

Institutional Equity Research

NBCC (India)

Infrastructure | India

Annual Report Update | October 11, 2019

CMP* (Rs)	34
Upside/ (Downside) (%)	32
Bloomberg Ticker	NBCC IN
Market Cap. (Rs bn)	61
Free Float (%)	31.8
Shares O/S (mn)	1,800

BUY 

Target Price: Rs45

Recovery in Sight albeit with a Lag; Maintain BUY

IndAS 115 Adjustments Impact Net Worth by ~Rs5bn

As NBCC drives >98% of revenue from PMC (including re-development) and realty segments, a significant impact of IndAS 115 related adjustment was expected. We note that Ind AS 115 requires revenue to be recognised when an entity transfers the control of goods or services to a customer at an amount to which the entity expects to be entitled. The cumulative revenue effect under old accounting standard in term of uncompleted contracts as on April 01, 2018 stood at ~Rs11bn. Hence, NBCC has made a transitional adjustment of Rs5bn due to IndAS 115, which was on account of resultant change in assets and liabilities. However, NBCC has created one Amalgamation Adjustment Deficit Account worth Rs2.8bn (with no special mention or separate note) in its consolidated balance sheet and adjusted it with retained earnings in line with adjustments for IndAS 115. Therefore, consolidated net worth declined by Rs5.6bn YoY to Rs16.6bn and Rs2.6bn YoY decline in standalone net worth to Rs15.6bn.

Exhibit 1: IndAS 115 adjustments in Retained Earning for

Rs mn	As on 1st Apr'18
Security Deposit and Retention Money of Clients	73
Inventory (Work in Progress)	3,874
Unbilled Revenue	(644)
Deferred Revenue (Revenue Received in Advance) - PMC Segment	(6,188)
Deferred Revenue (Revenue Received in Advance) - RE Segment	(4,780)
Tax Adjustments	2,679
Net Adjustments	(4,987)

Source: Company, RSec Research

Exhibit 2: Affects on Balance Sheet from IndAS 115

	As on 31st Mar'18 As per old AS	Adjustments Under IndAS 115	As on 1st Apr'18
Assets			
Inventories	16,575	3,874	20,449
Deferred Tax Assets	1,157	2,679	3,835
Unbilled Revenue	803	-644	159
Retention & Security Deposit with Clients	2,163	73	2,236
Liabilities			
Revenue Received in Advance (PMC)		6,188	6,188
Revenue Received in Advance (RE)	79	4,780	4,859
Revenue Received in Advance (EPC)	492		492
Net Adjustments		(4,987)	

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(12.7)	(39.7)	(40.1)
Relative to Nifty	(14.5)	(37.4)	(47.5)

Shareholding Pattern (%)	June-19	Mar-19
Promoter	68.2	68.2
Public	31.8	31.8

Key Financials (Rs mn)	FY19	FY20E	FY21E
Sales	72,448	62,919	82,512
EBITDA	3,742	2,861	3,991
Net Profit	3,842	3,451	4,357
EPS (Rs)	2.1	1.9	2.4
DPS (Rs)	0.6	0.7	1.0
P/E (x)	15.9	17.7	14.0
P/B (x)	3.9	3.5	3.1
EV/EBITDA	12.1	15.1	11.3
RoE (%)	22.7	20.7	23.2

1 Year Stock Price Performance



Note: * CMP as on October 10, 2019

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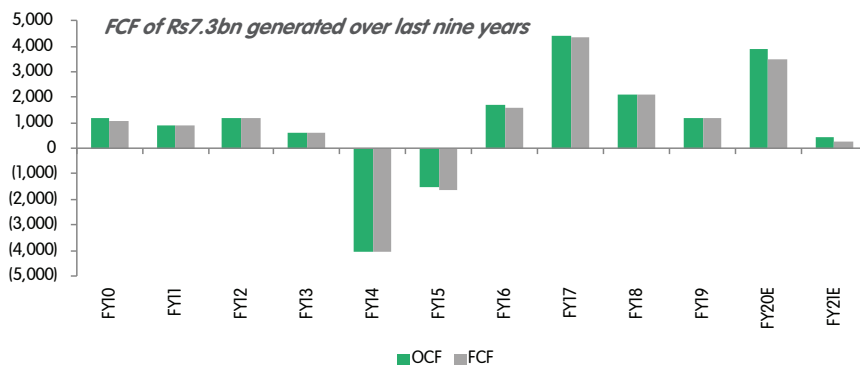
BUY 

Target Price: Rs45

Cash Generation Remains Intact; WC Capital Remains Intact

Unlike other infrastructure companies, asset light model of NBCC continues to bode well for the Company over the years. We note NBCC generated negative FCF only two times in the last nine years and aggregate FCF for last nine years stands at strong Rs7.3bn. Notably, its debtor cycle is maintained in the range of 90-120 days over the years, while its net working capital cycle has witnessed a considerable decline in the last three years to ~40-50 days currently. NBCC, with having PWO status, has been successful in getting orders (specially PMC works) at its own terms without any adverse effect on its working capital over the years.

