19 November 2020

NBCC (India)

Rating: **Hold**
Target Price: Rs28
Share Price: Rs24

Awarding the key, operations gradually pick up pace; retaining a Hold

While persistent Covid-headwinds led to sub-optimum Q2 revenue, sequential improvement shows fast-recovering execution efficiencies at NBCC's sites, implying better times ahead. Besides, labour returning gradually, strong awarding momentum in H1 due to the Amrapali projects brightens our outlook for a better H2. Still, the steep FY21 revenue guidance appears to run a risk. The strong balance sheet and order backlog are key positives, but the commentary for EBITDA was discomfiting. To harness the true potential of its strengths, tendering uptick is the key; till then, we retain our Hold recommendation.

Abundant assurance, but not all moving. While the ~Rs720bn OB implies abundant revenue assurance (~18x TTM PMC and EPC revenues), awarding contracts is the key to the OB translating to revenue. The company aims to award projects of ~Rs120bn in FY21. Having awarded contracts of ~Rs85bn-87bn (till now in FY21), it looks at the balance by end-FY21. At present, moving orders in the OB are pegged at ~Rs180bn-200bn.

FY21 revenue guidance yet ambitious. On the yet evolving pandemic, labour available at sites and as execution begins at some of the recent awards, management now talks of ~Rs60bn revenue in FY21 (vs. Rs50bn+ guided to earlier). This seems ambitious, implying at least Rs22.8bn quarterly revenue for H2 FY21, vs. ~Rs10.6bn average TTM quarterly revenue.

Updates on Amrapali, Jaypee. On Amrapali, the company has awarded works of ~Rs73.1bn till now; only two projects are pending to be awarded. Also, it has begun handing over flats (695 till now). On Jaypee, final hearings at the Supreme Court have been concluded. The outcome is awaited.

Valuation. At the ruling price, the stock quotes at a PE of 15.9x FY22e, against our target-price-implied exit multiple of 18.5x FY22e. We retain our Hold rating with a TP of Rs28, derived using 7x PMC EBIT, 4x EPC EBIT and the book-value for real estate. **Risk:** Prolonged Covid'19-impact.

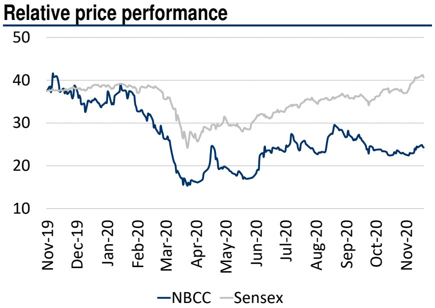
Key financials (YE Mar)	FY18	FY19	FY20P	FY21e	FY22e
Sales (Rs m)	59,050	72,448	52,103	44,066	62,266
Net profit (Rs m)	3,336	3,841	799	1,888	2,754
EPS (Rs)	1.9	2.1	0.4	1.0	1.5
Growth (%)	-5.0	15.1	-79.2	136.3	45.9
P/E (x)	49.7	31.1	36.8	23.1	15.9
EV / EBITDA (x)	37.0	27.5	75.0	95.9	19.5
PBV (x)	9.1	7.6	1.9	2.7	2.5
RoE (%)	19.1	22.7	5.2	12.1	16.6
RoCE (%)	29.5	36.9	19.2	19.2	25.9
Net debt / equity (x)	-0.9	-1.0	-1.2	-1.0	-0.8

Source: Company, Anand Rathi Research *P- Provisional*

Key data	NBCC IN / NATO.BO
52-week high / low	Rs40 / 14
Sensex / Nifty	43600 / 12772
3-m average volume	$2.4m
Market cap	Rs43.7bn / $588m
Shares outstanding	1800m

Shareholding pattern (%)	Sep-20	Jun-20	Mar-20
Promoters	61.8	61.8	61.8
- *of which, Pledged*	-	-	-
Free float	38.3	38.3	38.3
- Foreign institutions	2.9	3.9	5.8
- Domestic institutions	11.9	12.4	13.1
- Public	23.4	22.0	19.4

