

NBCC

Gearing up for strong growth

India Equity Research | Infrastructure - Construction

GST impact led to NBCC's Q4FY18 standalone top line declining 7% YoY to INR21.8bn. EBITDA margin, at 8.3%, fell ~60bps YoY, which led to adjusted PAT falling 12% YoY to ~INR1.4bn. The company's order book stands at ~INR800bn, which provides robust revenue visibility (~13.5x TTM revenue). Management has guided for ~INR250bn order intake and ~30% revenue growth in FY19. We believe, NBCC's fortunes will be driven by real estate monetisation on 'self revenue generation' projects, which will determine the pace of execution. Maintain 'HOLD' with target price of INR108 post adjusting for the stock split.

GST dents top line; margin declines

With GST playing spoilsport (indirect taxes no longer part of revenue post Ind-AS), revenue, at INR21.8bn, missed our ~INR25.0bn estimate. EBITDA margin fell ~60bps YoY as the company's real estate division posted an operating loss due to negligible sales during the quarter. In FY18, while revenue dipped 6% YoY, PAT margin rose 30bps YoY to 5.6% aided by higher operating margin and other income. NBCC's order book, at ~INR800bn, provides robust revenue visibility; FY18 order intake stood at ~INR200bn.

Tendering activity to remain strong; execution to gather pace

NBCC has tendered out ~INR100bn of projects over the past six months and expects to maintain a healthy pace going ahead as well. Upcoming tenders include ~INR20bn bid for Netaji Nagar as well as two packages for the AIIMS project—Ayurvigyan Nagar (~INR25bn) and Ansari Nagar (~INR19bn). Management also expects to start work on the Ghitorni project by CY18 end. Work on redevelopment of Gomati Nagar railway station has commenced; this, along with execution of Delhi GPRA redevelopment projects, will drive revenue growth going ahead, in our view.

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

With ~INR500bn projects in the company's order book belonging to the 'self revenue generation' mode, concomitant monetisation of the accompanying real estate becomes a key variable since this will determine pace of execution growth (refer, [NBCC - Real estate monetisation key](#)). We expect top-line growth to improve driven by pick up in work on projects awarded over the past six months. We maintain 'HOLD' with target price of INR108, based on 35x FY20E EPS.

Financials

(INR mn)

Year to March	Q4FY18	Q4FY17	% Chg	Q3FY18	% Chg	FY18	FY19E	FY20E
Net revenues	21,842	23,460	(6.9)	13,215	65.3	59,050	75,390	99,374
EBITDA	1,815	2,098	(13.5)	687	164.1	3,994	5,250	7,119
Adjusted Profit	1,391	1,583	(12.1)	619	124.8	3,311	4,213	5,559
Adjusted Diluted EPS	1.5	1.8	(12.1)	0.7	124.8	1.8	2.3	3.1
Diluted P/E (x)						51.6	40.5	30.7
EV/EBITDA (x)						38.5	26.9	19.8
ROAE (%)						18.9	21.5	24.5

EDELWEISS RATINGS

Absolute Rating	HOLD
Investment Characteristics	Growth

MARKET DATA (R: NBCC.BO, B: NBCC IN)

CMP	: INR 95
Target Price	: INR 108
52-week range (INR)	: 146 / 88
Share in issue (mn)	: 1,800.0
M cap (INR bn/USD mn)	: 171 / 2,546
Avg. Daily Vol. BSE/NSE ('000)	: 3,940.5

SHARE HOLDING PATTERN (%)

	Current	Q3FY18	Q2FY18
Promoters *	74.3	74.5	75.0
MF's, FI's & BKs	9.4	9.9	10.7
FII's	4.4	5.5	5.0
Others	11.9	10.1	9.2
* Promoters pledged shares (% of share in issue)	:	NIL	

PRICE PERFORMANCE (%)