Exhibit 3: A Snapshot of OCF and FCF Generation over the Years



Source: Company, RSec Research

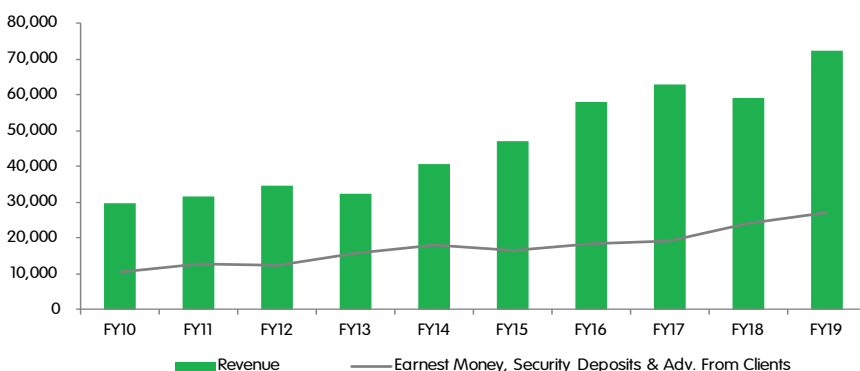
Exhibit 4: Working Capital Cycle Trend

Days	FY11	FY12	FY13	FY14	FY15	FY16	FY17	FY18	FY19	FY20E	FY21E
Debtors	66	104	91	125	142	127	132	135	117	117	117
Inventory	48	50	69	97	95	99	95	99	102	102	102
Creditors	118	136	95	98	135	133	163	192	173	170	165
WCC	(4)	17	65	123	102	93	64	43	45	49	54

Source: Company, RSec Research

We further note that the Company's aggregate sum of earnest money, security deposit and advances from the clients have been clocking 11% CAGR as against revenue CAGR of 10% over the last nine years. Therefore, its working capital cycle has been maintained over the years.

Exhibit 5: Progress of money being received from clients with reference to revenue booking



Source: Company, RSec Research

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Decent Traction in Recently Acquired Entities with Healthy Dividend Pay-out

Whilst the concerns over acquisition of sick government entities involved in EPC/PMC related activities remained an overhang for sometimes, acquisition of two entities in last two years is considered to be prudent considering the investment value and profit. NBCC acquired HSCL (51% stake) and HSCC (100%) with zero debt at balance sheet and at an aggregate investment cost of Rs3.2bn. While these companies operate at net margin of 2.5-5.5%, they maintain a healthy dividend payout ratio as well. Total order book of both the companies currently stands at Rs170bn (6.3x of FY19 aggregate revenue), which offers a strong revenue visibility. We expect these companies to generate >Rs550mn (adjusted with stake) annual dividend for NBCC in ensuing years.

Exhibit 6: A Snapshot of Key Numbers of Recently Acquired Subsidiaries

FY19- Rs mn	HSCL	HSCC
Revenue	6,383	20,495
PBT	355	795
PAT	343	498
Net Margin (%)	5.4	2.4
Debt	0	0
Dividend Payout (%)	83	60
Economic Interest (%)	51	100
Investment for Acquisition	357	2,850

Source: Company, RSec Research

Mammoth Order Book of Rs680bn misleads as Redevelopment Orders form >60%

There has never been any dearth of order backlog for NBCC and its order book to sales at 9.4x FY19 revenue continues to remain superior to the industry over the years. However, its order book off-late was dominated by the redevelopment orders, which currently are in the range of Rs426bn out of total order book of Rs680bn. As progress on key redevelopment projects is in slow lane, we are factoring in only Rs2.5bn and Rs4.2bn revenue from the redevelopment projects for FY20E and FY21E, respectively. Notably, PMC and EPC orders stand at Rs254bn (3.5x of FY19 revenue), which will essentially contribute to revenue in the ensuing quarters. Further, its total order inflow stood at Rs124bn (PMC orders) in FY19 and the Company had earlier guided for similar kind of order inflow for the current fiscal.

