

NBCC

Real estate monetisation key determinant

India Equity Research | Infrastructure - Construction

The key takeaways from our recent interaction with management are: 1) execution of the ~INR800bn order book (~13.5x FY18 standalone revenue) is the key focus area and 2) large opportunities exist in affordable housing projects which the company plans to undertake on surplus land parcels held by sick PSUs. The company expects to award ~INR150bn worth of projects in FY19. However, given the self-revenue generation category makes up ~INR500bn of the order book, the pace of real estate monetisation remains the key driver of execution growth rate. We expect execution to pick up in FY19 as work on the Delhi redevelopment projects, Pragati Maidan etc. gathers momentum. Maintain 'HOLD' with target price of INR108.

Execution of Delhi redevelopment projects gathers steam

Execution of NBCC's redevelopment projects in Delhi is gathering steam on the back of heightened real estate monetization—more than INR30bn has been monetized to date in Nauroji Nagar, and the company expects to monetise ~INR40bn in FY19. These projects have a deadline of 24 months; therefore, an uptick in the monetisation run rate is key to accelerating execution.

Robust project pipeline

NBCC believes the affordable housing development on the surplus land held by sick PSUs is a large opportunity over the next five years. Two such projects are expected to commence by September and the company is likely to submit close to 10 Detailed Project Reports (DPRs) over the next two months. Besides, NBCC is awaiting final approval for the Dharavi redevelopment project. Other projects such as monetisation of the Port Trust land, redevelopment of railway stations, etc., are also on the cards, implying a robust pipeline for the company.

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

Burgeoning opportunities in building construction ([Buildings: Dawn of a new era](#)) are driving significant order accretion for NBCC. However, with bulk of NBCC's projects in the self-revenue generation mode, a pickup in the real estate monetisation pace remains the key catalyst for stock performance, in our view. We expect execution to gather pace in FY19 driven by the pickup in project awards. We maintain 'HOLD' with a target price of INR108 based on 35x FY20E EPS.

Financials (Standalone)				(INR mn)
Year to March	FY17	FY18	FY19E	FY20E
Revenues	62,794	59,050	75,390	99,374
EBITDA	4,024	3,994	5,250	7,119
Adj profit	3,346	3,311	4,213	5,559
Dil. EPS (INR)	1.9	1.8	2.3	3.1
Diluted P/E (x)	46.3	46.8	36.8	27.9
EV/EBITDA (x)	34.5	34.5	23.9	17.5
ROAE (%)	20.9	18.9	21.5	24.5

EDELWEISS RATINGS

Absolute Rating	HOLD
Investment Characteristics	Growth

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

CMP	: INR 86
Target Price	: INR 108
52-week range (INR)	: 146 / 84
Share in issue (mn)	: 1,800.0
M cap (INR bn/USD mn)	: 155 / 2,277
Avg. Daily Vol. BSE/NSE ('000)	: 4,019.5

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	(1.7)	(13.2)	(11.5)
3 months	(1.3)	(15.2)	(14.0)
12 months	8.6	(14.2)	(22.7)

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- **Guidance for FY19**
 - o **Revenue:** From FY19 onwards, the company expects a 35% CAGR in revenue over the next five years. While growth to date in Q1FY19 has been ~25%, over the next three quarters it is expected to record an uptick of 36–37%, which works out to ~35% growth in FY19.
 - o **Project awards:** NBCC expects to award ~INR150bn worth of projects in FY19 (versus ~INR100bn awarded in H2FY18).
- **Foray into affordable housing:** NBCC intends to develop affordable housing projects on the surplus land held by loss-making/sick PSUs, which the company believes will provide tremendous opportunities over the next five years. The business model for these projects would be similar to redevelopment projects, i.e. self-revenue generation. Approximately 50% of the land would be used for affordable housing and the rest for mixed-use, i.e. commercial, retail, high-end housing, etc. Through such projects, NBCC aims to construct 10 lakh affordable houses over the next five years.
- **M&A:** In response to the invitation by the Department of Investment and Public Asset Management (DIPAM), the company has bid for the strategic disinvestment of HSCC (India) Limited, a project consultancy company focused on the healthcare sector, and Engineering Projects (India) Limited, a turnkey execution company. In case NBCC wins these bids, it would invest a total of ~INR5bn. These companies have a combined order book of ~INR150bn, and the transaction is expected to be completed by September 2018.
- **Real estate inventory:** In its real estate division, NBCC has a total inventory of ~INR17bn, out of which it expects to monetize INR5–6bn in FY19.
- **Future opportunities:** The Dharavi redevelopment project, which is in the final stages of approval by the state government, and the Wadala redevelopment project, which the company has won, are the key growth drivers. NBCC is also in talks with various port trusts for monetization of surplus port trust land. Overseas projects including the Indian pavilion in Dubai Expo 2020 are also in the pipeline.

