

National Buildings Construction Corporation

New Opportunities to unearth growth potential

National Building Construction Corporation (NBCC) a 'Navratna' company, is one of the largest Public Sector Enterprises (PSEs) in the construction space. Its Project Management Contract (PMC) division (~85% of FY2015 revenues) is a cash cow business, which gets large orders on nomination basis and enjoys a negative working capital cycle.

Huge opportunities in the pipeline...

NBCC reported an order book of ₹30,000cr as of 2QFY2016-end, reflecting 5.8x last twelve month (LTM) revenues. Of the ₹30,000cr order book, the PMC segment accounted for a major 92% (includes ~₹3,500cr Kidwainagar re-development project), whereas the remaining is from Real Estate (5%) and EPC (3%) segments. Considering the emerging bid pipeline for re-development works from Delhi and other State governments, and with 'Smart City' projects to take-off shortly, we expect NBCC's order book to grow 2-fold during 1HFY2016-18E to ₹59,440cr.

Revenues and PAT to report 26.7% & 32.7% CAGR during FY2015-18E

We expect NBCC to report a 26.7% revenue CAGR during FY2015-18E (to ₹9,506cr), mainly driven by an estimated 29.3% revenue CAGR from the PMC segment, where re-development projects would contribute the maximum. We expect NBCC to report 41.5% EBITDA CAGR during the same period, led by increased contribution from the PMC segment, which is likely to experience margin expansion (PMC segment's EBIT margin to expand from 7.3% in FY2015 to 8.9% in FY2018E). Owing to lower other income growth assumption, we expect NBCC to report a 32.7% PAT CAGR during FY2015-18E to ₹653cr.

Long term story; recommend BUY...

We have a strong positive view on NBCC, given its growth prospects as reflected by its strong order book of ₹30,000cr (5.8x LTM revenues). Also, emerging opportunities in the re-development space, government's initiative of developing 'Smart Cities', and the company's cash rich status, should aid its growth. Given the bid pipeline and huge order book, we are convinced about the strong earnings growth potential of the company for the next few years. Accordingly, we have conservatively assigned 20.0x P/E multiple to our FY2018E EPS of ₹54/share; we arrive at a price target of ₹1,089. **Given the 22% upside potential in the stock from the current level, we initiate coverage on the stock with a Buy recommendation.**

Key Financials (Consolidated)

Y/E March (₹ cr)	FY2014	FY2015	FY2016E	FY2017E	FY2018E
Net Sales	4,070	4,674	5,816	7,382	9,506
% chg		14.8	24.4	26.9	28.8
Net Profit	257	278	355	478	653
% chg		8.1	27.6	34.6	36.7
EBITDA (%)	5.9	6.2	6.9	7.7	8.6
EPS (₹)	21	23	30	40	54
P/E (x)	41.6	38.5	30.2	22.4	16.4
P/BV (x)	9.4	8.0	6.7	5.4	4.3
RoE (%)	22.6	22.5	24.1	26.7	29.1
RoCE (%)	36.2	39.3	42.3	45.2	47.5
EV/Sales (x)	2.3	2.1	1.6	1.2	0.9
EV/EBITDA (x)	39.5	33.0	22.5	15.4	10.2

Source: Company, Angel Research; Note: CMP as of November 13, 2015

BUY

CMP ₹893
 Target Price ₹1,089

Investment Period 12 Months

Stock Info

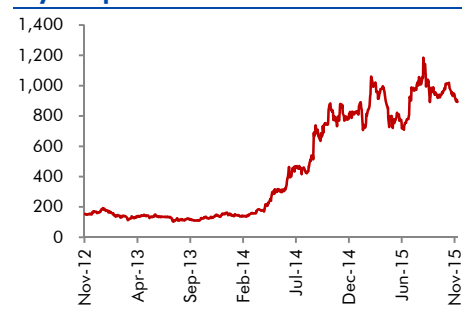
Sector	Infrastructure
Market Cap (₹ cr)	10,721
Net debt (₹ cr)	(1,067)
Beta	1.5
52 Week High / Low	1215/683
Avg. Daily Volume	69,293
Face Value (₹)	10
BSE Sensex	25,611
Nifty	7,762
Reuters Code	NATO.BO
Bloomberg Code	NBCC@IN

Shareholding Pattern (%)

