

NBCC

Real estate monetisation key

India Equity Research | Infrastructure - Construction

NBCC management, during our recent interaction, reiterated its focus on execution of its ~INR800bn order book (~13x TTM revenue). The company has tendered out ~INR100bn projects in the past six months and expects to maintain similar run rate going ahead. With ~INR500bn projects in its order book belonging to the 'self revenue generation' category, real estate monetisation emerges as the key monitorable since it will determine project award and consequently execution. We expect execution to gather pace in FY19 when work on Pragati Maidan, redevelopment projects in Delhi, among others, gathers steam. Maintain 'HOLD' with target price of INR227.

Ordering for redevelopment of Delhi colonies gains traction

Work on redevelopment of three GPRA colonies in Delhi has gathered pace over the past six months. NBCC had awarded the INR19.5bn contract for Nauroji Nagar to NCC in October 2017. It recently awarded the INR10.4bn contract for Netaji Nagar (Pkg 1) to Shapoorji Pallonji and the INR8.5bn contract for Sarojini Nagar (Pkg 1) to Girdhari Lal Constructions. Both these projects have to be completed within 24 months. Total amount to be generated through real estate monetisation for these colonies is ~INR320bn; the company has done sales of ~INR25bn till date here. Hence, pick up in pace of monetisation will be key for execution ramp up.

Project pipeline remains strong

Of the 10 railway stations given to NBCC to redevelop, design and DPR, work has been completed in almost all projects. For AIIMS redevelopment projects, tendering for the Ayurvigyan Nagar contract has already started, while that for Ansari Nagar project will happen later. Similarly, plans are afoot for using surplus land of sick PSUs for affordable housing or for developing industrial townships.

Outlook and valuations: Monetisation pace key; maintain 'HOLD'

Burgeoning opportunities in building construction ([Buildings: Dawn of a new era](#)) are triggering significant order accretion for NBCC. However, with bulk of the projects being on 'self revenue generation' mode, realty monetisation has emerged as a key factor, which will determine stock performance, in our view. We expect execution to gather pace in FY19 driven by pick up in work on projects awarded over the past six months. We maintain 'HOLD' with target price of INR227, based on 38x FY20E EPS.

Financials (Standalone)		(INR mn)			
Year to March	FY16	FY17	FY18E	FY19E	
Revenues	58,124	62,794	62,183	77,414	
EBITDA	3,070	4,024	3,674	4,961	
Adj profit	2,870	3,346	3,171	4,165	
Dil. EPS (INR)	4.8	3.7	3.5	4.6	
Diluted P/E (x)	41.0	52.8	55.7	42.4	
EV/EBITDA (x)	34.0	39.9	44.1	31.5	
ROAE (%)	20.1	20.9	17.9	20.7	

EDELWEISS RATINGS			
Absolute Rating	HOLD		
Investment Characteristics	Growth		
MARKET DATA (R: NBCC.BO, B: NBCC IN)			
CMP	: INR 196		
Target Price	: INR 227		
52-week range (INR)	: 292 / 169		
Share in issue (mn)	: 900.0		
M cap (INR bn/USD mn)	: 177 / 2,682		
Avg. Daily Vol. BSE/NSE ('000)	: 1,921.6		
SHARE HOLDING PATTERN (%)			
	Current	Q2FY18	Q1FY18
Promoters *	74.5	75.0	75.0
MF's, FI's & BKs	9.9	10.7	9.2
FII's	5.5	5.0	5.6
Others	10.1	9.2	10.2
* Promoters pledged shares (% of share in issue)	:	NIL	
PRICE PERFORMANCE (%)			
	BSE Midcap Index	Stock	Stock over Index
1 month	(2.3)	(0.8)	1.6
3 months	(8.7)	(22.2)	(13.6)
12 months	15.7	10.9	(4.8)

Parvez Akhtar Qazi
 +91-22-4063 5405
 parvez.qazi@edelweissfin.com

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Other highlights

- **Focus on execution:** Armed with an order book of ~INR800bn (book-to-bill at ~13x), the company has shifted focus on execution. It has tendered out ~INR100bn projects in the past six months and expects to maintain similar run rate going ahead. To compress execution timelines, it has started awarding design-build contracts/turnkey contracts with size of INR10bn plus where the contractors are responsible for design and engineering. Hence, project completion time frame for various contracts has come down to ~24 months.