Relative price performance



Source: Bloomberg

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Quick Glance – Financials and Valuations (standalone)

Fig 1 – Income statement (Rs m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
Order backlog	800,000	680,000	700,000	751,468	807,606
Order inflows	118,465	129,274	128,560	93,750	116,437
Net revenues	**59,050**	**72,448**	**52,103**	**44,066**	**62,266**
Growth (%)	*-6.0*	*22.7*	*-28.1*	*-15.4*	*41.3*
Direct costs	51,523	65,680	49,145	41,134	57,860
SG&A	3,513	3,010	2,802	2,634	2,895
EBITDA	**4,015**	**3,758**	**156**	**298**	**1,510**
EBITDA margins (%)	*6.8*	*5.2*	*0.3*	*0.7*	*2.4*
Depreciation	27	26	28	27	29
Other income	1,061	1,875	2,351	2,319	2,294
Interest expenses	23	22	67	52	73
PBT	5,026	5,585	2,413	2,538	3,703
Effective tax rate (%)	*33.6*	*31.2*	*66.9*	*25.6*	*25.6*
+ Associates / (Minorities)	-	-	-	-	-
Net income	3,336	3,841	799	1,888	2,754
Adjusted income	3,336	3,841	799	1,888	2,754
WANS	1,800	1,800	1,800	1,800	1,800
FDEPS (Rs / sh)	1.9	2.1	0.4	1.0	1.5

Fig 2 – Balance sheet (Rs m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
Share capital	1,800	1,800	1,800	1,800	1,800
Net worth	18,214	15,648	15,236	15,881	17,391
Debt	-	-	-	-	-
Minority interest	-	-	-	-	-
DTL / (Assets)	-1,157	-4,012	-3,029	-3,029	-3,029
Capital employed	**17,057**	**11,636**	**12,207**	**12,851**	**14,362**
Net tangible assets	636	737	603	626	648
Net intangible assets	-	-	-	-	-
Goodwill	-	-	-	-	-
CWIP (tang. & intang.)	-	-	-	-	-
Investments (strategic)	586	3,436	3,335	3,335	3,335
Investments (financial)	-	150	100	-	-
Current assets (ex cash)	56,987	58,852	52,977	49,171	61,825
Cash	17,135	15,806	17,609	15,088	14,246
Current liabilities	58,287	67,346	62,418	55,370	65,692
Working capital	-1,300	-8,494	-9,441	-6,199	-3,867
Capital deployed	**17,057**	**11,636**	**12,207**	**12,851**	**14,362**
Contingent liabilities	12,809	14,736	-	-	-

Fig 3 – Cash-flow statement (Rs m)

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
PBT + Net interest expense	3,988	3,732	128	271	1,482
+ Non-cash items	27	26	28	27	29
Oper. prof. before WC	4,015	3,758	156	298	1,510
- Incr. / (decr.) in WC	128	-7,194	-947	3,242	2,331
Others incl. taxes	1,851	1,915	638	650	949
Operating cash-flow	2,036	9,037	465	-3,594	-1,770
- Capex (tang. + intang.)	13	128	-106	50	50
Free cash-flow	2,023	8,909	572	-3,644	-1,820
Acquisitions	-	-	-	-	-
- Div.(incl. buyback & taxes)	1,776	1,215	1,243	1,243	1,243
+ Equity raised	-	-	-	-	-
+ Debt raised	-59	-	-	-	-
- Fin investments	-462	3,000	-151	-100	-
- Net interest exp. + misc.	-955	6,022	-2,323	-2,267	-2,221
Net cash-flow	1,605	-1,328	1,802	-2,521	-842

