

# NBCC (India) Ltd

BSE Code : **534309**

Time Duration : **18 months**

CMP : **₹197 (as on 21 Feb., 2018)**

Target Price : **₹267**

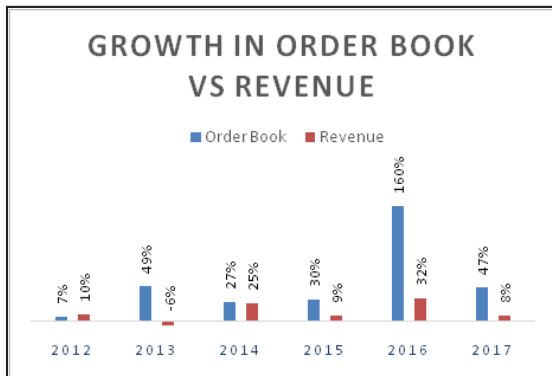


**Swiftest Performers  
Among Heavy Weights**

The Large Rhino recommendation for the month of February is NBCC (India). The Navratna organisation provides civil and engineering construction services. Being a government company, NBCC secures ~95% of order books from the government on a nomination basis. The company is our pick as it has a niche business model and has outperformed its peers such as CPWD across all parameters and has a dividend yield of 0.82%.

## Strong Order Book and Business Model

NBCC's order book of Rs. 80,000 crore leads to book/bill ratio of 13x which is highest amongst infrastructure companies. Also, of the total order book, redevelopment projects are worth Rs. 50,000 crore. Management expects to receive a minimum of Rs. 10,000 crore of new order every six months. Here are some recent orders wins:



- MOU with government of Assam (Rs. 2,000 crore)
- Construction of Ecotourism, Uttarakhand (Rs. 2,000 crore)
- Housing Project in Mauritius (Rs. 150 crore)
- Construction of tax departments (Rs. 3,200 crore)
- Construction of Multi-Storey Commercial Space (Rs. 1,949 crore)

### Ongoing projects which are to be complete by FY19:

- Pragati Maidan (Rs. 2,500 crore)
- World Trade Centre in Nauroji Nagar (Rs. 2,500 crore)
- Irrigation project in Maharashtra (Rs. 1,000 crore)

Source: Company Data

However we note from the graph below that due to land acquisition issues and other legal issues, the revenue has grown at a slower pace than the order book. However, we feel with more projects gathering pace, there is a likelihood of a pickup in execution and revenue recognition.

With its PWO tag (Public Works Organizations), NBCC enjoys a privilege of bagging governmental orders. This gives the company a competitive edge over its peers. NBCC has also been designated as the implementing agency for executing projects under Jawaharlal Nehru National Urban Renewal Mission, Pradhan Mantri Gram Sadak Yojana. This remains a strong factor which will aid the company's business.

NBCC operates in PMC (Project Management Consultancy) segment through a unique business model. All the government contracts are subcontracted to private players on a tender basis and NBCC only supervises/ manages the contract and earns a fixed percentage of project value. This asset-light model limits the CapEx requirement and uplifts the return ratios. The company has built its core strength and its expertise in the sector it operates and is among few having a robust order book which enjoys a negative working capital and a debt-free status.

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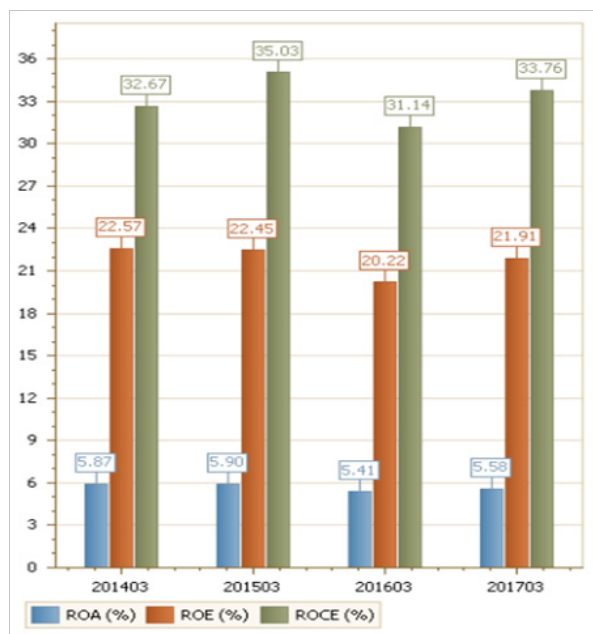
## Railway Redevelopment a Key Factor