The company has ~370 projects currently; it wants to bring this number down to ~100 over the long run.

- **Redevelopment of GPRA colonies in Delhi:** The total amount of funds to be generated through real estate monetisation in the three colonies is ~INR320bn. NBCC has raised ~INR25bn funds through monetisation till date. Hence, raising the pace of sales here is paramount to improve execution trajectory.
- **Pragati Maidan:** The INR21.5bn contract for this project has been awarded to Shapoorji Pallonji. Work on the project is progressing as per schedule.
- **AIIMS project:** Tendering for award of the Ayurvigyan Nagar contract (~INR25bn) has already started, while that for Ansari Nagar project (~INR19bn) will happen later. The company intends to sell residential space here for raising the funds required for redevelopment.
- **Ghitorni project:** The MoUD has decided to develop a ~240-acre plot at Ghitorni on Mehrauli-Gurgaon road in Delhi at an estimated cost of ~INR150bn. The project is proposed to be jointly developed by CPWD and NBCC. NBCC's share of work will be ~50% or ~INR70-80 bn. It expects to start selling properties at a realisation of INR 13,000/sft on this project.
- **Railway station redevelopment:** Of the 10 railway stations given to NBCC to redevelop, design and DPR, work has been completed in almost all projects. NBCC will get 8% as PMC fee and 2% as marketing fee for these projects..

Foundation stones of Gomti Nagar and Charbagh stations in Lucknow were laid recently. The total project cost (station work along with realty development) for each of these two projects is ~INR20bn.

In Gomti Nagar station, NBCC has been given 45 acres land for monetisation. The station work is expected to cost ~INR8-9bn, while the realty development will cost another ~INR10bn. Sales from real estate monetisation are expected to be ~INR20-25 bn.

- **Surplus PSU land:** While the earlier plan was for outright sale of the surplus land of sick PSUs, now it is planned to be used either for affordable housing or for developing industrial townships (as part of Make in India plan).

- **Kidwai Nagar:** More than 75% of the work on the project has been completed and handover is expected to be completed by Dec 2018.
- **Potential growth areas:** High value road works on PMC basis (bagged ~INR20bn road contract in Uttarakhand), new Smart City in NCR etc, Dharavi redevelopment project.
- After five years, the company believes the core PMC business (projects funded by the government) will form ~30% of revenue, while ~65% will come from 'self revenue generation' projects.
- **Revenue guidance:** 30-35% growth for the next couple of years.

Company Description

NBCC is a 'Navratna' PSU which is mainly present in the following segments:

PMC: NBCC does PMC work for projects awarded by various government arms like the Ministry of Home Affairs, Ministry of Corporate Affairs, Ministry of Urban Development, Ministry of Power and Ministry of External Affairs, among others. The company bags ~80% of the PMC works on a nomination basis, with the balance won on competitive bidding basis. Its competitors in this segment include IRCON, WAPCOS, Engg Projects India (EPI), Hindustan Prefab, etc.

EPC work for infra projects: In this segment, NBCC provides EPC services for power projects. It undertakes design and execution of civil and structural works for power projects, cooling towers and chimneys. Projects in this segment are awarded on competitive bidding basis. Major competitors in this segment are L&T, Gammon, Paharpur Cooling Tower, etc.

Real estate development: Here NBCC develops realty projects on land owned by it. Over the years, surplus cash generated has been invested in buying land from the government agencies. Currently, NBCC has ~130 acres of land in its kitty.

Investment Theme

NBCC is a 'Navratna' public sector undertaking (PSU) in the construction space, which mainly undertakes project management and consultancy (PMC) work for government organisations. The company's PSU status ensures that ~80% of the PMC projects won by it are bagged on nomination basis. NBCC's diversified execution capabilities ensure that it remains the preferred port-of-call for executing large size projects, which various government organisations are unequipped to handle on their own.

NBCC's experience in real estate development space (the only PSU PMC player with this capability) means it enjoys near monopoly position in redevelopment of government colonies/development of government land.

Key Risks

Sub-contractor risk

NBCC sub-contracts actual construction work. Even when work is sub-contracted on a back-to-back basis, the ultimate responsibility for project completion rests with the company. Any issue with the sub-contractor not being able to execute the project efficiently can adversely impact project timelines and hence NBCC's profitability.

