

Await execution to pick up

NBCC's consolidated topline grew 2.0% YoY to ₹ 1,891.1 crore, lower than our estimate of ₹ 2,544.1 crore. EBITDA margins contracted 220 bps YoY to 1.4% in Q1FY20 due to a sharp contraction in real estate margins. PAT de-grew 33.2% YoY to ₹ 48.9 crore mainly on account of lower topline growth and sharp EBITDA margin contraction.

Consolidated order book at ₹ 85,000 crore

NBCC's consolidated order book (OB) at ~₹ 85,000 crore (~₹ 68,000 crore is standalone OB) as of Q1FY20. Out of this, orders worth ₹35,000 crore are currently under execution. On Delhi Redevelopment front, NBCC expects to get approval on the revised drawings for Sarojini Nagar and Netaji Nagar in the next few months. Furthermore, with regard to Netaji Nagar, Package-I has already been awarded to Shapoorji Pallonji while the company has started tendering process for Package-II, III and IV. While the management has not given revenue growth guidance in FY20E, we have tone down our revenues and now expect revenues to grow at 11.2% CAGR to ₹ 12,290.4 crore in FY19-21E on account of delay in execution of Redevelopment projects.

NBCC not to invest own funds in stressed housing projects

NBCC was directed by the Supreme Court to take up project management consultancy work and complete the stalled projects of Amrapali. The balance completion cost for this project is at ₹ 8,500 crore. NBCC has been vocal on these projects front that it will not infuse its own funds in the project and would the execute the project to the extent the money is deposited by supreme court. The management indicated that there is pending ₹4000 crore receivables for already sold projects in Amrapali, which supreme court has asked home buyers to deposit in next three to four months. The company is expected to follow similar approach in Unitech project. On the Jaypee Infratech projects, the company could participate in next expression of interest. the management did elude that it will not risk its balance sheet while intending to acquire the project.

Valuation & Outlook

While NBCC enjoys a unique business model and strong orderbook, delay in commencement of its redevelopment projects has impacted execution meaningfully. Hence, we cut our estimates sharply and now expect consolidated revenues and PAT to grow at a CAGR of 11.2% and 9.0% to ₹ 12,290.4 crore and ₹ 445.8 crore, respectively, in FY19-21E. Hence, we downgrade the stock to **HOLD** despite the attractive valuation (14x FY21E EPS) with a target price of ₹ 40/share (16x FY21E EPS).



Particulars

Particular	Amount (₹ crore)
Market Capitalization	6,300.0
Total Debt	0.0
Cash	4,654.8
EV	1,645.2
52 week H/L (₹)	77 / 34
Equity capital	180.0
Face value	₹ 1

Key Highlights

- Order book at ₹ 85,000 crore as of Q1FY20
- Overall, ₹ 35000 crore worth orders are currently under execution
- NBCC eluded that it will not invest own funds in the stressed housing projects and risk its balance sheet
- Downgrade to **HOLD** with a target price of ₹ 40/share

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Key Financial Summary (Consolidated)

₹ crore	FY17	FY18	FY19E	FY20E	FY21E	CAGR FY19-21E
Net Sales	7,424.7	6,941.6	9,943.0	9,914.9	12,290.4	11.2%
EBITDA	405.0	422.3	365.1	286.8	445.1	10.4%
EBITDA Margin (%)	5.5	6.1	3.7	2.9	3.6	
PAT	354.7	354.7	375.1	329.1	445.8	9.0%
EPS (₹)	2.0	2.0	2.1	1.8	2.5	
P/E (x)	17.8	17.8	16.8	19.1	14.1	
EV/EBITDA (x)	9.9	9.0	4.5	11.4	6.0	
P/B (x)	3.7	3.2	2.7	2.4	2.0	
RoNW (%)	20.9	18.0	16.0	12.3	14.3	
RoCE (%)	25.8	25.8	21.8	17.0	19.6	

Source: Company, ICICI Direct Research

Exhibit 1: Variance Analysis (Consolidated)