	BSE Midcap Index	Stock	Stock over Index
1 month	(4.7)	(8.8)	(4.1)
3 months	(2.7)	(2.6)	0.1
12 months	11.0	(1.7)	(12.8)

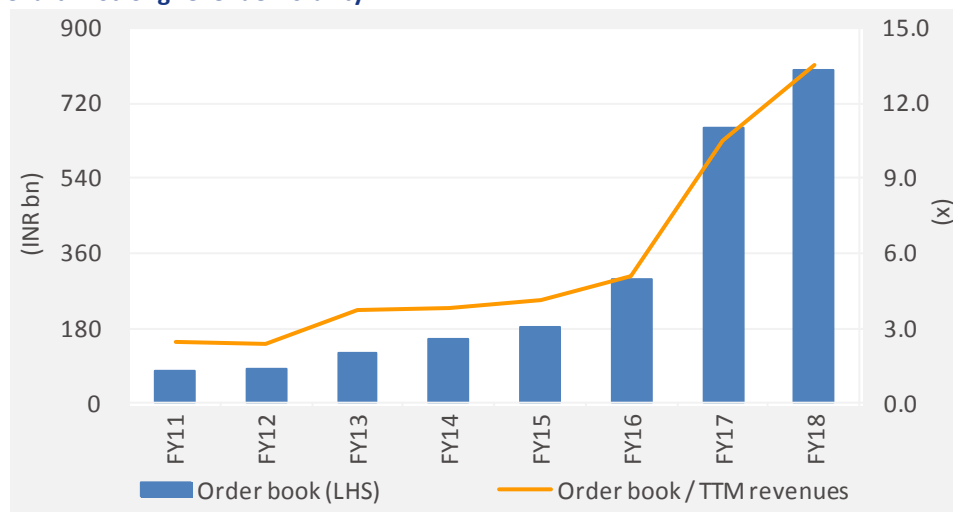
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May 29, 2018

Other highlights

- **Redevelopment of GPRA colonies in Delhi:** NBCC has sold ~INR30bn plus of commercial space in the Nauroji Nagar project till date and intends to release fresh inventory at periodic intervals. The total amount of funds to be generated via real estate monetisation in the three colonies is ~INR320bn; hence, raising the pace of sales here is paramount to improve execution trajectory.
- **Railway station redevelopment projects:** Work for redevelopment of Gomati Nagar railway station (Lucknow) has already commenced; management expects to start construction of one more station in Lucknow by June-July 2018 and two more projects in H2FY19; so, overall four stations will start getting built in FY19.
- **Pragati Maidan:** The INR21.5bn contract for this project has been awarded to Shapoorji Pallonji. Work on the project is expected to be completed by CY19 end.
- **Ghitorni project:** The MoUD has decided to develop a ~240-acre plot at Ghitorni on the Mehrauli-Gurgaon road in Delhi at an estimated cost of ~INR150bn. The project is proposed to be jointly developed by CPWD and NBCC; latter's share of work will be ~50% or ~INR70-80bn. The company expects to start selling properties at a realisation of INR13,000/sq ft in this project. Management expects government approval for the project by June 2018 and work to start by CY18 end.
- The company has ~INR15bn of completed/partially completed inventory in its real estate division. It expects to sell ~INR4-5bn inventory in FY19, which will boost margin.

Chart 1: Strong revenue visibility



Source: Company, Edelweiss research

Financial snapshot

(INR mn)

