

Investment Ideas

NAGARJUNA CONSTRUCTION COMPANY LTD

BUY

Nagarjuna Construction Company Limited (NCC), a leading construction player, has presence across key business verticals of urban infrastructure, transportation, irrigation, energy and industrial segments. The company's infrastructure development business, currently, has a portfolio of 5 road projects and 1700MW of power capacity.

- Building & Housing is the largest segment for NCC with a clear focus on Government orders, unlike most of its peers who derive projects from private real estate developers. Currently, the order book from this segment stands at Rs37bn contributing 24% of the total order book.
- Going forward, the company's foray into newer segments like Power, Metals & Mining, Oil & Gas, etc and expected revenue streams from the BOT road projects will lead to revenue growth.
- The company registered a strong 64% growth in order inflows at Rs 89bn for FY2010 taking the total order book to Rs 154bn, 2.6 times the FY2010 revenues. For FY11, the management has given a strong revenue growth guidance of 24% and expects order inflows to the tune of Rs 150bn.
- We estimate Nagarjuna Construction Company Ltd's revenues to grow at a CAGR of 19.6% over FY2010-12 to Rs 84bn by FY2012. We further estimate that the PAT would grow at a CAGR of 29.3% over FY2010-12 to Rs 4.73bn in FY2012 from Rs 2.82bn in FY2010.

Based on a consolidated FY12 P/E multiple of 12, the fair value for the company works out to Rs 221.

Financial Snapshot

Projections (Rs Mn)	FY08A	FY09A	FY10A	FY11E	FY12E
Revenue	36,179	47,717	58,787	71,955	84,043
Y-o-Y Growth %	22.7%	31.9%	23.2%	22.4%	16.8%
EBIDTA	4,426	5,546	7,536	8,818	9,775
Y-o-Y Growth %	62.1%	25.3%	35.9%	17.0%	10.9%
PAT after MI & EO	1,675	1,813	2,827	4,275	4,726
Y-o-Y Growth %	73.7%	8.3%	55.9%	51.2%	10.6%
EPS Rs	7.1	7.7	10.8	16.7	18.4
BVPS Rs	67.4	75.4	89.9	106.6	125.0
EBIDTA %	12.2%	11.6%	12.8%	12.3%	11.6%
NPM %	4.6%	3.8%	4.8%	5.9%	5.6%
ROE %	10.5%	10.3%	12.0%	15.6%	14.7%
PER x				10.7	9.7
P/B Ratio				1.7	1.4

Recommendations	<= 1 year	1 - 2 yrs	2 - 5 yrs
Strong Buy			
Buy			
Hold			
Reduce			
Sell			

Strong Buy – Expected Returns > 20% p.a.
Buy – Expected Returns from 10 to 20% p.a.
Hold – Expected Returns from 0 % to 10% p.a.
Reduce – Expected Returns from 0 % to 10% p.a. with possible downside risk
Sell – Returns < 0 %



STOCK DATA

BSE / NSE Code	500294/ NAGARCONST
Bloomberg Code	NJCC IN EQUITY
No. of Shares (Mn)	256.6
Sensex / Nifty	17,957 / 5,398

PRICE DATA

CMP Rs (28th July '10)	178.1
Beta	1.34
Market Cap (Rs mn)	45,688
52 Week High-low	197 - 119.2
Average Daily Volume	236,596

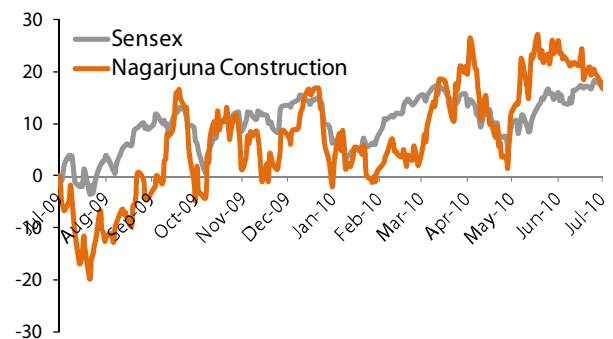
STOCK RETURN (%)