Particular	Q1FY20	Q1FY20E	Q1FY19	YoY(%)	Q4FY19	QoQ(%)	Comments
Net Sales	1,891.1	2,544.1	1,853.9	2.0	3,137.7	-39.7	Muted topline growth was on account of lower revenue growth in PMC division and lower revenues from real estate division
Other Income	50.6	45.0	44.2	14.5	55.9	-9.5	
Material Consumed	0.3	12.6	2.2	-84.6	15.5	-97.8	
Changes in Inventories of WIF	-10.0	56.8	58.1	-117.1	70.0	-114.2	
Expenditure in Piece rate Wor	1,755.4	2,232.4	1,595.3	10.0	2,753.2	-36.2	
Employee Benefit Expenses	82.9	61.1	77.3	7.3	75.4	10.0	
Other Expenses	15.4	104.6	16.9	-8.8	71.6	-78.5	
EBITDA	27.1	76.6	67.7	-59.9	157.8	-82.8	
EBITDA Margin (%)	0.0	0.0	0.0	-2 bps	0.1	-4 bps	EBITDA margins contracted on account of sharp contraction in real estate margins
Depreciation	2.0	0.2	1.3	59.1	0.2	1,022.2	
Interest	2.7	0.4	0.9	181.9	0.4	NA	
PBT	73.0	121.1	109.6	-33.4	213.1	-65.7	
Taxes	22.1	40.0	33.2	-33.3	70.5	-68.6	
PAT	48.9	75.5	73.2	-33.2	136.8	-64.3	PAT de-grew mainly on account of lower topline growth, sharp contraction in EBITDA margins

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

Particulars	FY18	FY19	FY20E			FY21E			Comments
			Old	New	% Change	Old	New	% Change	
Revenue	5,871.7	9,943.0	11,974.2	9,914.9	-17.2	15,972.6	12,290.4	-23.1	We incorporate Q1FY20 performance
EBITDA	399.4	365.1	432.3	286.8	-33.7	696.5	445.1	-36.1	
EBITDA Margin	6.8	3.7	3.61	2.9	-71.8bps	4.36	3.6	-73.9bps	
PAT	333.6	375.1	416.6	329.1	-21.0	600.9	445.8	-25.8	
EPS	1.9	2.1	2.3	1.8	-21.0	3.3	2.5	-25.8	