Source: Company, Anand Rathi Research P- Provisional

Fig 4 – Ratio analysis

Year-end: Mar	FY18	FY19	FY20P	FY21e	FY22e
P/E (x)	49.7	31.1	36.8	23.1	15.9
EV / EBITDA (x)	37.0	27.5	75.0	95.9	19.5
EV / Sales (x)	2.5	1.4	0.2	0.6	0.5
P/B (x)	9.1	7.6	1.9	2.7	2.5
RoE (%)	19.1	22.7	5.2	12.1	16.6
RoCE (%)	29.5	36.9	19.2	19.2	25.9
RoIC (%)	-	-114.8	-11.2	-30.9	-82.0
DPS (Rs / sh)	0.8	0.6	0.6	0.6	0.6
Dividend yield (%)	0.9	0.8	3.5	2.4	2.4
Dividend payout (%) - incl. DDT	53.2	31.6	155.7	65.9	45.1
Net debt / equity (x)	-0.9	-1.0	-1.2	-1.0	-0.8
Receivables (days)	140	106	96	109	109
Inventory (days)	102	92	124	110	109
Payables (days)	185	148	151	150	150
CFO : PAT %	61.0	235.3	58.3	-190.4	-64.3

Source: Company, Anand Rathi Research P- Provisional

Fig 5 – Price movement

Source: Bloomberg

Fig 6 – Price-to-Book-value band

Source: Bloomberg, Anand Rathi Research

Result / Concall highlights

Q2 revenues yet subdued due to the continuing Covid-19 but q/q improvement indicates returning execution efficiencies

The EBITDA turned positive on better absorption of fixed costs as the scale of operations improved

Other income key for the weak operating profit to stay in the green

Fig 7 – Financial highlights (standalone)

Rs m	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	% Y/Y	% Q/Q
Revenue from Oper.	12,566	10,985	12,655	15,897	4,365	10,066	-8.4	130.6
EBITDA	19	-166	119	184	-271	87	-	-
EBITDA margin (%)	*0.1*	*-1.5*	*0.9*	*1.2*	*-6.2*	*0.9*	-	-
Interest	26	13	13	13	13	14	1.7	1.3
Depreciation	7	8	7	6	6	6	-25.2	-7.5
Other income	377	1,117	395	462	401	398	-64.4	-0.7
PBT	362	930	494	626	110	466	-49.9	323.3
Tax	109	1,220	144	141	32	124	-89.8	291.0
PAT	253	-289	350	485	78	342	-	336.4
Adj. PAT	253	-289	350	485	78	342	-	336.4

Source: Company

Despite only ~2% revenue contribution from the real estate segment in Q2, it helped contain the y/y decline

Q2 segment EBIT margin was also aided by contribution from the higher margin real-estate segment

Real estate and EPC EBIT margins higher y/y, but lack the scale to effect any material improvement

Fig 8 – Segment highlights - standalone

Rs m	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	% Y/Y	% Q/Q
Revenue								
EPC	321	480	854	618	175	393	-18.2	124.3
PMC	12,176	10,462	11,590	13,844	4,119	9,406	-10.1	128.3
Real Estate	48	13	157	1,234	37	155	1,090.0	312.9
Total	**12,546**	**10,955**	**12,601**	**15,696**	**4,332**	**9,953**	**-9.1**	**129.8**
Margins (%)								
EPC	4.5	1.6	12.7	10.5	15.8	4.4	-	-
PMC	4.1	4.6	4.0	5.5	-1.0	4.2	-	-
Real Estate	2.4	-126.9	34.9	-7.7	13.1	15.4	-	-
Blended	**3.1**	**8.6**	**4.0**	**4.1**	**2.9**	**4.8**		

Source: Company

Q2 consolidated financials indicate a ~35% y/y revenue decline in subsidiaries (to ~Rs3.7bn)

Subsidiaries continue to see margin pressures; reported consolidated EBITDA margin down 103bps, but better than standalone operations