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Exhibit 6: Key Projects

Outstanding Order Backlog	Rs bn	Type
Sarojini Nagar	135	Redevelopment
East Delhi Hub Kakardoorma (DDA)	60	Redevelopment
Netaji Nagar	50.9	Redevelopment
Ayur Vigyan Nagar (AIMS)	25	Redevelopment
Nauroji Nagar	25	Redevelopment
Western Campus (AIMS)	20	Redevelopment
Sanjay Lake	28	Redevelopment
Kidwai Nagar	2.5	Redevelopment
Twin Trade Tower Guwahati	25	Redevelopment
River Front Development, Uttarakhand	7.5	Redevelopment
REDCOR Jaipur Gandhi Nagar	2.5	Redevelopment
River Front Development, Uttarakhand	7.5	Redevelopment
REDCOR Jaipur Gandhi Nagar	2.5	Redevelopment
Railway Station Redevelopment Projects (10 Projects)	35	Redevelopment
Total Redevelopment Projects	426	
Pragati Maidan (ITPO)	9	PMC
PMGSY work (Orissa)	2.9	PMC
Mandi Hospital, HP	7.5	PMC
IIT Mandi, HP	2.5	PMC
IIT Bhubaneswar	5.5	PMC
SDMC, New Delhi	7	PMC
MLA Hostel Mumbai	4	PMC
Sports Injury Centre, New Delhi	4	PMC
VIDC, Ghosikurd Irrigation Project (Remain work 70000)- MH	5.5	PMC
300 bedded Hospital at Indore	2.5	PMC
Road Uttarakhand	20	PMC
Border Fencing	6.5	PMC
10 Convention centre in African Countries	20	PMC
AIIMS Bilaspur	12	PMC
Dubai Expo work	3	PMC
SAIL Hospital	4	PMC
SDI Campus, Bhubaneswar	2	PMC
IIM Ranchi	2.5	PMC
Deoghar - AIMS, Jharkhand	8	PMC
Social Housing Units- Mauritius	2.5	PMC
IIT Delhi	2.5	PMC
IIFT Delhi	2.5	PMC
Law Security Enforcement Institute, Maldives	1.5	PMC
Vaniya Bhavan	1.3	PMC
Supreme Court Building, Mauritius	1	PMC
Other 130 Ongoing Small Projects including EPC	114	PMC
Total Projects Other than Redevelopment	254	
Total	680	

Source: Company, RSec Research

Outlook & Valuation

Over the last two years, indiscriminate delays in key redevelopment projects and likely foray into asset development business have been the major drags for the stock. While it is still difficult to ascertain about likely revenue booking from redevelopment projects, we believe sizeable opportunity in PMC business is sufficient enough to witness healthy traction, going ahead. Further, unlike other infrastructure companies, strong balance sheet, decent return ratios and sustained cash flow generation augur well for the Company. We trim down our revenue estimates by 16%/17% for FY20E/FY21E mainly to factor in prolonged delay in key redevelopment orders. However, we broadly maintain our earnings estimates for FY20E/FY21E post factoring in lower corporate tax rate. Current valuations at 17.7x/14x for FY20E/FY21E earnings appear to be attractive. The stock is currently trading at par valuations of the industry as against premium valuations it commanded over the years. **We reiterate our BUY recommendation on the stock with an unrevised SOTP-based Target Price of Rs45.**

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Profit & Loss Statement

Y/E March (Rs mn)	FY18	FY19	FY20E	FY21E
Income	59,050	72,448	62,919	82,512
% yoy growth	(6.0)	22.7	(13.2)	31.1
Operating Expenses	55,056	68,705	60,059	78,521
EBIDTA	3,994	3,742	2,861	3,991
EBIDTA Margin (%)	6.8	5.2	4.5	4.8
Depreciation & Amortization	27	26	35	46
Finance Costs	2	6	7	7
Other Income	1,061	1,875	1,793	1,884
PBT before excep items	5,026	5,585	4,612	5,822
PBT before extraordinary Items	5,026	5,585	4,612	5,822
PBT	5,026	5,585	4,612	5,822
Tax	1,690	1,743	1,161	1,465
% Tax	33.6	31.2	25.2	25.2
Net Profit- Reported	3,336	3,842	3,451	4,357
YoY Growth (%)	(5.0)	15.2	(10.2)	26.3
Net Profit- Adjusted	3,336	3,842	3,451	4,357
Net Profit Margin (%)	5.6	5.3	5.5	5.3