Execution risk

Average size of projects being handled by the company is increasing and projects also involve higher level of complexity than what the company has encountered so far. Completion of such projects within the stipulated time and costs will be paramount to maintain profitability.

Rising exposure to real estate development business

NBCC's investment (in terms of land bank acquisition) has been steadily increasing. With the real estate industry currently facing a slowdown in many cities, the company may also have to rework its plan regarding monetisation of this land bank.

Financial Statements

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	6.6	6.5	7.1	7.6
Inflation (Avg)	4.5	3.8	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	65.0	66.0
Company				
Raw Material (% net rev)	(2.3)	(2.3)	(2.3)	(2.3)
Order intake (INR bn)	424	170	171	173
Y-o-Y growth (%)	143.7	(60.0)	1.0	1.0
Book-to-bill ratio (x)	10.5	12.3	11.1	9.3
Order backlog (INR bn)	659	767	861	934
Order backlog growth (%)	121.4	16.3	12.3	8.5
Revenue growth (% yoy)	8	(1)	24	30
Capex (INR mn)	58	80	20	20
Other mfg(as % of sales)	90.8	89.0	88.6	88.6
Salary (% of revenues)	3.8	5.2	5.1	4.9
Depreciation rate (%)	3.2	3.7	3.5	5.1
Dividend per share	1.9	1.1	1.4	1.8
Inc. in invts (INR mn)	(1,259)	-	-	-
Debtor days	117	116	114	113
Inventory days	98	82	80	79
Payable days	148	117	172	133
Other creditors days	138	118	115	110
Provisions days	7	7	6	5
Tax rate (%)	31.4	31.0	31.0	31.0
Incremental debt	(53)	-	-	-

Income statement

(INR mn)				
Year to March	FY17	FY18	FY19E	FY20E
Income from operations	62,794	62,183	77,414	100,307
Direct costs	55,613	53,953	66,859	86,629
Employee costs	2,361	3,208	3,917	4,875
Other Expenses	796	1,348	1,678	2,174
Total operating expenses	58,770	58,509	72,454	93,678
EBITDA	4,024	3,674	4,961	6,629
Depreciation	26	27	28	41
EBIT	3,998	3,647	4,933	6,587
Add: Other income	886	958	1,113	1,209
Less: Interest Expense	7	9	10	12
Add: Prior period items	165	-	-	-
Profit Before Tax	5,041	4,596	6,036	7,784
Less: Provision for Tax	1,530	1,425	1,871	2,413
Prior Period(Net of Tax)	165	-	-	-
Reported Profit	3,511	3,171	4,165	5,371
Adjusted Profit	3,346	3,171	4,165	5,371
Shares o /s (mn)	900	900	900	900
Adjusted Basic EPS	3.7	3.5	4.6	6.0
Adjusted Diluted EPS	3.7	3.5	4.6	6.0
Adjusted Cash EPS	3.6	3.6	4.7	6.0
Dividend per share (DPS)	1.9	1.1	1.4	1.8
Dividend Payout Ratio (%)	50.1	30.0	30.0	30.0

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	93.6	94.1	93.6	93.4
Depreciation	-	-	-	-
Interest Expense	-	-	-	-
EBITDA margins	6.4	5.9	6.4	6.6
Other income	1.4	1.5	1.4	1.2
Tax	2.4	2.3	2.4	2.4
EBIT margins	6.4	5.9	6.4	6.6
Adjusted profit margins	5.3	5.1	5.4	5.4

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	8.0	(1.0)	24.5	29.6
Adjusted Profit	16.6	(5.2)	31.3	29.0
EBITDA	31.1	(8.7)	35.0	33.6
PBT	24.8	(8.8)	31.3	29.0
EPS	(22.3)	(5.2)	31.3	29.0