	30D	3M	6M	1Y
Nagarjuna Construction	-7%	-2%	15%	17%
Sensex	1%	3%	10%	17%
Nifty	1%	3%	11%	18%

SHARE HOLDING PATTERN (%)

Promoter	20.2
Institution	57.2
Non Institution	22.7
Total	100.0

1 Year Price Performance (Rel. to Sensex)



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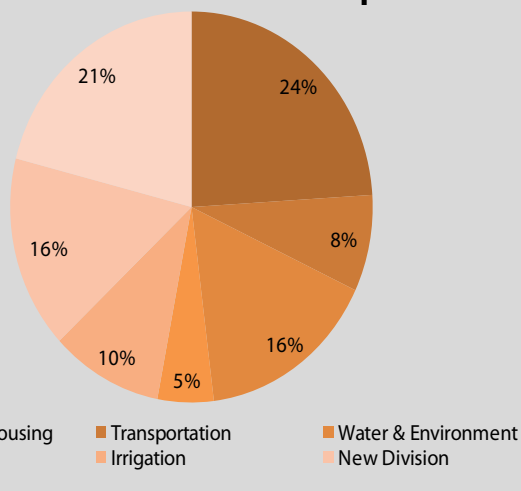


BUSINESS PROFILE

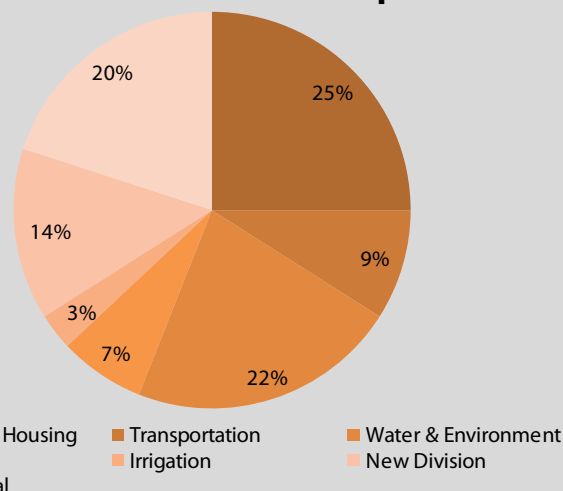
Nagarjuna Construction Company Ltd (NCC), one of the largest construction companies, has presence across 12 states and 7 business verticals - Buildings & Housing, Transportation, Water & Environment, Electrical, Irrigation, New Divisions (Power, Oil & Gas, Metals & Mining) and International. Internationally, NCC has presence in Oman & UAE and is focused on Transportation, Buildings & Housing and Water & Sanitation. In terms of client composition - 18% of the orders come from the private sector, 60% from the government sector and the balance 22% from the International markets. NCC also has presence in BOT/BOOT type projects. Currently the company has 5 road and 3 power BOT projects under its portfolio. The company's real estate development projects are undertaken by NCC Urban Infrastructure Ltd (80% subsidiary of NCC). It currently has 17 projects with presence in 6 cities mostly in Southern India. The company has a total developable area of around 28.2 million square feet (msf) (410 acres), of which 20% is currently under development.

Strong order book of 2.6 times its FY2010 revenues

FY10 Order Book Break-up



FY10 Revenue Break-up



Foray into newer segments and BOT road projects offer revenue visibility....

Foray into the newer verticals (Power, Oil & Gas, Metals & Mining) will add substantially to the company's turnover and profitability, derisking its dependence on specific sectors and verticals. The company expects to receive order inflow worth over Rs 150bn in the current fiscal, increasing the total order book position to around Rs 232bn by the end of FY2011. With a focus on a faster order book completion, the management has guided for a top line of Rs. 73bn on consolidated basis in FY2011. The company's 5 BOT road projects consists of 3 toll based and 2 annuity based projects. Of the 5 projects, two are already operational and the balance three will commence operation in second half of FY11 aiding higher growth.