Promoters	90.0
MF / Banks / Indian Fls	1.0
FII / NRIs / OCBs	2.5
Indian Public / Others	6.5

Abs. (%)	3m	1yr	3yr
Sensex	(8.8)	(8.7)	38.6
NBCC	(12.7)	15.5	480.7

3 year price chart



Source: Company, Angel Research

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Investment Arguments

NBCC to gain from redevelopment opportunity in Delhi

Delhi houses commercial office and residential quarters of various government bodies and entities. Notably, most of these government buildings constructed are over 40 years old. Given the infrastructure bottlenecks (such as, increased congestion, growing traffic and requirement for more office space in key localities) faced by 30 government colonies (Commercial+Residential) spread across ~1,190 hectares in Delhi, there exists potential for re-development. These 30 redevelopment projects, in our view, are an opportunity size north of ~₹100,000cr, which could come up for awarding in the next 5-7 years.

30 re-development projects in Delhi, with opportunity north of ~₹100,000cr, would come up for awarding in the next 5-7 years.

Exhibit 1: Details of Government colonies to be redeveloped in Delhi

Colonies to be re-developed	Comments
East Kidwai Nagar	TPC- ₹3,500cr; Covers 86 acres and is expected to start in 2HFY2016 and complete in 4 years there-on
Sarojini Nagar Srinivaspuri	Govt. has allocated these 3 colonies to Central Public Works Dept. (CPWD); Cabinet approval is pending; NBCC expects to get the project from CPWD soon; TPC of these 3 projects would be in the range of ~₹7,000-8,000cr
Mohammadpur, South Delhi	TPC- ₹12,000cr; 75 acres project to be executed over the next 3-4 years; Engineering Work already started. In the process of selecting architect and engineering companies
Karkardooma, East Delhi	TPC- ₹2,000cr; Spread across 25 acres, this project in our view would be executed in the next 2-3 years; Engineering Work has been started. In the process of selecting architect and engineering companies
Sanjay Lake, Trilokpuri, East Delhi	
Ramakrishnapuram (R K Puram)	
Netaji Nagar Kasturba Nagar Thyagraj Nagar	TPC- ₹12,000cr; Cabinet approval is pending; Awarding at advanced stages; NBCC expects these 3 projects to be awarded by 4QFY2016;
Laxmibai Nagar	
Netaji Nagar	
Lodhi Road	
West Kidwai Nagar	
New Moti Bagh	

Source: Company, Angel Research, Media Articles

Post successful completion of Old Moti Bagh re-development project, the government has started working on re-development works of ~15 colonies across Delhi. Notably, of these 15 colonies, ~10 are either awarded or are close to getting awarded. The total cost of these projects is north of ₹50,000cr.

10 Re-development projects valued at over ₹50,000cr are either awarded or are close to getting awarded.

Following Delhi government's re-development model, Orissa, Madhya Pradesh, West Bengal and Rajasthan governments have started exploring re-development potential across their states. For re-development works, NBCC has formed a JV with Rajasthan State Government, while it is in discussion with Orissa government to re-develop 2 properties spread across 100 acres each. Further, discussions are on with Madhya Pradesh and West Bengal governments to re-develop properties spread across 20-30 acres each. On the whole, we expect opportunities in the re-development space to grow multi-fold in the years to come.

We are of the view that NBCC is well positioned to gain substantially from the opportunities emerging in the government re-development projects space. This would be on account of following factors (1) NBCC is notified as a Public Works Organization (PWO) covered under revised Rule 126 [2] of GFRs, as per which Government Department(s)/ PSUs and Autonomous Bodies award work to NBCC on nomination basis, and (2) NBCC is the only PSU with a long execution track record of developing/ re-developing/ selling government real estate properties.

Exploring opportunities from 'Smart Cities' space...

NBCC is currently exploring potential opportunities emerging from 100 Smart Cities & Atal Mission for Rejuvenation & Urban Transformation (AMRUT) scheme announced by the Ministry of Urban Development (MoUD).