Balance Sheet

Y/E March (Rs mn)	FY18	FY19	FY20E	FY21E
Sources of Funds				
Share Capital	1,800	1,800	1,800	1,800
Reserves & Surplus	16,414	13,848	15,888	18,075
Total Shareholder's funds	18,214	15,648	17,688	19,875
Non- Current Liabilities	734	966	1,005	1,082
Current Liabilities	57,552	66,380	68,526	69,005
Total Liabilities	76,500	82,994	87,220	89,961
Application of Funds				
Gross Fixed Assets	694	812	1,212	1,412
Less: Acc. Depreciation	75	92	127	173
Net Fixed Assets	618	720	1,085	1,239
Deferred Tax Assets (Net)	1,157	4,012	4,012	4,012
Investments	603	3,603	3,603	3,603
Inventories	16,575	18,323	18,914	20,321
Sundry Debtors	22,585	21,076	21,696	23,309
Other Current Assets	6,143	6,585	6,779	7,283
Cash & Bank Balances	17,135	15,806	17,888	15,974
Loans & Advances	11,314	12,364	12,726	13,673
Total Current Assets	73,753	74,155	78,004	80,559
Other Non-Current Assets	370	420	432	465
Asset Held for Sale		84	84	84
Total Assets	76,500	82,994	87,220	89,961

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Cash Flow Statement

Y/E March (Rs mn)	FY18	FY19	FY20E	FY21E
PBT	5,026	5,585	4,612	5,822
Depreciation	27	26	35	46
Net Change in Working Capital	(2,092)	(1,956)	407	(3,947)
Others	241	(1,125)	-	-
Tax Paid	(1,075)	(1,320)	(1,161)	(1,465)
Net Cash from Operating Activities	2,128	1,210	3,893	456
Capex	(14)	(17)	(400)	(200)
Sale / (Purchase) of Investments	472	(150)	-	-
Others	1,285	1,707	-	-
Net Cash used in Investing Activities	1,743	1,540	(400)	(200)
Divi. on Equity Shares paid (Including DDT)	(1,776)	(1,215)	(1,410)	(2,170)
Borrowings (Net)	(59)	-	-	-
Share Issue Exps.	-	(53)	-	-
Net Cash used in Financing Activities	(1,835)	(1,268)	(1,410)	(2,170)
Net Increase/ (Decrease) in Cash	2,036	1,482	2,082	(1,914)

Key Ratios

Y/E March	FY18	FY19	FY20E	FY21E
Valuation Ratio (x)				
P/E	18.3	15.9	17.7	14.0
P/CEPS	18.2	15.8	17.6	13.9
P/BV	3.4	3.9	3.5	3.1
EV/EBIDTA	11.0	12.1	15.1	11.3
EV/Sales	0.7	0.6	0.7	0.5
Dividend Payout (%)	44.5	26.2	33.9	41.3
Dividend Yield (%)	2.4	1.6	1.9	2.9
Per Share Data (Rs)				
EPS (Basic)	1.9	2.1	1.9	2.4
EPS (Diluted)	1.9	2.1	1.9	2.4
CEPS	1.9	2.1	1.9	2.4
DPS	0.8	0.6	0.7	1.0
Book Value	10	9	10	11
Returns (%)				
RoCE	27.7	31.4	26.1	29.4
RoE	19.1	22.7	20.7	23.2
Turnover ratios (x)				
Asset Turnover (Gross block)	85.1	89.2	51.9	58.4
Inventory (days)	99	102	102	102
Receivables (days)	135	117	117	117
Payables (days)	192	173	170	165
WCC (days)	43	45	49	54
Solvency ratios (x)				
D/E (x)	(0.9)	(1.0)	(1.0)	(0.8)
Current Ratio (x)	1.3	1.1	1.1	1.2

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Rating History

Date	Reco	CMP	TP
16-Aug-19	BUY	35	45
03-Jun-19	HOLD	62	64
28-Mar-19	HOLD	65	62
15-Feb-19	BUY	49	62
19-Nov-18	BUY	60	90
16-Aug-18	BUY	75	103
29-May-18	BUY	95	128
16-Feb-18	BUY	208	295
21-Nov-17	BUY	271	300

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Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%

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