FY19E & FY20E EPS of Rs 5.6 and Rs 8.4 respectively. We upgrade our rating on the stock to BUY (from Accumulate earlier).

Summary table

(Rs mn)	FY18E	FY19E	FY20E
Revenue	65501	106684	156437
Growth (%)	4	63	47
Adj EBITDA	3684	6116	9513
Adj EBITDA margin (%)	5.6	5.7	6.1
PBT	4624	7153	10656
PAT	3283	5079	7566
EPS	3.6	5.6	8.4
EPS Growth(%)	-6.5	54.7	49.0
CEPS (Rs)	3.7	5.7	8.4
Book value (Rs/share)	21.6	25.4	31.0
Dividend per share (Rs)	1.2	1.9	2.8
ROE (%)	17.9	24.0	29.8
ROCE (%)	21.1	30.2	38.9
Net cash (debt)	19582	27084	37122
NW Capital (Days)	-46	-46	-46
P/E (x)	53.7	34.7	23.3
P/BV (x)	9.1	7.7	6.3
EV/EBITDA (x)	42.6	24.4	14.6
EV/Sales (x)	2.4	1.4	0.9

Source: Company, Kotak Securities – Private Client Research

Robust order book of ~Rs 800 bn

NBCC has robust order book of ~Rs 800 bn which gives strong revenue growth visibility for the next 5 years. In the past 4 years (FY15-18E), the company has grown its order book by ~4x. Further, it has strong pipeline of new projects from development of railways land, armed forces land, Dharavi, etc which would support its future order book. In the past 1-2 months, it has added several new orders. The company has signed pact for construction of housing project with 90 flats near Connaught Place for officers of the Indian Economic Service at 7% PMC fees. It has further received work worth Rs 1.9 bn from REC for the construction & development of REC Township in Gurugram. The company is also under discussion for redevelopment of properties are in states such as Assam, UP, Jharkhand, Maharashtra, Tripura, Rajasthan, Odisha, etc. This will positively impact its future order book.

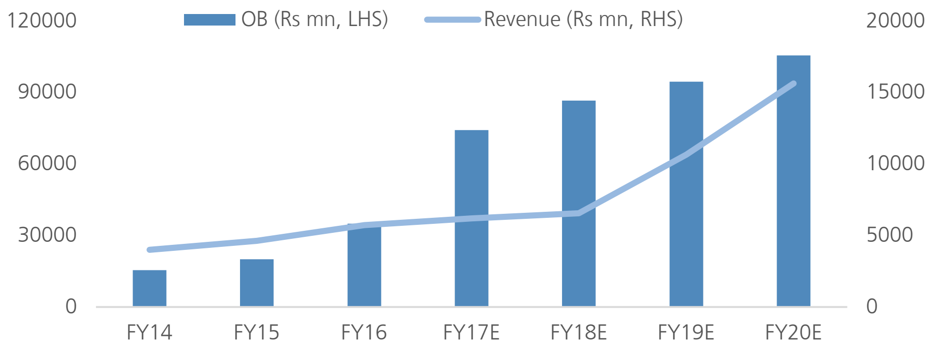
Focus on redevelopment and self-revenue generating project

Out of Rs 800 bn order book,~Rs 500 bn is from redevelopment or self-revenue generating projects. These include ~Rs 250 bn of work for redevelopment of three colonies in Delhi at Sarojani Nagar, Naroji Nagar and Netaji Nagar. Apart from these, other key projects includes ~Rs 58 bn from AIIMs, ~Rs 21 bn for Pragati Maidan, ~Rs 74 bn from DDA (karkardooma, Sanjay Lake, IIPA campus), ~Rs 32 bn for redevelopment of 40 acre land at Wadala (Mumbai), development of railway land, etc. The company is also appointed as PMC player for executing total Rs 70 bn of irrigation work in Maharashtra.

Execution to pick up pace in FY19E

The company intends to speed up execution of its order book. It has begun work on Rs 100 bn of new projects in the past 6 months (which includes Pragati Maidan project Rs 25-26 bn, Nauroji Nagar WTC of Rs 25 bn, Maharashtra irrigation project of Rs 10 bn, etc) which will be completed in the next two years. It has received good response in real estate sale at Nauroji Nagar and has sold ~ over Rs 20 bn of properties in 9MFY18. The company targets to sell ~Rs 5bn of projects per quarter in the Nauraji nagar project as it will be selling it in phases. Further, it targets to begin work on Sarojini Nagar and Netaji Nagar in FY19E. In addition, the development of railways land project is progressing well. It began work on Lucknow Gomati nagar station redevelopment project and intends to begin work on all 10 station in FY19E. Based on this, we have estimated 35.6% CAGR in revenue in FY17-20E as against 15.6% CAGR in FY14-17.

Order Book and Revenue



Source: Company, Kotak Securities – Private Client Research

Clearance on corruption charge is sentimental positive

NBCC in its recent exchanged filing reported that, the Chief Vigilance Officer informed the company's board that the no charges have been established against the company's CMD by the CBI in subcontracting of Pragati Maidan project. We believe that the company's top management getting clean chit would be sentimentally positive and ends the overhang of corruption changes on stock performance.

Not much focus on real estate

The company has Rs 40 bn order from real estate division with over 25 projects where it has land and are located in different cities. It is working on only 2-3 projects and is not much focused on real estate business due to slow down the sector. The company will start these 25 projects in phased manner only if the demand environment in the business turns positive.

Outlook and valuation

We recommend BUY on NBCC (India) Ltd with a price target of Rs.229

Based on strong current order book of ~Rs 800 bn and robust pipeline for future projects, we expect high growth in NBCC's revenue in the next 5 years. We believe that most of its large size redevelopment projects are at initial stage and would come in for execution by FY19E. We maintain our earnings estimates. The stock is presently trading at PE of 34.7x and 23.3x based on FY19E & FY20E EPS of Rs 5.6 and Rs 8.4 respectively. We upgrade our rating on the stock to **BUY** (from Accumulate earlier) after recent correction with unchanged target price of Rs 229.

Valuation summary

SOTP	Basis	Per share
PMC Other	DCF	57
PMC Redevelopment	DCF	149
Real estate	0.8x Capital	18
EPC	8x EBIT	5
Total Value		229

Source: Kotak Securities Private Client Research

RATING SCALE

Definitions of ratings

BUY	–	We expect the stock to deliver more than 12% returns over the next 12 months
ACCUMULATE	–	We expect the stock to deliver 5% - 12% returns over the next 12 months
REDUCE	–	We expect the stock to deliver 0% - 5% returns over the next 12 months
SELL	–	We expect the stock to deliver negative returns over the next 12 months
NR	–	Not Rated. Kotak Securities is not assigning any rating or price target to the stock. The report has been prepared for information purposes only.
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NA	–	Not Available or Not Applicable. The information is not available for display or is not applicable
NM	–	Not Meaningful. The information is not meaningful and is therefore excluded.
NOTE	–	Our target prices are with a 9-month perspective. Returns stated in the rating scale are our internal benchmark.

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