Year to March	Q4FY18	Q4FY17	% change	Q3FY18	% change	FY18	FY19E	FY20E
Net revenues	21,842	23,460	(6.9)	13,215	65.3	59,050	75,390	99,374
Direct costs	18,874	20,431	(7.6)	11,444	64.9	50,384	64,250	84,690
Staff costs	605	727	(16.8)	751	(19.4)	3,097	3,878	4,913
Other expenses	548	203	170.1	333	64.6	1,576	2,012	2,652
Total expenditure	20,027	21,361	(6.2)	12,528	59.9	55,056	70,140	92,255
EBITDA	1,815	2,098	(13.5)	687	164.1	3,994	5,250	7,119
Depreciation	6	7	(11.2)	7	(8.2)	27	25	38
EBIT	1,808	2,091	(13.5)	680	165.9	3,967	5,225	7,081
Interest	(1)	2	NA	2	NA	2	2	3
Other income	391	227	72.5	263	48.7	1,061	1,499	1,791
Add: Prior period items	25	165	(84.7)	-		25	-	-
Add: Exceptional items								
Profit before tax	2,226	2,481	(10.3)	942	136.4	5,051	6,721	8,870
Provision for taxes	809	733	10.4	323	150.9	1,715	2,509	3,310
Reported profit	1,417	1,748	(18.9)	619	128.9	3,336	4,213	5,559
Adjusted Profit	1,391	1,583	(12.1)	619	124.8	3,311	4,213	5,559
Equity capital	1,800	1,800		1,800		1,800	1,800	1,800
Diluted shares (mn)	900	900		900		1,800	1,800	1,800
Adjusted Diluted EPS	1.5	1.8	(12.1)	0.7	124.8	1.8	2.3	3.1
as a % of net revenues								
Direct costs	86.4	87.1		86.6		85.3	85.2	85.2
Other expenses	5.3	4.0		8.2		7.9	7.8	7.6
EBITDA	8.3	8.9		5.2		6.8	7.0	7.2
Reported net profit	6.4	6.7		4.7		5.6	5.6	5.6
Tax rate	36.4	29.5		34.3		34.0	37.3	37.3

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	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.0	6.5
USD/INR (Avg)	67.1	64.5	66.0	66.0
Company				
Raw Material (% net rev)	(2.3)	(1.3)	(1.3)	(1.3)
Order intake (INR bn)	424	199	201	203
Y-o-Y growth (%)	143.7	(53.0)	1.0	1.0
Book-to-bill ratio (x)	10.5	13.5	12.3	10.4
Order backlog (INR bn)	659	800	926	1,030
Order backlog growth (%)	121.4	21.3	15.8	11.2
Revenue growth (% yoy)	8	(6)	28	32
Other mfg(as % of sales)	90.8	86.7	86.6	86.6
Salary (% of revenues)	3.8	5.2	5.1	4.9
Depreciation rate (%)	3.2	3.2	3.5	5.1
Dividend per share	0.9	1.7	0.7	0.9
Inc. in invts (INR mn)	(1,259)	(462)	-	-
Tax rate (%)	31.4	34.1	37.3	37.3
Debtor days	117	137	114	113
Inventory days	98	117	80	79
Payable days	148	185	256	207
Capex (INR mn)	58	12	20	20
Other creditors days	138	177	115	110
Provisions days	7	9	9	7
Incremental debt	(53)	-	-	-

Income statement

(INR mn)

Year to March	FY17	FY18	FY19E	FY20E
Income from operations	62,794	59,050	75,390	99,374
Direct costs	55,613	50,384	64,250	84,690
Employee costs	2,361	3,097	3,878	4,913
Other Expenses	796	1,576	2,012	2,652
Total operating expenses	58,770	55,056	70,140	92,255
EBITDA	4,024	3,994	5,250	7,119
Depreciation	26	27	25	38
EBIT	3,998	3,967	5,225	7,081
Less: Interest Expense	7	2	2	3
Add: Other income	886	1,061	1,499	1,791
Add: Prior period items	165	25	-	-
Profit Before Tax	5,041	5,051	6,721	8,870
Less: Provision for Tax	1,530	1,715	2,509	3,310
Reported Profit	3,511	3,336	4,213	5,559
Prior Period (Net of Tax)	165	25	-	-
Adjusted Profit	3,346	3,311	4,213	5,559
Shares o/s (mn)	1,800	1,800	1,800	1,800
Adjusted Basic EPS	1.9	1.8	2.3	3.1
Diluted shares o/s (mn)	1,800	1,800	1,800	1,800
Adjusted Diluted EPS	1.9	1.8	2.3	3.1
Adjusted Cash EPS	1.8	1.8	2.4	3.1
Dividend per share (DPS)	0.9	1.7	0.7	0.9
Dividend Payout Ratio (%)	50.1	90.8	30.0	30.0

