

NBCC Limited (NBCC)

₹ 86

Management guides for strong growth ahead

We attended the analyst meet of NBCC. The key takeaways are: -i) execution of several big ticket projects to drive revenue growth ii) affordable housing segment to be huge opportunity iii) to acquire couple of government companies present in similar businesses. Overall, we like NBCC's business model given the huge opportunities ahead and expect its revenues and earnings to grow at 35.8% and 36.9% CAGR, respectively, over FY18-20E.

Execution to ramp-up ahead...

NBCC's orderbook stands close to ₹ 80000 crore (redevelopment orders: ₹ 54000 crore & PMC orders: ₹ 26000 crore) of which ~₹ 40000 crore is the running orderbook. Redevelopment of old colonies accounts for bulk of NBCC's orderbook where it is redeveloping 3 colonies namely:- Nauroji Nagar, Netaji Nagar & Sarojini Nagar. To fund redevelopment of colonies, NBCC would sell commercial space on excess land and charge 8-10% PMC fee & 1-2% marketing fees. For Nauroji Nagar, it launched few commercial towers and already sold inventory worth ~₹ 4000-5000 crore. It targets to sell similar quantum in FY19E as well. The construction of Nauroji Nagar is in full swing. So far, among three colonies, the company has tendered works up to ₹ 6800 crore. Overall, the company has tendered orders worth ₹ 15000 crore in H2FY18 and targets to tender orders worth ₹ 15000 crore in FY19E which should boost execution ahead. Given its large orderbook and execution set to ramp-up, the management has guided for 35% revenue CAGR over the next five years.

Plans to construct 10 lakh affordable homes over next 5 years...

The management believes that affordable housing is a huge opportunity ahead. The company is in talks with several sick PSU units to develop their excess land parcels. NBCC would act as an PMC partner where it construct affordable houses on part of land and fund it through construction of residential and commercial complexes on the remainder portion. Currently, NBCC is working on 4-5 such land parcels and expects one project each in NCR and either Hyderabad or Kolkata to start by FY19E end. Over the next five years, the company targets to construct 10 lakh affordable homes.

To acquire couple of PSU companies...

NBCC had acquired HSCL last year and turned it around. Now the company has submitted bids for acquiring two more PSU companies namely Hospital Services Consultancy Company (HSCC) and Engineers Projects India Limited (EPIL) engaged in construction related business. HSCC is a debt free company with orderbook close to ₹ 10000 crore while EPIL has orderbook worth ~₹ 5000 crore and revenues to the tune of ~₹ 1500 crore. NBCC would look to acquire 100% stake in the above two companies.

Execution set to ramp-up; maintain BUY...

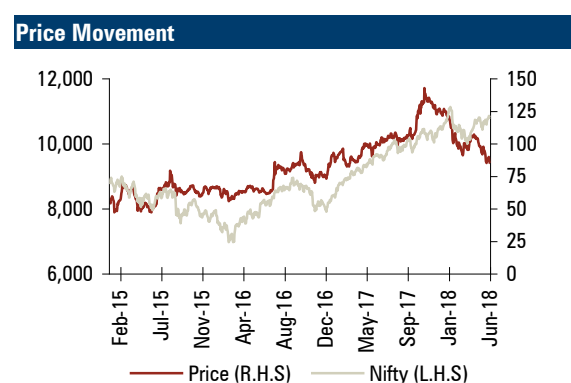
We like NBCC given its unique business model (PWO status leading to awarding of contract on nomination basis) and huge opportunities ahead. Furthermore, with fast tracking of contract awarding for big ticket projects, the management expect its execution to pick up from FY19E onwards. We expect its revenues, earnings to grow at 35.8%, 36.9% CAGR, respectively, in FY18-20E. Hence, we continue to maintain our **BUY** rating on the stock with an SOTP based target price of ₹ 115 (implying ~27x FY20E EPS).

Rating Matrix		
Rating	:	Buy
Target	:	₹ 115
Target Period	:	12-18 months
Potential Upside	:	34%

Key Financials				
₹ Crore	FY17	FY18	FY19E	FY20E
Net Sales	6,211.2	5,871.7	7,898.5	10,832.1
EBITDA	402.4	399.4	552.5	827.6
Net Profit	351.1	333.6	438.7	624.9
EPS (₹)	2.0	1.9	2.4	3.5

Valuation Summary				
(x)	FY17	FY18E	FY19E	FY20E
P/E	44.1	46.5	35.3	24.8
Target P/E	59.0	62.0	47.2	33.1
EV / EBITDA	34.5	34.5	24.9	16.1
P/BV	9.3	8.5	7.6	6.6
RoNW (%)	21.0	18.3	21.5	26.6
RoCE (%)	28.1	26.5	31.3	38.9