Derived margin for subsidiaries at ~1.6% for Q2

Fig 9 – Financial highlights - consolidated

Rs m	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	% Y/Y	% Q/Q
Revenue from oper.	18,911	16,656	19,300	26,003	6,845	13,765	-17.4	101.1
EBITDA	271	-15	259	520	-356	148	-	-
EBITDA margin (%)	*1.4*	*-0.1*	*1.3*	*2.0*	*-5.2*	*1.1*	-	-
Interest	27	13	13	14	13	14	1.8	1.3
Depreciation	20	10	16	19	15	16	66.4	9.0
Other income	506	549	493	511	456	497	-9.4	9.0
PBT	730	511	723	998	73	616	20.4	746.4
Tax	221	1,421	172	158	-30	159	-88.8	-
PAT	509	-910	550	840	102	456	-	345.8
Cons. PAT	489	-992	495	790	59	428	-	622.1

Source: Company

Like standalone, PMC the key reason for lower y/y consolidated revenues

Consolidated Q2 PMC segment margin down slightly y/y, drags down overall margin, despite y/y higher EPC and real-estate segment margins

Fig 10 – Segment highlights - consolidated

Rs m	Q1 FY20	Q2 FY20	Q3 FY20	Q4 FY20	Q1 FY21	Q2 FY21	% Y/Y	% Q/Q
Revenue								
EPC	791	882	1,232	1,210	356	648	-26.5	82.2
PMC	18,018	15,668	17,777	23,243	6,376	12,799	-18.3	100.7
Real Estate	48	13	157	1,234	37	155	1,090.0	312.9
Total	**18,858**	**16,563**	**19,167**	**25,687**	**6,770**	**13,601**	**-17.9**	**100.9**
Margins (%)								
EPC	4.5	8.1	9.7	9.0	16.9	8.3	-	-
PMC	4.6	3.8	3.8	4.4	-1.3	3.7	-	-
Real Estate	2.9	-83.4	33.9	-7.9	10.0	15.9	-	-
Blended	**4.0**	**3.2**	**3.9**	**3.9**	**1.3**	**4.6**		

Source: Company

Concall highlights

- **Cash in hand.** On 30th Sep'20, standalone cash and bank balance were ~Rs13.8bn. Consolidated cash & equivalents were ~Rs47.8bn, implying subsidiaries have access to ~Rs34bn cash and bank balances. Of the consolidated cash & equivalents, ~Rs7.5bn was the company's funds; the balance, customer advances.
- **Order backlog detailed.** The management-pegged standalone OB of ~Rs720bn provides strong revenue assurance of ~18x TTM PMC and EPC revenues.
  - Self-liquidating re-development orders are of ~Rs370bn; the balance is pure-play PMC and EPC projects (~Rs350bn).
  - Of the ~Rs720bn OB, works of ~Rs180bn-200bn have been awarded and execution is underway.
  - The company awarded projects of ~Rs85bn-87bn in FY21 (till now) and looks to float more tenders and subsequently award more. It largely retained its target of awarding projects of ~Rs120bn by the year end.
  - Of the projects awarded thus far in FY21, ~Rs60bn pertains to the Amrapali projects and projects of ~Rs30bn have been awarded only recently. Thus management expects the contribution from these to commence in H2.
  - Management had earlier indicated that it looks to award orders such as CCL Ranchi, the Election Commission building, and so on.
- **Deal pipeline.** The company very recently added two more opportunities to its self-liquidating re-development OB, aggregating ~Rs100bn. This comprises a ~Rs40bn opportunity from the Delhi Transport Commission (to re-develop four land parcels) and a ~Rs60bn opportunity from the Delhi Jal Board.
- **Updates on Amrapali.** The company has so far awarded 22 projects aggregating an estimated cost of ~Rs73.1bn. Of these, it has already completed two, of ~Rs75m, and handed over ~695 flats till now. At present, two tenders are pending to be awarded, owing to delayed approvals by the receiver appointed by the Supreme Court. Work has commenced and is progressing steadily at the projects awarded.
  - On financing of the project, the company said it would receive its dues from the receiver appointed by the Supreme Court. It said the court receiver expects ~Rs40bn from existing homebuyers themselves, the balance largely from unsold inventory.
  - Of the monies expected from homebuyers, the court receiver has been receiving payments regularly and recently received a tranche of ~Rs4.1bn.
- **Jaypee Infratech.** Management said the final hearing in the Supreme Court on the various appeals filed has been concluded. It now awaits a final judgement. It has further proposed to discuss the project in more detail after the verdict, hopefully a favourable one.
- **The Delhi Re-development Colony projects.** It has received court clearances for all three of its large colony re-development projects. It is now in the process of again obtaining approvals from certain authorities (required according to the court clearance).
  - Sarojini and Netaji Nagars have recently obtained part forest