Diversified order book to provide a unique hedge to the company in case of slowdown in orders from any particular segment.

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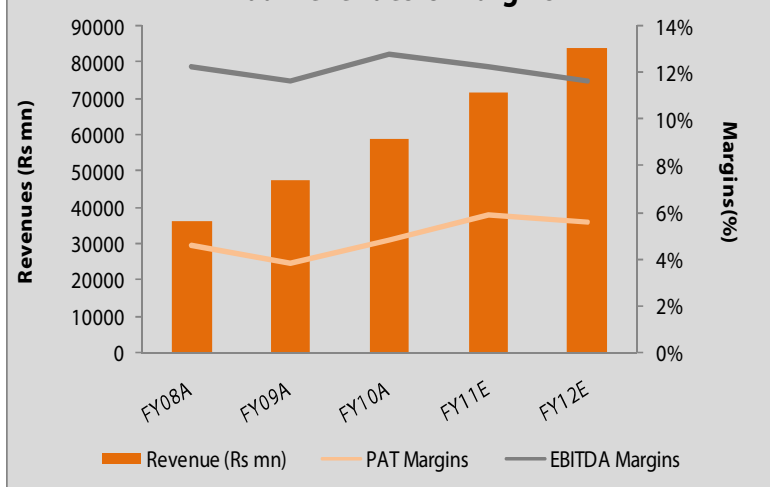
BUSINESS PERFORMANCE

Strong Order Inflow Growth....

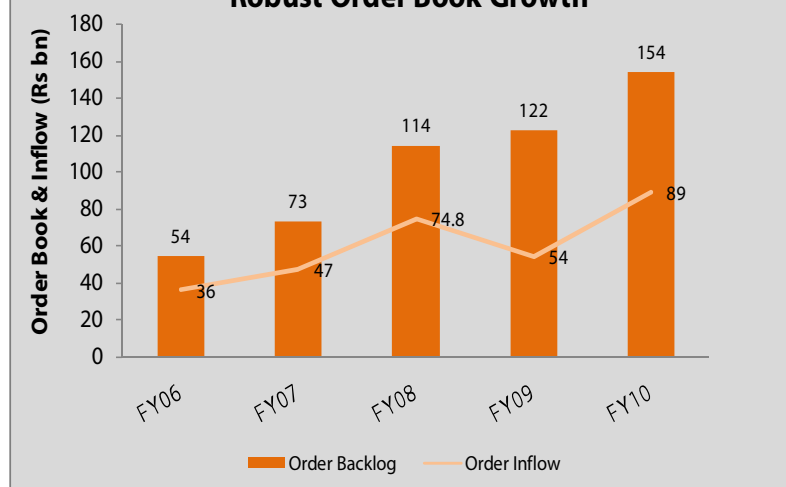
The FY2010 consolidated revenues were higher by 23% to Rs 58.7bn. The EBITDA grew 36% to Rs 7.5bn as EBITDA margins expanded to 12.8% from 11.6% in FY09, with order mix in favour of high margin orders from electrical and water segments. The net profit was higher by 56% to Rs 2.8bn after accounting for minority interest and share of profit/ loss from associates. Total revenue from international operation during FY10 stood at Rs 11.3bn, forming about 20% of the revenues.

Net Profit is expected to grow at a CAGR of 29.3% over FY2010-12

Annual Revenues & Margins



Robust Order Book Growth



Peer Group Comparison

Companies	Revenue (Rs. mn)	EBIDTA Margin (%)	PAT Margin (%)	ROE %	P/E (x)	P/B (x)	CMP (Rs.)	FV (Rs.)
Nagarjuna Construction	58,787	13%	5%	12%	16.5	2.0	178	2.0
IVRCL Infrastructure	58,262	14%	4%	8%	21.6	1.7	174	2.0
Ahluwalia Contracts	15,995	11%	5%	32%	17.4	5.6	227	2.0

* FY10 consolidated figures

Peer Comparison

The company has robust EBITDA margins and is set to benefit from the continued traction in construction activity across its existing segments. Additionally, the huge opportunity that the company is pursuing in newer segments like power and hydrocarbons offers strong growth prospects. We believe that the company's road BOT projects provide high revenue visibility and increases possibilities of further project awards in the coming quarters.