To benefit from government's 100 Smart Cities & AMRUT Scheme

Exhibit 2: 98 Smart Cities Identified by the Government

Smart Cities	Smart Cities	Smart Cities	Smart Cities
Port Blair	Hubballi-Dharwad	Ludhiana	Allahabad
Vishakhapatnam	Tumakuru	Jalandhar	Lucknow
Tirupati	Davanegere	Amritsar	Varanasi
Kakinada	Kochi	Jaipur	Ghaziabad
Pasighat	Kavaratti	Udaipur	Agra
Guwahati	Bhopal	Kota	Rampur
Muzaffarpur	Indore	Ajmer	Dehradun
Bhagalpur	Jabalpur	Namchi	New Town Kolkatta
Biharsharif	Gwalior	Tiruchirapalli	Biddhannagar
Chandigarh	Sagar	Tirunelveli	Durgapur
Raipur	Satna	Dindigul	Haldia
Bilaspur	Ujjain	Thanjavur	Aligarh
Diu	Navi Mumbai	Tiruppur	Saharanpur
Silvassa	Nashik	Salem	Bareilly
New Delhi Municipal Council	Thane	Vellore	Jhansi
Panaji	Greater Mumbai	Coimbatore	Kanpur
Gandhinagar	Amravati	Madurai	Aizawal
Ahmedabad	Solapur	Erode	Kohima
Surat	Nagpur	Thoothukudi	Bhubaneshwar
Vadodara	Kalyan-Dombivali	Chennai	Rourkela
Rajkot	Aurangabad	Greater Hyderabad	Oulgaret
Dahod	Pune	Greater Warangal	Dharamshala
Karnal	Imphal	Agartala	Ranchi
Faridabad	Shillong	Moradabad	Mangaluru
Belagavi	Shivamogga		

Source: Company, Angel Research, Ministry of Urban Development

₹48,000cr has been earmarked by the government for "100 Smart Cities" Scheme, to be invested over the next 5 years. Although the design and development framework for 'Smart Cities' in India is at an early stage, we expect execution to pick-up once requisite approvals are in place and issues pertaining to financing are addressed. We expect awarding in the 'Smart Cities' Scheme to start in 1HFY2017E.

Gearing up to the emerging opportunities and strengthening its position, NBCC has already entered into 3 MoUs/ JVs, ie (1) with CDBIH, Malaysia (to gain access to new technologies, which would be helpful in the development of smart cities), (2) with IBM (to work on smart cities), and (3) with a Korean Company (to work on Smart Cities).

Exhibit 3: NBCC's scope of works in a Smart City

	NBCC's prior experience- Yes/ No
Transportation Projects	Yes
Power Generation/ Transmission Projects	Yes
Integrated Water Management	Yes
Solid Waste Management	Yes
Multimodal Logistics Parks	Yes
Telecommunications	No
Water Supply Distribution/ Sewerage & Storm Water Drainage	Yes
Solar Power Projects	Yes
Recycling of Waste for Industrial Use	Yes
Business Parks/ Industrial Parks/ Warehousing and Distribution	Yes
Telemedicine/ Telehealth/ Hospitals & Medical Centres	Yes
Eco Logistics System	Yes

Source: Company, Angel Research

NBCC is amongst the few Indian companies to have experience on all the key areas integral to develop a Smart City (except Telecommunications)

NBCC has worked either individually or through the JV route on all the key areas integral to develop a Smart City (except Telecommunications). It therefore stands a fair chance to get a good chunk of the orders awarded from FY2017E onwards.

Our view of the company enjoying a strong market positioning also stems from the fact that the company is the only listed player which has executed large scale re-development projects on the 'Smart City' guidelines. NBCC executed the 105 acre Moti Bagh redevelopment colony on the 'Smart City' lines in 2012. Successful execution of works across Waste Water Management, Solar Heating & Lighting, and Rain Water Harvesting in the past should help the company understand the 'Smart City' execution dynamics very well. In order to further gain experience, NBCC is negotiating with MoUD to deploy Wi-Fi, Fibre-to-Home concept, 6-layer Security, IP TV, Smart Energy, Smart Electricity, Parallel policing, IP Security, Emergency Response, Periphery Security, and Integrated Building Management System. On these lines, the company is working on upgrading the Moti Bagh colony. Also, NBCC has set-up a separate 5-6 member internal team, which is constantly interacting with respective state government authorities to work on the 'Smart City' projects.