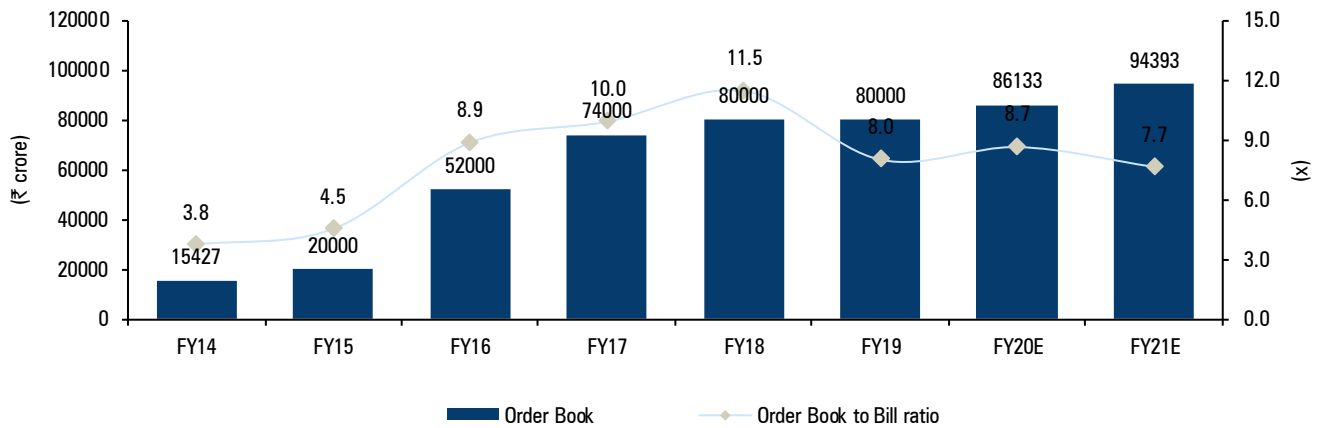
Source: Company, ICICI Direct Research

Conference call Highlights

- Order book update & awarding:** NBCC's consolidated order book (OB) is at ~₹ 85,000 crore (~₹ 68,000 crore is standalone OB) as of Q1FY20. Out of this, orders worth ₹35,000 crore are currently under execution. Recently, NBCC de-scoped its Wadala project from ₹2000 crore to ₹400 crore due to additional FAR not allowed by the Maharashtra government, the value of this project has fallen to ₹ 400 crore
- Management guidance:** As per the management, Q1 is traditionally a slower quarter as budget approvals by the government happen during this time. Hence, the financial performance was weak in Q1FY20. Also, EBITDA margins were lower at 1.4% in Q1FY20. In terms of FY20E, the company restrain from giving FY20 revenues guidance while it expect its EBITDA margin to roll back to 4-5% trajectory in FY20E.
- Delhi redevelopment projects:** As per the management, NBCC had applied for approvals on revised drawings for Sarojini Nagar and Netaji Nagar redevelopment projects in May, 2019. It expects to get these approvals in the next few months. Furthermore, with regard to Netaji Nagar, Package-I has already been awarded to Shapoorji Pallonji, while tendering process for Package-II, III and IV has started. With regard to Nauroji Nagar, it expects final announcement from the court on this colony on August 21, 2019
- Amrapali & unitech project:** The total estimated balance cost for the Amrapali project is ₹ 8,500 crore (including 8% PMC charges for NBCC). The completion timeline for the project is four to five years. NBCC has been vocal on these projects front that it will not infuse its own funds in the project and would the execute the project to the extent the money is deposited by supreme court. The management indicated that there is pending ₹4000 crore receivables for already sold projects in Amprali, which supreme court has asked home buyers to deposit in next 3-4 months. The company is expected to follow similar approach in Unitech project.
- Jaypee Infratech bid:** NBCC remains interested in bidding for Jaypee Infratech project. As and when new expression of interest is called for, NBCC will evaluate the opportunity and could bid for the project again. Nonetheless, the management did elude that it will not risk its balance sheet while intending to acquire the project
- Cash on books:** NBCC has ~₹ 1,000 crore cash on books at a standalone level. Of this, ~₹ 900 crore as advances from customers. On a consolidated level, NBCC has ~₹ 4,000 crore cash on books.
- Real estate projects:** NBCC has ₹ 800 crore completed real estate inventory, which it hopes to liquidate soon. Additionally, it has ₹ 800 crore worth real estate projects under development.
- HSCC accounting:** During Q1FY20, in HSCC, one of the recently acquired subsidiaries of NBCC, four unidentified transactions amounting ₹ 1.9 crore were noticed in the process of reconciliation of various head of accounts. NBCC has started appointment of forensic auditors and the company has already taken provisions on this front

