

Retail Equity Research (South India Focus)

NBCC Ltd

Construction

BSE CODE : 534309

NSE CODE: NBCC

BLOOMBERG CODE: NBCC:IN

SENSEX : 39,950

Reduce

12M Investment Period

Rating as per Mid Cap

CMP Rs60 TARGET Rs57 RETURN - 5% ↓
(Closing: 11-06-19)

KEY CHANGES:

TARGET ↓

RATING ↓

EARNINGS ↓

Real estate division drives revenue...

NBCC Ltd (NBCC) is a Navaratna Enterprise under Ministry of Urban development and their business verticals includes: Project Management Consultancy (PMC), Engineering Procurement & Construction (EPC) and Real estate business .

- Q4FY19 top-line grew by 9% YoY supported by significant rise in real estate revenue to Rs224cr while PMC growth was subdued (3.6% YoY).
- EBITDA margin declined by 79bpsYoY to 7.5% due to rise in material cost and absence of high margin re-development revenue.
- Despite strong order backlog of Rs80,000cr orders worth ~Rs33,000cr only were awarded till now.
- Management stated execution of two out of three re-development projects can take-off from next month while third project Nauroji Nagar is still under litigation, next hearing is scheduled for July-19.
- We cut FY20E/21E revenue estimates by 8%/5% due to delay in re-development projects.
- We revise our rating to Reduce and value NBCC's core business at a P/E of 17x on FY21E EPS and Rs5/share for land parcel held to arrive at SOTP target price of Rs57.

Execution of Delhi re-development projects to be monitored

Q4FY19 standalone revenue grew by 8.9% YoY to Rs2,378cr supported by significant rise in real estate sales to Rs224cr v/s nil in Q4FY18 while PMC growth was subdued to 3.6% YoY and EPC revenue declined by 65% YoY to Rs 61cr. Additionally, the management has pointed that orders of Rs1,500cr have already been awarded from its two key re-development projects namely Netaji Nagar & Sarojini Nagar and expects to start execution shortly while third project Nauroji Nagar is still under litigation, next hearing is scheduled for July-2019. In FY19, projects worth ~Rs15,000cr has been awarded to contractors and is further planning to award Rs7,000cr to Rs8,000cr in the next three quarters. Due to delay in getting approvals for re-development projects we reduce FY20E/21E revenue estimates by 8%/5% respectively.

Strong order book but execution remain the key...

NBCC's order book remain strong at Rs800bn (11.3x FY19 revenue) but large portion of which is not under execution stage. Company received an inflow of Rs124bn in FY19. Out of the total order book only orders of ~Rs300bn to Rs330bn were awarded and remaining portion is not yet awarded due to delay in government approvals and litigation issues. Re-development projects constitute 51% (Rs410bn) of the order book, of which projects of Rs55bn only been awarded till now. Company guided that in FY20 orders of Rs150bn to be awarded.

Margins remain an overhang...

The EBITDA margins declined by 79bps YoY to 4.4% due to rise in raw material cost and absence of high margin re-development revenue. Despite drop in operational margin, PAT grew by 8% YoY in Q4FY19 supported by rise in other income (19% YoY) & lower tax expenses.

Jaypee infratech bid

Revised bid submitted by NBCC to acquire Jaypee Infratech is in process and final result is yet to know. As per management, NBCC would require to invest only Rs200cr as upfront equity. The construction cost for remaining ~21,000 flats required an outlay of Rs7,000cr which would be raised through asset monetisation, balance payment from home buyers of Rs3,500cr, selling unsold inventory of Rs2,000cr.

Valuations

Company's order book remain strong while most of the projects are not yet awarded due to delay in clearances and litigation issues. Any signs of pick up in execution of re-development projects will augur well for the revenue estimate. We revise our rating to Reduce and value NBCC's core business at a P/E of 17x on FY21E EPS and book value of land parcel at Rs5/share to arrive at SOTP target price of Rs57.