Strong order inflow and revenue growth outlook

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Investment Ideas

VALUATION

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Based on a consolidated FY12 P/E multiple of 12, the fair value for the company works out to Rs 221.

We recommend a 'BUY' rating on the stock.

Based on a consolidated FY12 P/E multiple of 12, the fair value for the company works out to Rs 221.

Financial Analysis and Projections

Particulars (Rs Mn)	FY08A	FY09A	FY10A	FY11E	FY12E
Net Revenue	36,179	47,717	58,787	71,955	84,043
Other Income	450	502	953	720	840
Total Income	36,629	48,220	59,740	72,674	84,883
Operating Expenditure	32,203	42,674	52,204	63,856	75,108
Depreciation	607	823	966	1,014	1,075
EBIT	3,820	4,723	6,571	7,804	8,701
EBIT Margin (%)	10.6%	9.9%	11.2%	10.8%	10.4%
Interest	1,277	2,080	2,499	1,643	1,920
Profit Before Tax	2,543	2,643	4,072	6,161	6,780
Less: Tax	854	793	1,211	1,848	2,034
Profit After Tax	1,689	1,850	2,861	4,313	4,746
Minority Interest	14	37	33	38	20
PAT After MI & EO	1,675	1,813	2,827	4,275	4,726
PAT Margin (%)	4.6%	3.8%	4.8%	5.9%	5.6%
ROE (%)	10.5%	10.3%	12.0%	15.6%	14.7%
EPS (Rs)	7.1	7.7	10.8	16.7	18.4
BVPS (Rs)	67.4	75.4	89.9	106.6	125.0
Valuation Ratios (x)				FY11E	FY12E
P/E				10.7	9.7
P/B				1.7	1.4

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Board Of Directors

Director Name	Current Position	Description
A V S Raju	Chairman Emeritus	Dr. (Mr.) A.V.S. Raju, the founder of the Company is the Chairman Emeritus of the Company.
A G K Raju	Executive Director	Mr. A.G.K. Raju is the Executive Director of the Company. He holds a Masters Degree in Business Administration and has over 23 years of experience in the construction industry, finance, manufacturing and allied areas. Mr. Raju is one of the Promoters of the Company and has been associated with the Company since its inception.
A A V Ranga Raju	Managing Director	Mr. A.A.V. Ranga Raju is the Managing Director of the Company. He is an undergraduate and has over 35 years of experience in the construction, infrastructure development and allied areas. Mr. Raju is one of the Promoters of the Company and has been associated with the Company since its inception.
J V Ranga Raju	Whole-time Director	Mr. J.V. Ranga Raju is a wholetime Director of the Company. He holds a Master's Degree in Commerce and has over 22 years of experience in construction and education. Mr. Raju is one of the Promoters of the Company and has been associated with the Company since its inception.
R N Raju	Whole-time Director	Mr. R.N. Raju is a wholetime Director of the Company. He is an Undergraduate and has over 30 years of experience in the construction, real estate and allied areas. Mr. Raju is one of the Promoters of the Company and has been associated with the Company since its inception.
A V N Raju	Whole-time Director	Mr. A.V.N. Raju is a wholetime Director of the Company. He is a Graduate in Arts and has over 18 years of experience in the construction industry. Mr. Raju is one of the Promoters of the Company and has been associated with the Company since its inception.
A S N Raju	Whole-time Director	Mr. A.S.N. Raju is a Wholetime Director of the Company. He is an undergraduate and has over 30 years of experience in the construction industry. Mr. Raju is one of the Promoters of the Company and has been associated with the Company since its inception.
P C Laha	Director	Mr. P.C. Laha is an Independent Non-Executive Director of the Company. He has obtained the BME, FIE, MIIM, MAISE (USA) qualifications and has been associated with the Company for over a decade as a Non-Executive Director. He has over 40 years of experience in engineering and allied fields and was engaged with certain Gol undertakings, including MECON Limited, from which he retired as the Chairman-cum-Managing Director.
S Venkatachalam	Director	Mr. S. Venkatachalam is an Independent Non-Executive Director of the Company. He holds a Master's Degree in Science with specialization in Industrial Management. He also holds a Diploma in Marketing and is a member of various professional bodies including the Institute of Marketing, London and the British Institute of Management. He has over 35 years of experience in the corporate sector, particularly in the steel and engineering industries and related areas. His previous engagements include Chief Executive of Lloyd Steel Industries Limited, advisor to the Essar Group and he has also been associated with engineering companies in the United Kingdom. Mr. Venkatachalam has been associated with the Company as a Non-Executive Director since 1991.