Common size metrics

Year to March	FY17	FY18	FY19E	FY20E
Operating expenses	93.6	93.2	93.0	92.8
Depreciation	-	-	-	-
EBITDA margins	6.4	6.8	7.0	7.2
Other income	1.4	1.8	2.0	1.8
Tax	2.4	2.9	3.3	3.3
EBIT margins	6.4	6.7	6.9	7.1
Interest Expense	-	-	-	-
Adjusted Profit margins	5.3	5.6	5.6	5.6

Growth ratios (%)

Year to March	FY17	FY18	FY19E	FY20E
Revenues	8.0	(6.0)	27.7	31.8
EBITDA	31.1	(0.7)	31.4	35.6
PBT	24.8	0.2	33.1	32.0
Adjusted Profit	16.6	(1.1)	27.2	32.0
EPS	(22.3)	(1.1)	27.2	32.0

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	16,414	19,111	22,669
Shareholders' funds	16,736	18,214	20,911	24,469
Long Term Liabilities	665	734	771	810
Def. Tax Liability (net)	(995)	(1,157)	(1,157)	(1,157)
Sources of funds	16,405	17,791	20,525	24,122
Gross Block	700	713	733	753
Net Block	650	635	630	612
Total Fixed Assets	650	635	630	612
Non current investments	576	586	586	586
Cash and Equivalents	16,002	17,136	29,501	30,211
Inventories	15,704	16,575	16,473	26,544
Sundry Debtors	21,866	22,585	24,508	37,022
Other Current Assets	9,436	17,827	23,175	25,449
Current Assets (ex cash)	47,006	56,987	64,156	89,015
Trade payable	25,433	29,938	52,915	56,296
Other Current Liab	22,395	27,614	21,434	40,005
Total Current Liab	47,829	57,552	74,349	96,302
Net Curr Assets-ex cash	(823)	(566)	(10,192)	(7,287)
Uses of funds	16,405	17,791	20,525	24,122
BVPS (INR)	9.3	10.1	11.6	13.6

Free cash flow				
(INR mn)				
Year to March	FY17	FY18	FY19E	FY20E
Reported Profit	3,511	3,336	4,213	5,559
Add: Depreciation	26	27	25	38
Interest (Net of Tax)	5	1	2	2
Others	1,132	(3,982)	17,810	(7,736)
Less: Changes in WC	1,574	(187)	9,664	(2,867)
Operating cash flow	3,100	(430)	12,386	730
Less: Capex	58	12	20	20
Free Cash Flow	3,042	(442)	12,366	710

Cash flow metrics				
Year to March	FY17	FY18	FY19E	FY20E
Operating cash flow	3,100	(430)	12,386	730
Financing cash flow	547	-	-	-
Investing cash flow	1,201	450	(20)	(20)
Net cash Flow	4,849	21	12,366	710
Capex	(58)	(12)	(20)	(20)
Dividend paid	(2,011)	(3,605)	(1,516)	(2,000)

Profitability and efficiency ratios				
Year to March	FY17	FY18	FY19E	FY20E
ROACE (%)	30.5	28.8	34.4	39.1
ROAE (%)	20.9	18.9	21.5	24.5
Inventory Days	98	96	95	94
Debtors Days	123	121	120	119
Payable Days	118	120	120	120
Cash Conversion Cycle	103	97	95	93
Current Ratio	1.3	1.3	0.9	0.9
Net Debt/Equity	(1.0)	(0.9)	(1.4)	(1.2)
Interest Coverage Ratio	554.1	1,889.0	2,108.5	2,421.7