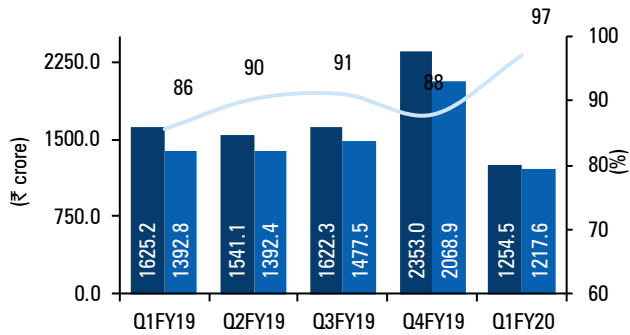
Company Analysis

Exhibit 3: Order book remains strong



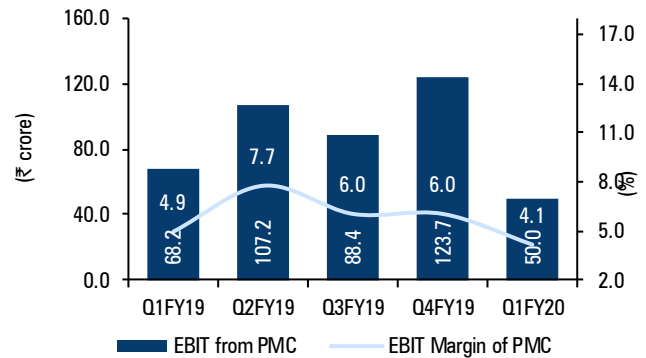
Source: Company, ICICI Direct Research

Exhibit 4: Revenue contribution from PMC division



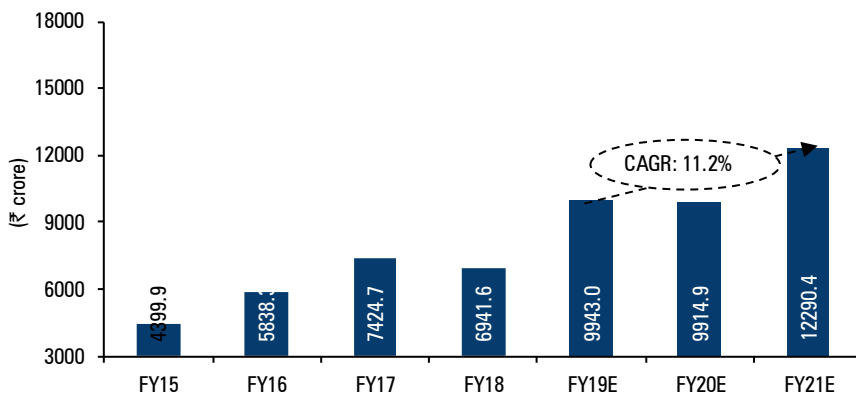
Source: Company, ICICI Direct Research

Exhibit 5: PMC division EBIT and EBIT margins



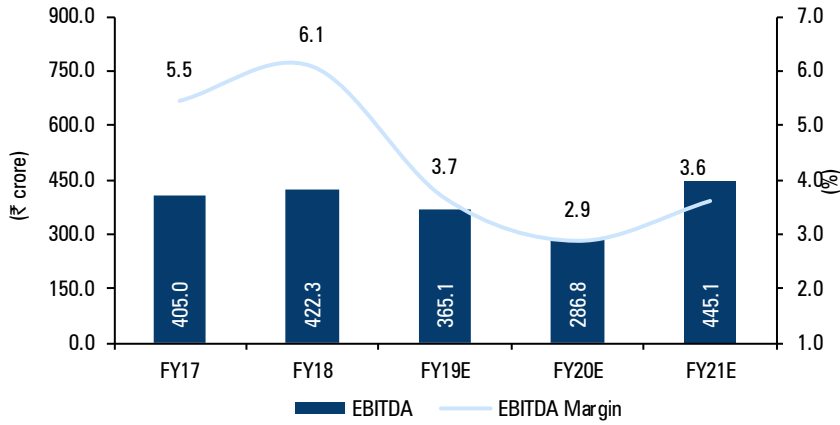
Source: Company, ICICI Direct Research

Exhibit 6: Revenue growth expected to remain strong



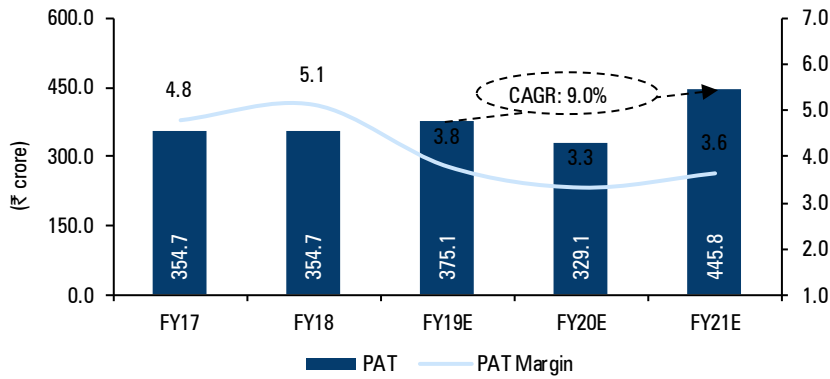
Source: Company, ICICI Direct Research

Exhibit 7: EBITDA and EBITDA margin trend



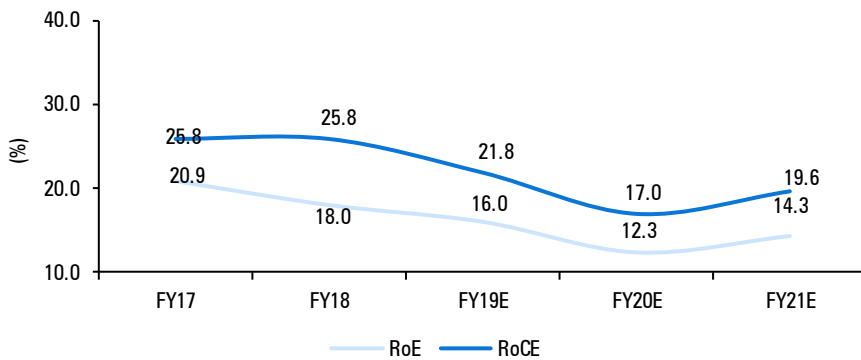
Source: Company, ICICI Direct Research