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Board Of Directors Contd..

P Abraham	Director	Mr. P. Abraham is an Independent Non-Executive Director of the Company. He holds a Master's degree in Arts from Andhra University and a diploma in systems management from the Bajaj Institute, Mumbai. Mr. Abraham has previously worked in the Indian Administrative Services and was former Power Secretary to Gol. During his employment with the Indian Administrative Services, he held various executive positions with the Gol and various State Governments, such as Chairman of Maharashtra State Electricity Board, Commissioner of Industries, State Government of Andhra Pradesh, Iron and Steel Controller, Ministry of Steel, Gol and Chairman and Managing Director, Maharashtra State Textile Corporation. Mr. Abraham has authored a book on the power sector reforms with focus on distribution. He was also awarded the United Nations Industrial Development Organization fellowship to study the promotion of industries with a special emphasis on export oriented industries in Europe.
N R Alluri	Director	Mr. N. R. Alluri is a Non-Executive Director of the Company. He holds a Bachelor's Degree in Engineering and has over 17 years of experience in construction, real estate and allied areas. Mr. Alluri is one of the Promoters of the Company and has been associated with the Company since its inception.
Rakesh Jhunjhunwala	Director	Mr. Rakesh Jhunjhunwala is a Non-Executive and Non-Independent Director of the Company. He is a Fellow Member of the Institute of Chartered Accountants of India and holds an Honors Degree in Commerce. Mr. Jhunjhunwala been associated with the Company since March 2004. He has been associated with the Indian capital markets for the past 30 years and is a well-known investor. He is a director on the boards of various companies including Apteck Limited, Mid Day Multimedia Limited, Metro Shoes Private Limited, Provogue India Limited and Viceroy Hotels Limited.
R V Shastri	Director	Mr. R.V. Shastri is an Independent Non-Executive Director of the Company. He holds a Master's Degree in Economics and has been associated with the Company since October 2006. He has over 36 years of experience in finance, banking and other related areas and his previous engagements include Chairman and Managing Director of Canara Bank and Indian Overseas Bank.
Akhil Gupta	Nominee	Mr. Akhil Gupta is a Non-Executive and Non-independent Director of the Company. He received his B.Tech degree in Chemical Engineering (with distinction) from the Indian Institute of Technology, Delhi in 1973 and an MBA from the Graduate School of Business, Stanford University in 1981 and began his career in 1981. Some of his previous engagements include Senior Vice President and Chief Financial Officer of Emaar Properties PJSC, Dubai, a company involved in the development of mixed-use multi-ethnic lifestyle real estate projects. Mr. Jaganathan owns and manages two companies being Konark Capital Partners Limited and Konark Resources FZ-LLC, Dubai.
A J Jaganathan	Director	Mr. A.J. Jaganathan is a Non-Executive and Independent Director of the Company. He holds a Masters' Degree in Physics and has been associated with the Company since May 2009. Mr. Jaganathan's previous engagements include State Bank of India, Standard Chartered, Chief Executive Officer of Emaar Properties PJSC, Dubai, a company involved in the development of mixed-use multi-ethnic lifestyle real estate projects. Mr. Jaganathan owns and manages two companies being Konark Capital Partners Limited and Konark Resources FZ-LLC, Dubai.

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