Operating ratios				
Year to March	FY17	FY18	FY19E	FY20E
Total Asset Turnover	4.0	3.5	3.9	4.5
Fixed Asset Turnover	99.1	91.9	119.2	160.1
Equity Turnover	3.9	3.4	3.9	4.4

Valuation parameters				
Year to March	FY17	FY18	FY19E	FY20E
Adj. Diluted EPS (INR)	1.9	1.8	2.3	3.1
Y-o-Y growth (%)	(22.3)	(1.1)	27.2	32.0
Adjusted Cash EPS (INR)	1.8	1.8	2.4	3.1
Diluted P/E (x)	51.0	51.6	40.5	30.7
P/B (x)	10.2	9.4	8.2	7.0
EV / Sales (x)	2.5	2.6	1.9	1.4
EV / EBITDA (x)	38.5	38.5	26.9	19.8
Dividend Yield (%)	1.0	1.8	0.7	1.0

Peer comparison valuation

Name	Market cap (USD mn)	Diluted P/E (X)		EV / EBITDA (X)		ROAE (%)	
		FY19E	FY20E	FY19E	FY20E	FY19E	FY20E
NBCC	2,546	40.5	30.7	26.9	19.8	21.5	24.5
Simplex Infrastructures Ltd	441	18.0	11.5	7.5	6.2	8.8	12.4
Median	-	29.3	21.1	17.2	13.0	15.2	18.4
AVERAGE	-	29.3	21.1	17.2	13.0	15.2	18.4

Source: Edelweiss research

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 Moulali 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
LIC	6.55 Nomura	1.70
Vanguard Group	0.79 ICICI Prudential	0.53
Credit Agricole	0.38 Jupiter Investment Management	0.34
Kotak Mahindra	0.29 Edelweiss AMC	0.27
HSBC	0.27 Allianz SE	0.18

**as per latest 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*

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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
28-May-18	Capacit'e Infraprojects	Building a reputation for quality; <i>Initiating Coverage</i>	274	Buy
25-May-18	PNC Infratech	Robust performance; bright outlook; <i>Result Update</i>	169	Buy
04-May-18	Hindustan Construction Company	Lavasa resolution key monitorable; <i>Result Update</i>	18	Buy

Distribution of Ratings / Market Cap

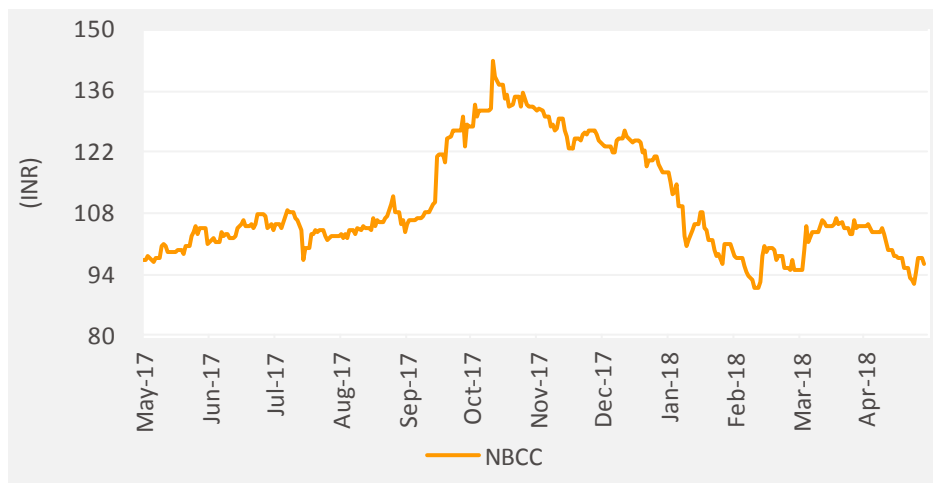
Edelweiss Research Coverage Universe

	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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