Exhibit 8: PAT growth trend



Source: Company, ICICI Direct Research

Exhibit 9: RoE and RoCE trend



Source: Company, ICICI Direct Research

Valuation & Outlook

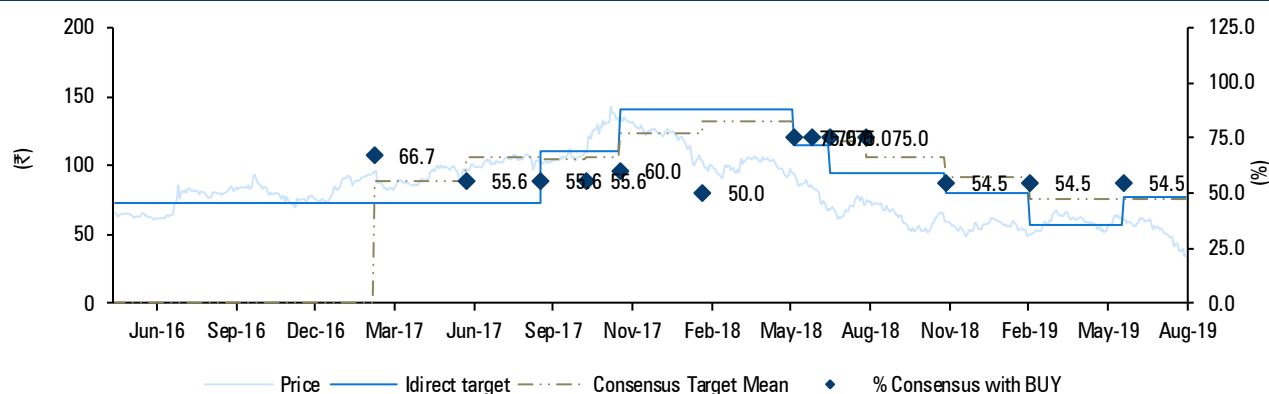
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Exhibit 10: Valuation metrics

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITD (x)	RoNW (%)	RoCE (%)
FY17	7,424.7	81.2	2.0	27.5	17.8	9.9	20.9	25.8
FY18	6,941.6	-6.5	2.0	0.0	17.8	9.0	18.0	25.8
FY19E	9,943.0	43.2	2.1	5.8	16.8	4.5	16.0	21.8
FY20E	9,914.9	-0.3	1.8	-12.3	19.1	11.4	12.3	17.0
FY21E	12,290.4	24.0	2.5	35.5	14.1	6.0	14.3	19.6

Source: Company, ICICI Direct Research

Exhibit 11: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 12: Top 10 Shareholders