Company Description

NBCC is a Navratna PSU with a presence largely in the following segments:

Project Management Consultancy: NBCC does PMC work for projects awarded by various government arms such as the Ministry of Home Affairs, Ministry of Corporate Affairs, Ministry of Urban Development, Ministry of Power and Ministry of External Affairs. The company bags ~80% of the PMC works on a nomination basis and the balance on a competitive bidding basis. Its competitors in this segment include IRCON, WAPCOS, Engineering Projects India Limited (EPI), and Hindustan Prefab Limited

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 a competitive-bidding basis. Major competitors in this segment are L&T, Gammon, Paharpur Cooling Tower, etc.

Real estate development: NBCC develops realty projects on owned-land. Over the years, surplus cash generated has been invested in buying land from government agencies. Currently, NBCC owns a total of ~130 acres.

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 make it the preferred choice for executing large-size projects, which various government organisations may be incapable of handling.

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

Key Risks

Sub-contractor risk

NBCC sub-contracts actual construction work. Even when the 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

The average size of projects and the level of complexity handled by the company is increasing. Completion of such projects within the stipulated time and costs will be paramount to maintaining profitability.

Rising exposure to real estate development business

NBCC's investments (in acquiring land bank) have been steadily increasing. With the real estate industry facing a slowdown in many cities, the company may have to rejig its plan to monetise this land bank.

Financial Statements (Standalone)

Key Assumptions

Year to March	FY17	FY18	FY19E	FY20E
Macro				
GDP(Y-o-Y %)	7.1	6.5	7.1	7.6
Inflation (Avg)	4.5	3.6	4.5	5.0
Repo rate (exit rate)	6.3	6.0	6.3	6.5
USD/INR (Avg)	67.1	64.5	68.0	69.0
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
Profit Before Tax	5,041	5,051	6,721	8,870
Less: Provision for Tax	1,530	1,715	2,509	3,310
Add: Prior period items	165	25	-	-
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

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		FY17	FY18	FY19E	FY20E
Year to March					
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		FY17	FY18	FY19E	FY20E
Year to March					
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		FY17	FY18	FY19E	FY20E
Year to March					
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		FY17	FY18	FY19E	FY20E
Year to March					
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)	46.3	46.8	36.8	27.9	
P/B (x)	9.3	8.5	7.4	6.3	
EV / Sales (x)	2.2	2.3	1.7	1.3	
EV / EBITDA (x)	34.5	34.5	23.9	17.5	
Dividend Yield (%)	1.1	1.9	0.8	1.1	

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
Kotal 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
15 Jun 2018	The President Of India	Sell	8009687.00

**as per last available data*

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

Ahluwalia Contracts, Ashoka Buildcon, Capaci'e Infraprojects Limited, Hindustan Construction Co., J Kumar Infraprojects, KNR Constructions, NBCC, Nagarjuna Construction Co, PNC Infratech, Sadbhav Engineering, Simplex Infrastructures Ltd

Recent Research

Date	Company	Title	Price (INR)	Recos
31-May-18	KNR Constructions	Revenue visibility improves; Result Update	293	Buy
31-May-18	Ahluwalia Contracts	Poised for growth; Result Update	372	Buy
31-May-18	J Kumar Infraprojects	Robust performance; Result Update	270	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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