High congestion in railway sector has led to low-quality services offered by the sector. The government has announced modernization of 400 railway stations with an investment outlay of Rs. 1 lakh crores. NBCC has been entrusted with 10 railway stations for redevelopment (~Rs. 5,000 crore) starting from Gomati station in UP. This transformation has just started and today major railway stations require redevelopment. This will add immensely to the growth of the company.

## Redevelopment of Governmental Properties

With tremendous expertise in executing large orders, NBCC recently came up with enormous redevelopment orders across government sectors. The profile of these projects includes government properties across India wherein it has added additional Rs. 50,000 crore to its order book. The redevelopment model of governmental properties has a long road ahead, thereby we expect a consistent growth disseminating from this model. Also, considering the company's expertise in land monetization, various state governments have formed JV's with NBCC for development of smart cities.

Moreover, NBCC has been appointed by GOI to redevelop the areas and unlock the values for PSU's having lands and other properties as a result of NPAs. As the figures are not known, yet massive, charging 0.5% of the sale will be a key factor of growth, going forward.



Source: Ace Equity

higher growth in PMC segment and redevelopment projects will help the company clock profit by 25% over FY17-19. Besides this, the stock has corrected by around ~36% over three months, which provides an ample risk-reward at the current price. We see an upside of 35% with a target price of Rs. 267 over the next 18 months.

## Financial Performance

NBCC's order book had grown at a staggering pace of 56% CAGR over FY12-17. However, the performance of the company remained flattish for the FY18 as the revenue came in at Rs. 4,367 crore, a 7.6% YoY decline. For the recent Q3FY18 period, the topline reported a degrowth of 11% YoY to Rs. 1,511 crore. The company's PAT came in at Rs. 73.47 crore, an increase of 27.22% YoY. The company's 33.8% decline in operating expenses coupled with 65% decline in finance cost led to positive bottom line growth. The company came up with massive ROE and ROCE of 21.91% and 33.76%, respectively. Considering the high CapEx requirement in the sector, NBCC's debt-free status provides us the comfort of tiding over the down cycles of the sector.

## Valuation

The company is trading at TTM P/E of 46.78x with TTM EPS of Rs. 4.22. Government has planned to provide homes to 1.8 crore household in urban area and around 3 crore in rural area. NBCC remains in niche position to garner these opportunities. As alluded, the company is backed by the government which offers low risk. Also, with the aggressive infrastructural developments and redevelopments of railways, we believe, there is an enormous opportunity for NBCC to perform.

Thus, we expect the company to clock a topline growth of ~29% over FY17-19E to Rs. 10,503 crore. Considering the margins to remain stable,

Inc/Exp Statement(Consolidated) (Rs in Crore)				
Description	2017Q3	2016Q3	2015Q3	2014Q3
Net Sales	6312.90	5826.38	4399.85	4070.10
Total Income	6452.80	5962.44	4546.99	4204.77
Total Expenditure	5901.22	5509.77	4110.46	3830.75
PBIDT	551.58	452.67	436.53	374.02
PAT	354.40	291.18	278.28	257.45
Dividend %	81.50	100.00	55.00	50.00
Adj. EPS(Rs)	3.94	3.21	3.09	2.86

### Quarter On Quarter (Consolidated) (Rs in Crore)

Particulars	201712	201709	Q on Q Var%	201612	Y on Y Var%
Net Sales	1499.78	1319.25	13.68	1689.77	-11.24
Total Expenditure	1436.51	1242.26	15.64	1627.84	-11.75
PBIDT (Excl OI)	75.01	85.77	-12.55	75.83	-1.09
PAT	73.47	81.07	-9.38	57.75	27.22
PBIDTM% (Excl OI)	4.96	6.46	-23.22	4.45	11.46
PBIDTM%	7.28	9.12	-20.18	6.51	11.83
PATM%	4.86	6.10	-20.33	3.39	43.36
Adj. EPS(Rs)	0.76	0.87	-12.64	0.72	5.56