Rank	Name	Latest Filing Date	% O/S	Position (m)	Change (m)
1	Government of India	26-Jul-19	65.9%	1,186.7	-40.6
2	Life Insurance Corporation of India	30-Jun-19	6.5%	117.9	0.0
3	Reliance Nippon Life Asset Management Limited	30-Jun-19	1.4%	24.8	-1.2
4	Goldman Sachs Asset Management (India) Private Ltd.	30-Jun-19	1.3%	23.3	-19.6
5	ICICI Prudential Asset Management Co. Ltd.	30-Jun-19	1.2%	21.8	-0.6
6	The Vanguard Group, Inc.	30-Jun-19	0.9%	15.5	-0.3
7	Nomura Asset Management Co., Ltd.	31-Oct-18	0.7%	12.4	-0.1
8	HDFC Asset Management Co., Ltd.	30-Jun-19	0.4%	7.9	0.0
9	Norges Bank Investment Management (NBIM)	31-Dec-18	0.4%	7.7	7.1
10	BlackRock Institutional Trust Company, N.A.	31-Jul-19	0.4%	6.4	0.0

Source: Reuters, ICICI Direct Research

Exhibit 13: Recent Activity

Buys			Sells		
Investor name	Value (m)	Shares (m)	Investor name	Value (m)	Shares (m)
Mitsubishi UFJ Trust and Banking Corporation	1.3	1.4	Government of India	-25.2	-40.6
Wellington Management Company, LLP	1.1	1.2	Goldman Sachs Asset Management (India) Private Ltd.	-17.0	-19.6
Baroda Asset Management India Ltd	0.8	0.9	Reliance Nippon Life Asset Management Limited	-1.0	-1.2
IDFC Asset Management Company Private Limited	0.7	0.8	ICICI Prudential Asset Management Co. Ltd.	-0.5	-0.6
Aditya Birla Sun Life AMC Limited	0.7	0.8	Invesco Asset Management (India) Private Limited	-0.3	-0.3

Source: Reuters, ICICI Direct Research

Exhibit 14: Shareholding Pattern

(in %)	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	68.2	70.6	68.2	68.2
Public	31.8	29.4	31.8	31.8
Others	0.0	0.0	0.0	0.0
Total	100.0	100.0	100.0	100.0

Source: Company, ICICI Direct Research

Financial summary

Exhibit 15: Profit and loss statement				
	₹ crore			
(₹ Crore)	FY18	FY19	FY20E	FY21E
Net Sales	6,941.6	9,943.0	9,914.9	12,290.4
Total revenues	7,095.9	10,151.4	10,133.7	12,520.2
Raw Material Expense	5,993.5	9,105.2	9,085.7	11,172.9
Employee benefit expenses	326.4	326.4	396.6	491.6
Other Expenses	199.3	146.3	145.9	180.8
EBITDA	422.3	365.1	286.8	445.1
Interest	24.9	0.6	0.6	0.6
Depreciation	5.1	4.4	4.5	4.6
Other income	154.3	208.4	218.8	229.7
PBT	547.2	568.9	500.8	670.0
Taxes	175.1	177.3	155.3	207.7
PAT	354.7	375.1	329.1	445.8
Adjusted EPS (Diluted)	2.0	2.1	1.8	2.5

Source: Company, ICICI Direct Research

Exhibit 17: Balance sheet				
	₹ crore			
(₹ Crore)	FY18	FY19E	FY20E	FY21E
Liabilities				
Equity Capital	180.0	180.0	180.0	180.0
Reserve and Surplus	1,785.6	2,160.7	2,489.8	2,935.6
Total Shareholders funds	1,965.6	2,340.7	2,669.8	3,115.6
Total Liabilities	2,216	2,607	2,953	3,415
Assets				
Gross Block	133.3	137.2	141.2	145.1
Less Acc. Dep	12.4	16.8	21.3	25.9
Net Block	120.9	120.4	119.9	119.3
Investments	27.8	27.8	27.8	27.8
Inventory	87.8	70.0	90.0	90.0
Sundry Debtors	2,542.6	3,761.4	4,015.7	5,155.3
Loans & Advances	-	-	-	-
Cash & Bank Balances	2,481.9	4,654.8	3,032.2	3,631.4
Other Current Assets	2,257.81	2,257.81	2,257.81	2,257.81
Total Current Assets	7,370.2	10,744.0	9,395.7	11,134.5
Trade Payable	3,529.6	5,860.0	4,685.0	5,820.5
Other Current Liabilities	3,344.23	4,166.16	4,156.34	4,823.99
Provisions	239.0	308.8	307.9	364.6
Other Financial Liabilities	-	-	-	-
Net Current Assets	1,837.7	2,229.7	2,575.8	3,038.8
Total Assets	2,216	2,607	2,953	3,415