Infrastructure - Construction

Balance sheet		(INR mn)			
As on 31st March	FY17	FY18	FY19E	FY20E	
Share capital	1,800	1,800	1,800	1,800	
Reserves & Surplus	14,936	16,966	19,632	23,071	
Shareholders' funds	16,736	18,766	21,432	24,871	
Long term borrowings	-	-	-	-	
Total borrowings	-	-	-	-	
Long Term Liabilities	665	698	733	769	
Def. Tax Liability (net)	(995)	(995)	(995)	(995)	
Sources of funds	16,405	18,469	21,170	24,645	
Gross Block	700	780	800	820	
Net Block	650	702	695	673	
Total Fixed Assets	650	702	695	673	
Non current investments	576	576	576	576	
Cash and Equivalents	16,002	14,417	20,285	20,963	
Inventories	15,704	12,236	21,699	21,721	
Sundry Debtors	21,866	17,658	30,699	31,409	
Other Current Assets	9,436	11,323	14,720	16,108	
Current Assets (ex cash)	47,006	41,218	67,119	69,238	
Trade payable	25,433	19,884	36,533	36,567	
Other Current Liab	22,395	18,561	30,971	30,239	
Total Current Liab	47,829	38,445	67,505	66,805	
Net Curr Assets-ex cash	(823)	2,773	(386)	2,432	
Uses of funds	16,405	18,469	21,170	24,645	
BVPS (INR)	18.6	20.9	23.8	27.6	

Free cash flow		(INR mn)			
Year to March	FY17	FY18	FY19E	FY20E	
Reported Profit	3,511	3,171	4,165	5,371	
Add: Depreciation	26	27	28	41	
Interest (Net of Tax)	5	6	7	8	
Others	(2,016)	(1,147)	(1,506)	(1,941)	
Less: Changes in WC	(1,574)	3,562	(3,194)	2,782	
Operating cash flow	3,100	(1,505)	5,888	698	
Less: Capex	58	80	20	20	
Free Cash Flow	3,042	(1,585)	5,868	678	

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY18E	FY19E	FY18E	FY19E	FY18E	FY19E
NBCC	2,682	55.7	42.4	44.1	31.5	17.9	20.7
Nagarjuna Construction Co	1,115	30.1	19.4	12.3	9.2	6.3	9.2
Simplex Infrastructures Ltd	366	19.3	15.7	8.1	7.1	7.7	8.8
Median	-	30.1	19.4	12.3	9.2	7.7	9.2
AVERAGE	-	35.0	25.8	21.5	15.9	10.6	12.9

Source: Edelweiss research

Cash flow metrics		FY17	FY18	FY19E	FY20E
Year to March					
Operating cash flow		3,100	(1,505)	5,888	698
Investing cash flow		1,201	(80)	(20)	(20)
Financing cash flow		547	-	-	-
Net cash Flow		4,849	(1,585)	5,868	678
Capex		(58)	(80)	(20)	(20)
Dividend paid		(2,011)	(1,141)	(1,499)	(1,933)

Profitability and efficiency ratios

Year to March	FY17	FY18	FY19E	FY20E
ROAE (%)	20.9	17.9	20.7	23.2
ROACE (%)	30.5	25.9	30.1	33.7
Debtors Days	123	121	120	119
Payable Days	118	120	120	120
Cash Conversion Cycle	103	97	95	93
Current Ratio	1.3	1.4	1.0	1.0
Net Debt/Equity	(1.0)	(0.8)	(0.9)	(0.8)
Interest Coverage Ratio	554.1	428.3	491.1	555.7

Operating ratios

Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	4.0	3.6	3.9	4.4
Fixed Asset Turnover	99.1	92.0	110.8	146.6
Equity Turnover	3.9	3.5	3.9	4.3

Valuation parameters

Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	3.7	3.5	4.6	6.0
Y-o-Y growth (%)	(22.3)	(5.2)	31.3	29.0
Diluted P/E (x)	52.8	55.7	42.4	32.9
P/B (x)	10.5	9.4	8.2	7.1
Dividend Yield (%)	0.9	0.5	0.7	0.9
Adjusted Cash EPS (INR)	3.6	3.6	4.7	6.0
EV / Sales (x)	2.6	2.6	2.0	1.6
EV / EBITDA (x)	39.9	44.1	31.5	23.5

Additional Data

Directors Data

Dr. Anoop Kumar Mittal	Chairman and Managing Director	Mr. S.K Pal	Director (Finance)
Mr. Rajendra Chaudhari	Director (Commercial)	Mr. Durga Shankar Mishra	Nominee Director (MoUD)
Ms. Jhanja Tripathy	Nominee Director (MoUD)	Mr. Ashok Khurana	Independent Director
Major General Tajuddin Moulall Mhaisale	Independent Director	Mr. C Subba Reddy	Independent Director
Mr. C. R. Raju	Independent Director	Mr. Rajendrasinh G. Rana	Independent Director
Mr. Sairam Mocherla	Independent Director		