Stock Data	
Particular	Amount (₹ crore)
Market Capitalization	15,498.0
Total Debt	0.0
Cash	1,713.5
EV	13,784.5
52 week H/L (₹)	146 / 84
Equity capital	180.0
Face value	₹ 1



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Other Analyst Meet Highlights

- **Management Guidance:** Given the strong set of opportunities ahead, large orderbook and the anticipated ramp-up in execution, the management has guided for a revenue CAGR of 35% over the next five years. Also, it expects the EBITDA margins to sustain ahead
- **Update on key projects:** For Wadala project, the company expects to generate revenues worth ₹ 8000 crore through sale of free-sale component and this amount will go towards the project's construction cost. The free-sale residential project will have nearly 2,000 homes with 2, 3 and 4 bedroom configurations. For AIIMS project, the free sale part has been converted into residential against earlier plan of mixed development as the commercial part could pose a threat to towers of Nauroji Nagar. For Kidwai Nagar project worth ₹ 5298 crore, the company has finished more than 75% of construction and is confident. The deadline for the project is December 2019 and company is confident of completing the project on time
- **Tendering:** The company is witnessing less competition for projects tendered above ₹ 2000 crore with only 4-5 bidders. However, for projects under ₹ 2000 crore, the competition is comparatively higher with 11-12 bidders. Also, the company is giving stricter completion timelines of 2 years to its sub-contractors
- **Seed money:** So far the company has invested ~₹ 1000 crore as seed money in redevelopment projects. It targets to further invest ~₹ 1000 crore in FY19E
- **Real Estate:** The company has real estate inventory in several stage of construction worth ₹ 1700 crore. It plans to sell inventory worth ~₹ 500-600 crore in FY19E
- **Dharavi project:** The company is in talks with the Maharashtra government for Dharavi redevelopment project. However, nothing has been finalized yet

We arrive at a target price of ₹ 115/share for NBCC based on SOTP methodology

Outlook and Valuation

We like NBCC given its unique business model (PWO status leading to awarding of contract on nomination basis) and huge opportunities ahead. Furthermore, with fast tracking of contract awarding for big ticket projects, the management expects its execution to pick up from FY19E onwards. We expect its revenues, earnings to grow at 35.8%, 36.9% CAGR, respectively, in FY18-20E. Hence, we continue to maintain our **BUY** rating on the stock with an SOTP based target price of ₹ 115 (implying ~27x FY20E EPS).

We value NBCC's PMC business & redevelopment business on the DCF based methodology to capture the long term opportunities in each business. We consider cost of equity of 12.6% for the PMC business and 13% for the redevelopment space. Based on these assumptions, we value NBCC's PMC business at ₹ 55/share & re-development opportunities at ₹ 50/share. The real estate business has been valued at ₹ 9/share (at 1.0x P/BV) while the EPC business has been valued at ₹ 1/share (5x FY20E EV/EBIT).

Exhibit 1: SoTP valuation summary

SOTP valuation	Equity Value (₹ crore)	₹ per share	Comments
PMC Business	9849	55	DCF based valuation
Re-development Business	9076	50	DCF based valuation
Real Estate Business	1700	9	at 1x P/BV
EPC	249	1	at 5x FY20E EV/EBIT
Total	20874	116	
Rounded off Target Price		115	

Source: Company, ICICI Direct Research

Financial summary

Profit and loss statement		₹ Crore			
(₹ Crore)	FY17	FY18	FY19E	FY20E	
Net Sales	6,211.2	5,871.7	7,898.5	10,832.1	
Other income	88.6	106.1	111.4	117.0	
Total revenues	6,368.0	6,011.1	8,044.9	10,985.9	
Raw Material Expense	5,493.7	5,097.4	6,734.1	9,237.0	
Employee benefit expenses	236.1	309.7	371.6	445.9	
Other Expenses	79.0	65.2	240.2	321.7	
EBITDA	402.4	399.4	552.5	827.6	
Interest	0.7	0.2	0.3	0.4	
Depreciation	2.6	2.7	3.0	3.1	
Other income	88.6	106.1	111.4	117.0	
PBT	487.7	502.6	660.7	941.1	
Taxes	136.6	169.0	222.0	316.2	
PAT	351.1	333.6	438.7	624.9	
PAT Growth rate	22.4	(5.0)	31.5	42.4	
Adjusted EPS (Diluted)	2.0	1.9	2.4	3.5	