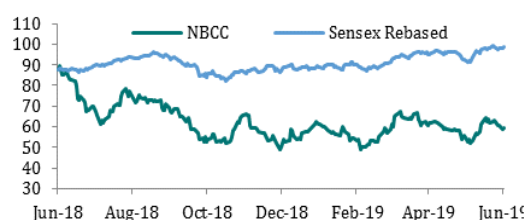
Company Data

Market Cap (cr)	Rs.10,737
Enterprise Value (cr)	Rs.9,156
Outstanding Shares (cr)	180.0
Free Float	31.82%
Dividend Yield	1.09%
52 week high	Rs.91
52 week low	Rs.47
6m average volume (cr)	0.3
Beta	1.1
Face value	Rs.1

Shareholding (%)	Q2FY19	Q3FY19	Q4FY19
Promoters	73.7	70.6	68.18
FII's	4.5	4.05	4.67
MFs/Insti	9.9	11.4	12.63
Public	11.9	13.9	14.52
Total	100.0	100.0	100.0

Price Performance	3 month	6 Month	1 Year
Absolute Return	-5%	11%	-32%
Absolute Sensex	3%	11%	13%
Relative Return*	-8%	0%	-45%

over or under performance to benchmark index



Standalone (cr)	FY19A	FY20E	FY21E
Sales	7,245	8,796	11,284
Growth (%)	22.7	21.4	28.3
EBITDA	374	464	617
EBITDA Margin(%)	5.2	5.3	5.5
PAT Adj.	384	450	552
Growth (%)	15.1	17.2	22.7
Adj.EPS	2.1	2.5	3.1
Growth (%)	15.1	17.2	22.7
P/E	28.0	23.8	19.4
P/B	2.3	1.9	1.5
EV/EBITDA	24.5	19.3	14.7
ROE (%)	22.7	25.9	26.1
D/E	0	0	0

Antu Eapen Thomas
Research Analyst

SOTP Valuation

Particulars	Value (Rs Cr)	No. of shares	Value/Share (Rs)	Rationale
Standalone			52	P/E 17x FY21E EPS
Land parcel	1,654	180	5	0.5x P/BV
Total Value per share			57	

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q4FY19	Q4FY18	YoY Growth %	H2FY19	H2FY18	YoY Growth %
Sales	23,776	21,842	8.9	40,292	35,057	14.9
EBITDA	1,788	1,815	(1.5)	2,522	2,502	0.8
EBITDA margins %	7.5	8.3	(79)bps	6.3	7.1	(88)bps
Depreciation	8	6	18.5	13	13	0.1
EBIT	1,780	1,808	(1.6)	2,509	2,489	1
Interest	3.84	(1.41)		5.53	0.25	2119.7
Other Income	465	391	18.9	852	654	30.3
Exceptional Items	-	-		-	-	
PBT	2,241	2,201	1.8	3,355	3,142	6.8
Tax	714	784	(9.0)	1,050	1,107	(5.1)
Share of profit from Associate						
Minority Interest						
Reported PAT	1,528	1,417	7.8	2,305	2,035	13.2
Adjustments	-	-		-	-	
Adj PAT	1,528	1,417	7.8	2,305	2,035	13.2
No. of Shares	180	180		180	180	
EPS (Rs)	0.8	0.8	7.8	1.3	1.1	13.2

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY20E	FY21E	FY20E	FY21E	FY20E	FY21E
Revenue	9,557	11,914	8,796	11,284	(8.0)	(5.3)
EBITDA	485	652	464	617	(4.4)	(5.3)
Margins (%)	5.1	5.5	5.3	5.5	19bps	0bps
Adj. PAT	454	576	450	552	(0.8)	(4.1)
EPS	2.5	3.2	2.5	3.1	(0.8)	(4.1)

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Sales	6,279	5,905	7,245	8,796	11,284
% change	8	-6	23	21	28
EBITDA	402	399	374	464	617
% change	31	-1	-6	24	33
Depreciation	3	3	3	3	3
EBIT	400	397	372	461	614
Interest	1	0	1	1	1
Other Income	89	106	187	194	187
PBT	488	503	558	654	800
% change	21	3	11	17	22
Tax	137	169	174	204	248
Tax Rate (%)	34	30	31	31	31
Reported PAT	351	334	384	450	552
Adj.*	0	0	0	0	0
Adj. PAT	351	334	384	450	552
% change	22	-5	15	17	23
No. of shares (cr)	180	180	180	180	180
Adj EPS (Rs)	2.0	1.9	2.1	2.5	3.1
% change	-18.4	-5.0	15	17	23
DPS (Rs)	0.5	0.4	0.5	0.6	0.7