clearances. Management said it intends to float tenders and award packages from these two projects so that work can commence at the earliest once all requisite approvals are in place.

- At the Nauroji Nagar project, execution is progressing smoothly at the awarded packages (of ~Rs19.5bn). Management said there were ~2,200 labourers at the site. It plans to raise this to ~3,000 shortly.

- **Monetisation at the self-liquidating portfolio.** Across its self-liquidating re-development projects (pegged at ~Rs370bn), it has thus far monetised Rs27bn (primarily at Nauroji Nagar). Management expects the monetisation momentum to improve further, especially as Covid-led issues are gradually settled and the real-estate cycle improves from the present lows.
  - It added that, as these monies would be needed over time (when construction milestones have been achieved), it envisages no immediate needs and hopes to monetise pending inventories over the next 3-4 years.
  - It is also open to monetising inventories with platform investors, the likes of Blackstone and Brookfield. In fact, it has had discussions with Blackstone in the past. But anything definitive would first have to be approved by the company's Board.

- **Seed-money exposure.** The company invested ~Rs11bn of its own monies in the colony re-development projects. It expected to earn interest on the monies invested. The interest is currently being accrued and the monies along with interest would become payable once sales momentum picks up at these self-liquidating projects. On a quarterly basis, it books ~Rs0.4bn as interest on the monies invested.

- **Guidance.** Keeping in view the yet evolving Covid-19 pandemic, the labour available at its sites and as execution commences at some of the recently awarded projects, management now guides to FY21 revenues of ~Rs60bn (against the Rs50bn+ guided to earlier). The guidance implies a steep ask of over 60% y/y revenue growth in H2.

- **Outlook on EBITDA margin.** Management attributed the recent margin pressures to the Covid-impacted lower revenues, leading to under-absorption of fixed costs. Even otherwise, management expects EBITDA margins of ~1-2% owing to reduction in PMC fees from its clients to ~5-7%, from ~7-10% earlier. Another reason for the constrained operating profitability was the lower turnover from the margin-accretive real-estate segment.

- **Outlook on labour and execution.** The pace of execution is still recovering, especially considering the sub-optimum labour available at all its sites.
  - Labour availability at its sites in early-Jul'20 was pegged at ~18,000; it then rose to ~34,000 by mid-Sep'20. It is now pegged at ~40,000.
  - Across all its sites, the company needs ~60,000 labourers, pegging current labour at ~66%.
  - Management expects H2 to outstrip H1, citing improving labour availability and as execution commences on some of the recently awarded projects. It indicated that, while blended labour availability was ~66%, some key sites already boast ~80-85% availability.