NBCC has signed Memorandum of Understanding (MoU) with Delhi Development Authority (DDA) to develop the first smart sub-city at Karkardooma, East Delhi. The first phase of this project is spread across 30 of the total 75 hectares, and is expected to be executed in the next 36 months. This is India's first Transit Oriented Development (ToD) project, which aims to promote access to amenities within walking distance, thereby de-congesting city roads and ensuring a cleaner environment.

Taking into consideration, (1) the company's early mover advantage in the 'Smart City' projects segment, (2) tie-ups with international players to strengthen its range

Company working on the Karkardooma project, which is India's first Transit Oriented Development project. This gives it an early mover advantage for the upcoming 'Smart Cities' Scheme.

of offerings, (3) execution track record of re-development works, (4) past track record of having worked with state governments across the country, and (5) Management's optimistic guidance of winning 12-15 'Smart City' projects (indicating 15% market share), we expect a huge spurt in NBCC's order book, going forward.

Entry in Omanese markets to support growth...

In order to de-risk its business model geographically and identify new areas of growth, NBCC has started exploring international markets, mainly in the Middle East region. As a first step, NBCC has tied-up with Al Naba Services LLC, Oman, to form "NBCC Gulf LLC". NBCC has 70% stake in the newly formed entity, with the remaining 30% being held by Al Naba Services LLC. This newly formed entity will carry out commercial construction of buildings, roads, airport, harbour, water sewerage, and electricity network in Oman. NBCC has already opened its local office in Oman. The Management sounded optimistic towards the company reporting order wins from Oman, from 2HFY2016E onwards.

New Avenues to contribute to Order Book growth...

In addition to opportunities emerging from re-development works of government colonies and development of 'Smart Cities', NBCC is also exploring other avenues to grow its order book. These include (1) re-development works for NAWADCO, the Waqf Board (MoU already signed), (2) development/ re-development of land bank at Railways, Air India and other ailing sick units.

NBCC has already bagged its first development project from Gulistan Shadi Mahal, Masjid Mavalli, and Dargah Hazrat Attaullah Shah, all 3 from Bangalore; and Takiya Chand Shah, Jodhpur (Waqf Board) across 4 locations worth ₹398cr. The Management guided that it expects more orders from Waqf board, going forward.

NBCC signed a MoU with Air India to develop its land parcel. Modalities of how the execution would be done are being worked upon. Air India could possibly explore development/ re-development of following properties in the near-term: (1) 3.5 acre land parcel at Baba Kharak Singh Marg, New Delhi (2) 1.3 acre commercial plot in Anna Salai, Chennai, and (3) 3 lakh sq ft of Air India office space at Nariman Point, Mumbai, amongst others.

Currently, there are ~65 sick Public Sector Undertakings (PSUs) in India (as of March 31, 2015). NBCC is negotiating with the government to develop/re-develop the idle lying land parcels of all these sick units. Following are some of the sick units, where NBCC could be exploring land parcels for development- Bharat Yantra Nigam Ltd, Bharat Ophthalmic Glass Ltd, STCL Ltd, Bihar Drugs & Organic Chemicals Ltd, Indian Oil Technologies Ltd, Brushware Ltd, Pyrites Phosphates & Chemicals Ltd, National Instruments Ltd and Bharat Yantra Nigam Ltd.

On the whole, NBCC's strategy to focus on identifying new growth avenues, such as exploring to work with sick units/ Air India/ Indian Railways/ Waqf Boards is in the right direction.

Entry into Oman to support future growth...

Re-development opportunity emerging from Waqf Board, Indian Railways, Air India and Sick PSUs gives improved visibility on the growth prospects...

Real Estate business with land parcels spread across India

NBCC diversified its business model by entering the Real Estate space. Here, the company has followed a different business model, ie focus on quicker construction and faster sales. This differentiates NBCC from other peers, which tend to hold the land parcels for longer duration and execute entire projects over a 5-7 year cycle.

NBCC usually buys land from state governments, local municipal bodies and other government entities. It currently has a land bank of over 178 acres (with total land cost at ₹600cr) well spread across Tier I and II cities, like, Delhi, Gurgaon, Jaipur, Kochi, Kolkata, Ahmedabad, Lucknow, Bhubaneswar, Patna, Alwar, Faridabad, Coimbatore, Ghazaibad and Naya Raipur. The Management highlighted that this land bank has potential saleable area of ~1.4cr sq ft. (with over 1.0cr of unsold inventory).