Source: Company, ICICI Direct Research

Balance sheet		₹ Crore			
(₹ Crore)	FY17	FY18P	FY19E	FY20E	
Liabilities					
Equity Capital	180.0	180.0	180.0	180.0	
Reserve and Surplus	1,493.6	1,641.4	1,859.3	2,169.6	
Total Shareholders funds	1,673.6	1,821.4	2,039.3	2,349.6	
Total Liabilities	1,740	1,895	2,113	2,423	
Assets					
Gross Block	68.3	69.6	76.3	80.3	
Less Acc. Dep	5.0	7.7	10.7	13.8	
Net Block	63.3	61.8	65.6	66.5	
Investments	104.8	58.6	558.6	558.6	
Inventory	1,570.4	1,657.5	1,960.7	2,689.0	
Sundry Debtors	2,186.6	2,258.5	2,488.6	3,412.9	
Loans & Advances	784.0	2,174.0	997.0	1,367.3	
Cash & Bank Balances	1,553.0	1,713.5	1,714.4	2,154.1	
Other Current Assets	426.5	608.5	608.5	608.5	
Total Current Assets	6,520.4	8,412.1	7,769.2	10,231.8	
Trade Payable	2,543.3	2,993.8	2,596.8	3,561.2	
Other Current Liabilities	1,463.5	1,859.7	2,347.2	2,963.3	
Provisions	104.0	150.5	177.1	215.7	
Other Financial Liabilities	738.5	824.6	939.1	1,287.9	
Net Current Assets	1,409.1	1,589.1	1,303.3	1,612.8	
Total Assets	1,740	1,895	2,113	2,423	

Source: Company, ICICI Direct Research

Cash flow statement		₹ Crore			
(₹ Crore)	FY17	FY18E	FY19E	FY20E	
Profit after Tax	351.1	333.6	438.7	624.9	
Depreciation	2.6	2.7	3.0	3.1	
Interest	0.0	0.0	0.0	0.0	
Others	(357.7)	(298.6)	(923.4)	(1,291.7)	
Cash Flow before wc changes	132.6	206.8	(259.7)	(347.4)	
Net Increase in Current Assets	227.9	23.5	590.0	858.4	
Net Increase in Current Liabilities	78.6	(63.7)	286.7	130.2	
Net CF from operating activities	439.1	166.5	617.0	641.2	
(Purchase)/Sale of Fixed Assets	(4.2)	(1.3)	(6.7)	(4.0)	
Net CF from Investing activities	145.2	158.1	(395.3)	113.0	
Inc / (Dec) in Equity Capital	-	-	-	-	
Dividend	(201.8)	(167.9)	(220.8)	(314.5)	
Net CF from Financing activities	(208.0)	(167.9)	(220.8)	(314.5)	
Net Cash flow	376.2	156.7	0.9	439.7	
Opening Cash	720.2	1,553.0	1,713.5	1,714.4	
Closing Cash/ Cash Equivalent	1,096.4	1,709.7	1,714.4	2,154.1	

Source: Company, ICICI Direct Research

Key ratios		FY17	FY18E	FY19E	FY20E
Per Share Data (₹)					
EPS - Diluted		2.0	1.9	2.4	3.5
Cash EPS		2.0	1.9	2.5	3.5
Book Value		9.3	10.1	11.3	13.1
Dividend per share		1.0	0.9	1.2	1.7
Operating Ratios (%)					
EBITDA / Net Sales		6.5	6.8	7.0	7.6
PAT / Net Sales		5.7	5.7	5.6	5.8
Inventory Days		92.3	103.0	90.6	90.6
Debtor Days		128.5	140.4	115.0	115.0
Creditor Days		149.5	186.1	120.0	120.0
Return Ratios (%)					
RoNW		21.0	18.3	21.5	26.6
RoCE		28.1	26.5	31.3	38.9
Valuation Ratios (x)					
EV / EBITDA		34.5	34.5	24.9	16.1
P/E (Diluted)		44.1	46.5	35.3	24.8
EV / Net Sales		2.2	2.3	1.7	1.2
Market Cap / Sales		2.5	2.6	2.0	1.4
Price to Book Value		9.3	8.5	7.6	6.6
Dividend yield		1.1	1.1	1.4	2.0
Solvency Ratios (x)					
Net Debt / Equity		(1.0)	(0.9)	(0.8)	(0.9)
Current Ratio		1.1	1.1	1.1	1.1
Quick Ratio		0.7	0.8	0.7	0.7

Source: Company, ICICI Direct Research

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