Source: Company, ICICI Direct Research

Exhibit 16: Cash flow statement				
	₹ crore			
(₹ Crore)	FY18	FY19E	FY20E	FY21E
PAT	354.7	375.1	329.1	445.8
Depreciation	5.1	4.4	4.5	4.6
Interest	24.9	0.6	0.6	0.6
Others	(26.9)	(192.5)	(202.9)	(213.9)
Cash Flow before wc changes	532.9	364.9	286.5	444.9
Net Increase in Current Assets	(1,041.1)	(1,441.2)	(783.1)	(1,723.6)
Net Increase in Current Liabilities	855.0	3,222.1	(1,185.7)	1,859.8
Net CF from operating activities	239.3	1,968.5	(1,837.5)	373.4
(Purchase)/Sale of Fixed Assets	(4.2)	(3.9)	(4.0)	(4.0)
Net CF from Investing activities	200.6	204.5	214.8	225.8
Inc / (Dec) in Equity Capital	-	-	-	-
Net CF from Financing activities	(184.2)	-	-	-
Net Cash flow	255.6	2,172.9	(1,622.7)	599.2
Opening Cash	1,271.6	2,481.9	4,654.8	3,032.2
Closing Cash/ Cash Equivalent	2,481.9	4,654.8	3,032.2	3,631.4

Source: Company, ICICI Direct Research

Exhibit 18: Key ratios				
	FY18	FY19E	FY20E	FY21E
Per Share Data (₹)				
EPS - Diluted	2.0	2.1	1.8	2.5
Cash EPS	2.0	2.1	1.9	2.5
Book Value	10.9	13.0	14.8	17.3
Operating Ratios (%)				
EBITDA / Net Sales	6.1	3.7	2.9	3.6
PAT / Net Sales	5.1	3.8	3.3	3.6
Inventory Days	87.2	69.0	88.7	88.9
Debtor Days	133.7	138.1	147.8	153.1
Creditor Days	157.4	86.2	84.4	88.4
Return Ratios (%)				
RoNW	18.0	16.0	12.3	14.3
RoCE	25.8	21.8	17.0	19.6
Valuation Ratios (x)				
EV / EBITDA	9.0	4.5	11.4	6.0
P/E (Diluted)	17.8	16.8	19.1	14.1
EV / Net Sales	0.6	0.2	0.3	0.2
Market Cap / Sales	0.9	0.6	0.6	0.5
Price to Book Value	3.2	2.7	2.4	2.0
Solvency Ratios (x)				
Net Debt / Equity	(1.3)	(2.0)	(1.1)	(1.2)
Current Ratio	1.0	1.2	1.3	1.3
Quick Ratio	0.7	0.9	0.9	0.9

Source: Company, ICICI Direct Research

Exhibit 19: ICICI Direct coverage universe (Construction)

Sector / Company	CMP		M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)			
	(₹)	TP(₹)		Rating	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
NBCC (NBCC)	35	40	Hold	6,300	2.1	1.8	2.5	16.8	19.1	14.1	4.5	11.4	6.0	2.7	2.4	2.0	16.0	12.3	14.3
Simplex Infra (SIMCON)	143	130	Reduce	842	20.8	19.8	28.9	6.9	7.2	4.9	6.2	5.8	5.4	0.4	0.4	0.3	6.1	5.3	6.9
NCC (NAGCON)	70	90	Buy	4,118	9.3	6.9	9.0	7.3	9.9	7.6	4.1	5.3	4.5	0.9	0.8	0.7	11.9	8.2	9.8

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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