Among the few players in Real Estate space to pursue Asset light business model...

NBCC's Management highlighted that it targets revenue contribution from Real Estate segment to reach ~20% levels in the long run (vs the current 16-17% levels).

Asset light business to support future growth...

NBCC's business model in recent years has evolved from being highly dependent on the EPC business to diversifying across various types of Real Estate models. These Real Estate models are reported under segment heads - Real Estate (share to consolidated revenues increased from 2.9% in FY2012 to 11.0% in FY2015) and PMC (captures re-development works; share to consolidated revenues increased 5.4% in FY2012 to 84.6% in FY2015).

Exhibit 4: Types of Real Estate Business models followed by NBCC

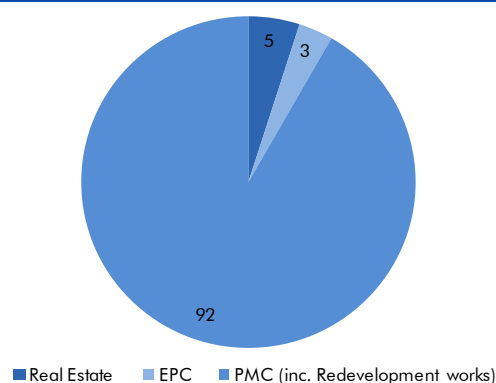
		Possible Areas of Differentiation				
Project Model	Reported Under	Upfront Investment	Margins	Approval Delays	Possibility of Realization Growth	Risks exposed To
Land Bank Model	Real Estate	Land Acquisition Cost	30-50% of project cost is locked-in towards the project	Possibility for delays exist	Potential to gain from realization growth	Exposed to Execution as well as Marketing risks
Re-development Model	PMC	Nil	@ 10% margins on final project cost (includes construction and development costs, excludes land cost); plus additional 1-2% marketing fees on sale value	Low, as approvals are taken by Consultants (NBCC appointed)	Least, as sale happens on pre-notified prices	Exposed to only Marketing risks. Sale is on 30 yrs. lease and not on outright basis.

Source: Company, Angel Research;

Real Estate and re-development works have seen strong order inflows in the recent quarters on the back of favorable government announcements. Order inflow growth in recent quarters has been mainly driven by re-development project order wins. These re-development projects are basically premised on joint development agreements (JDAs) with government bodies. As per JDA, the respective government body contributes land to the project (not an outright sale, but on 30 years lease) and NBCC brings its expertise towards the construction and marketing of the project. Here, NBCC gets a flat fixed margin of 10% of the project value as a fee towards project execution and 1-2% as marketing fee on the sale value. We view

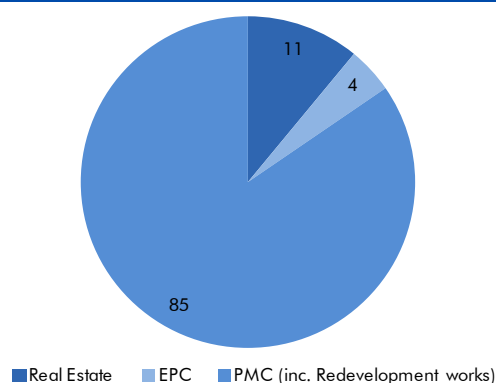
this business model to be favourable and asset light in nature in comparison to the traditional land banking model, where the capital invested gets blocked over the entire life cycle of the project. This asset light business model is better as more projects get executed with minimal capital deployed. This also de-risks the company from excessive dependence on any one project.

Exhibit 5: Order Book Mix (%) as of 2QFY2016



Source: Company, Angel Research

Exhibit 6: FY2015 Consol. Revenue mix (%)