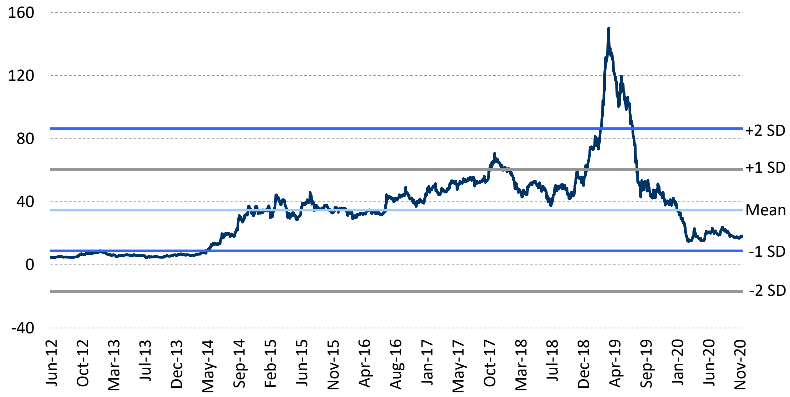
Earnings revision and Valuation

Keeping in mind the persistent Covid headwinds and the gradually improving labour situation and as execution has yet to commence on some of the recently awarded projects, we retain our earlier estimates. We also take into account the yet awaited pick-up in momentum at its self-liquidating re-development portfolio. Our estimates are still conservative compared to management's revenue guidance.

On our retained estimates, we value the EPC business at 4x EV/EBIT, the PMC business at 7x EV/EBIT and real estate at 1x capital employed. Consequently, our sum-of-parts-based TP works out to Rs28 (unchanged).

At the ruling price, the stock quotes at PE of 23.1x FY21e and 15.9x FY22e, against our target-price-implied exit multiple of 18.5x FY22e.

Fig 12 – One-year-forward PE band



Source: Bloomberg, Anand Rathi Research

Risks

- Prolonged Covid-19 impact.
- Greater dependence on government projects.
- Regulatory clearances.

Appendix

Analyst Certification

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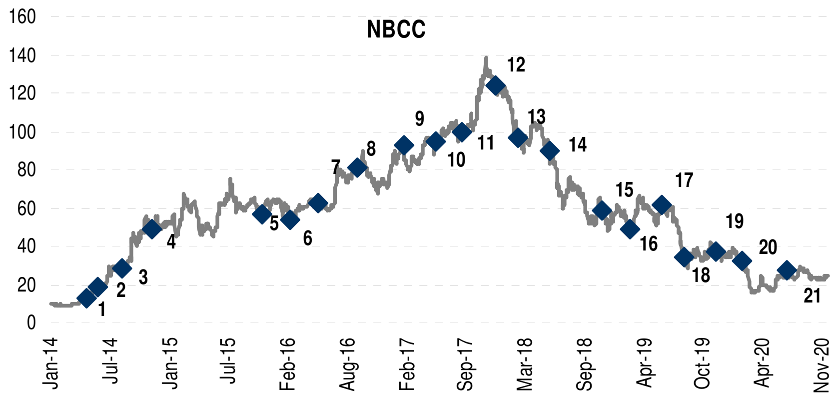
Important Disclosures on subject companies

Rating and Target Price History (as of 19 November 2020)



	Date	Rating	TP (₹)	Share Price (₹)
1	28-Apr-14	Buy	27	17
2	30-May-14	Buy	37	31
3	18-Aug-14	Buy	54	45
4	20-Nov-14	Hold	70	77
5	13-Nov-15	Hold	84	91
6	12-Feb-16	Hold	82	84
7	17-May-16	Hold	84	98
8	17-Sep-16	Hold	108	127
9	16-Feb-17	Sell	140	145
10	30-May-17	Sell	95	98
11	21-Aug-17	Sell	104	104
12	11-Dec-17	Hold	142	127
13	19-Feb-18	Hold	131	102
14	31-May-18	Hold	110	92
15	16-Nov-18	Hold	67	61
16	15-Feb-19	Hold	61	50
17	03-Jun-19	Hold	62	62
18	13-Aug-19	Hold	41	34
19	22-Nov-19	Hold	37	37
20	13-Feb-20	Hold	38	32
21	08-Jul-20	Hold	28	27

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Ratings Guide (12 months)	Buy	Hold	Sell
Large Caps (>US$1bn)	>15%	5-15%	<5%
Mid/Small Caps (<US$1bn)	>25%	5-25%	<5%

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