BALANCE SHEET

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Cash	1,096	1,300	1,581	1,804	1,646
Accounts Receivable	2,187	2,258	2,108	2,410	2,937
Inventories	1,570	1,658	1,832	2,136	2,658
Other Cur. Assets	1,339	2,129	1,879	2,289	2,844
Investments	59	60	345	355	365
Gross Fixed Assets	68	70	73	76	79
Net Fixed Assets	63	62	72	63	64
CWIP	0	0	0	0	0
Intangible Assets	0	0	0	0	0
Def. Tax (Net)	100	116	401	413	429
Other Assets	109	68	81	83	84
Total Assets	6,523	7,650	8,299	9,554	11,027
Current Liabilities	4,745	5,678	6,579	7,476	8,495
Provisions	104	151	156	169	201
Debt Funds	0	0	0	0	0
Other Liabilities	0	0	0	0	0
Equity Capital	180	180	180	180	180
Reserves & Surplus	1,494	1,641	1,385	1,729	2,151
Shareholder's Fund	1,674	1,821	1,565	1,909	2,331
Total Liabilities	6,523	7,650	8,299	9,554	11,027
BVPS	28	30	26	32	39

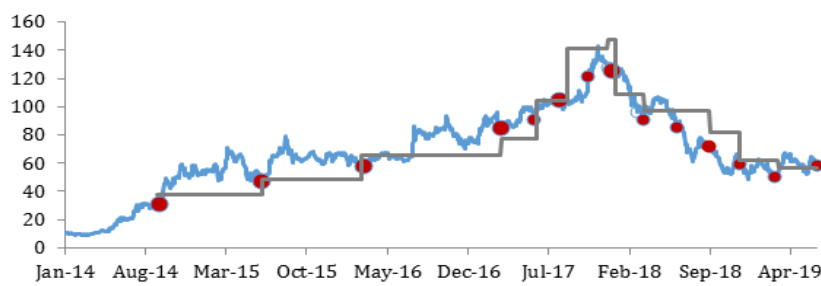
CASH FLOW

Y.E March (Rs Cr)	FY17A	FY18A	FY19A	FY20E	FY21E
Net inc. + Depn.	354	336	387	453	555
Non-cash adj.	74	175	-312	-10	-13
Changes in W.C	79	-209	1,131	-105	-553
C.F. Operation	439	212	1,203	335	-14
Capital exp.	-4	-1	-3	-3	-3
Change in inv.	125	90	-285	-10	-10
Other invest.CF	69	84	0	-551	0
C.F - Investment	145	174	-288	-564	-13
Issue of equity			0	0	0
Issue/repay debt	-6	-6	16	-1	-1
Dividends paid	-202	-178	-91	-106	-130
Other finance.CF	0	-	-560	0	0
C.F - Finance	-208	-184	-634	-107	-131
Chg. in cash	376	203	281	223	-158
Closing cash	1,096	1,300	1,581	1,804	1,646

RATIOS

Y.E March	FY17A	FY18A	FY19A	FY20E	FY21E
Profitab & Return					
EBITDA margin (%)	6.4	6.8	5.2	5.3	5.5
EBIT margin (%)	6.4	6.7	5.1	5.2	5.4
Net profit mgn.(%)	5.6	5.6	5.3	5.1	4.9
ROE (%)	22.0	19.1	22.7	25.9	26.1
ROCE (%)	14.6	12.0	15.0	17.4	17.5
W.C & Liquidity					
Receivables (days)	116.9	137.9	110.0	93.7	86.5
Inventory (days)	98.2	116.9	99.0	92.9	87.5
Payables (days)	280.9	377.6	347.7	329.0	291.4
Current ratio (x)	1.3	1.3	1.1	1.1	1.2
Quick ratio (x)	0.7	0.6	0.6	0.3	0.3
Turnover & Leverage					
Gross asset T.O (x)	94.7	85.2	100.9	117.5	145.0
Total asset T.O (x)	1.1	0.8	0.9	1.0	1.1
Int. covge. ratio (x)	554.1	1,889.0	611.8	658.3	877.8
Adj. debt/equity (x)	-	-	-	-	-
Valuation					
EV/Sales (x)	1.5	1.6	1.3	1.0	0.8
EV/EBITDA (x)	24.0	23.6	24.5	19.3	14.7
P/E (x)	30.6	32.2	28.0	23.8	19.4
P/BV (x)	2.1	2.0	2.3	1.9	1.5

Recommendation Summary



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
03-September-2014	Buy	38*
05-June-2015	Hold	49
23-February-2016	Accumulate	66
28-February-2017	Reduce	78
01-June-2017	Hold	105
22-August-2017	Accumulate	114
13-October-2017	BUY	142
21-December-2017	BUY	147
10-March-2018	BUY	109
11-June-2018	Accumulate	97
03-September-2018	BUY	97
21-November-2018	BUY	76
27-February-2019	BUY	62
12-June-2019	Reduce	57

Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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