Auditors - M/s Jagdish Chand & Co

**as per latest annual report*

Holding – Top 10

	Perc. Holding		Perc. Holding
Life Insurance Corp of India	6.55	Nomura	1.70
Vanguard Grop	0.76	ICICI Prudential Asset Management	0.43
Credit Agricole	0.35	Jupiter Investment Management	0.34
HSBC	0.31	Edelweiss Asset Management	0.28
Birla Sunlife Insurance	0.26	Allianz	0.23

**as per last available data*

Bulk Deals

Data	Acquired / Seller	B/S	Qty Traded	Price
11 Dec 2017	Societe Generale	Buy	7331990	260.40
11 Dec 2017	Morgan Stanley France Sas	Sell	7331990	260.40

**as per last available data*

Insider Trades

Reporting Data	Acquired / Seller	B/S	Qty Traded
No Data Available			

**as per last available data*

Edelweiss Securities Limited, Edelweiss House, off C.S.T. Road, Kalina, Mumbai – 400 098.
Board: (91-22) 4009 4400, Email: research@edelweissfin.com

Aditya Narain
Head of Research
aditya.narain@edelweissfin.com

Coverage group(s) of stocks by primary analyst(s): Infrastructure - Construction

Ahluwalia Contracts, Ashoka Buildcon, Hindustan Construction Co., J Kumar Infraprojects, KNR Constructions, NBCC, Nagarjuna Construction Co, PNC Infratech, Sadbhav Engineering, Simplex Infrastructures Ltd, Supreme Infrastructure

Recent Research

Date	Company	Title	Price (INR)	Recos
14-Mar-18	Construction	Road sector: Bid dichotomy amongst huge opportunities; <i>Sector Update</i>		
01-Mar-18	Construction	Road monetisation programme begins; <i>EdelFlash</i>		
21-Feb-18	Supreme Infrastructure	Awaiting S4A relief; <i>Result Update</i>	98	Under Review

Distribution of Ratings / Market Cap

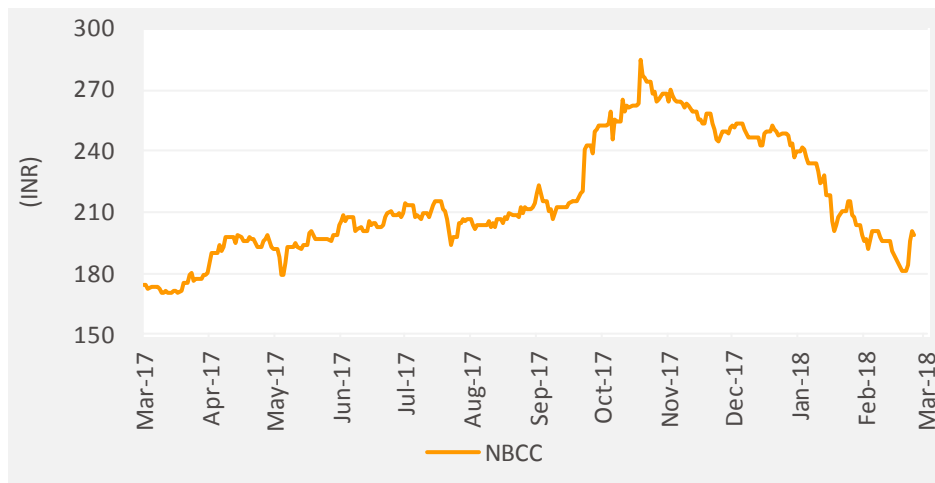
Edelweiss Research Coverage Universe

	Buy	Hold	Reduce	Total
Rating Distribution*	161	67	11	240
* 1stocks under review				
	> 50bn	Between 10bn and 50 bn	< 10bn	
Market Cap (INR)	156	62	11	

Rating Interpretation

Rating	Expected to
Buy	appreciate more than 15% over a 12-month period
Hold	appreciate up to 15% over a 12-month period
Reduce	depreciate more than 5% over a 12-month period

One year price chart



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