Source: Company, Angel Research

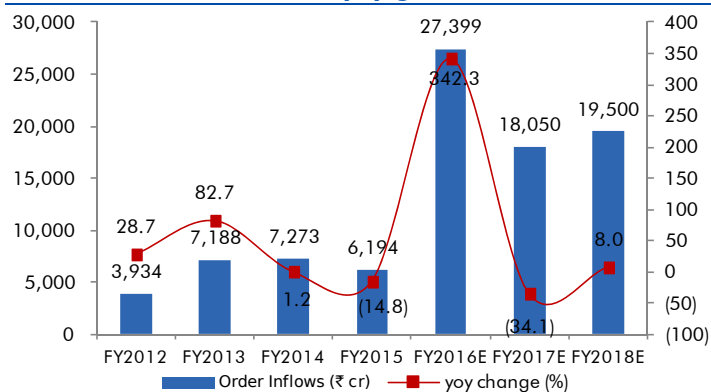
NBCC executed its first re-development project at East Kidwainagar, Delhi where NBCC was asked to put ~₹200cr seed money towards the project with assured 15% p.a. returns. At the time of starting the project NBCC invested ~₹90cr. Given the project mix attractiveness and its location advantage, the project got sold within 3-4 months of the launch. As a result, NBCC was able to make 15% p.a. returns on its ~₹200cr of investments.

Order Book to grow 2-fold, gives strong revenue visibility

NBCC's order book has grown at 17% CAGR during FY2010-15, mainly reflecting almost doubling of the yearly order inflows (to ~₹6,200cr in FY2015). Surge in the order inflow numbers during the same period is mainly on account of development project wins (shown under the PMC segment). Going forward, we expect the order book to grow 2-fold during 1HFY2016-18, mainly on account of huge order wins from re-development work and Smart City orders. NBCC at 2QFY2016-end is sitting on an order book of ₹30,000cr, reflecting order book/ LTM revenues of 5.8x, which is impressive.

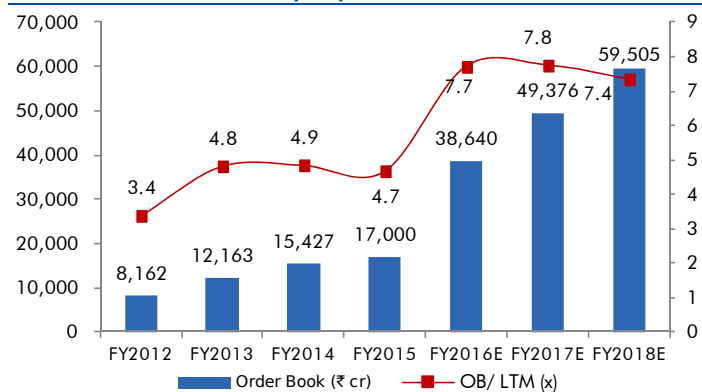
Order book to grow over 2-fold during 1HFY2016-18E to ₹59,505cr...

Exhibit 7: Order Inflows & yoy growth



Source: Company, Angel Research

Exhibit 8: Order Book (OB) & OB/ LTM ratio



Source: Company, Angel Research

Expect 26.7% revenue CAGR during FY2015-18E

We expect NBCC to report 26.7% revenue CAGR during FY2015-18E to ₹9,506cr, mainly driven by 29.3% revenue CAGR from PMC segment, where re-development projects would contribute the maximum. EPC and Real Estate segments would restrict the overall growth of the company. EPC segment revenues are expected to grow at 17.3% CAGR on a lower FY2015 base to ₹334cr. Further, we expect the Real Estate business to remain flattish in FY2016E and gradually pick-up from FY2017E onwards. We expect the Real Estate segment to report 9.1% revenue CAGR during FY2015-18E.

As highlighted, our expectation of 29.3% PMC segment revenue CAGR captures 2QFY2016 order backlog of ₹27,500cr and strong re-development projects bid-pipeline of ₹10,000cr.

PAT to report 32.7% CAGR during FY2015-18E

Till FY2015, NBCC was getting ~81% of its revenues from PMC projects. Notably revenue contribution from the re-development segments was insignificant. However, considering the recent order wins and the emerging bid pipeline, we are optimistic that the revenue contribution from re-development projects vis-a-vis PMC segment revenues and as a proportion of overall revenues would catch up.

Given the 'fixed 10% margins + 1-2% marketing fees' format being followed by NBCC towards redevelopment of Government colonies, we expect PMC segment's gross margins to improve, going forward. These development projects in our view are accruing at least 200-300bp higher margins than other contracts executed under the PMC segment. With a shift in the PMC segment's order book, we expect segment level EBIT margins to improve by ~150bp during FY2015-18E.

We expect EBITDA of the company to report 41.5% CAGR during FY2015-18E, mainly driven by increased contribution from PMC segment, which is likely to experience sharp margin expansion. We expect PMC segment's EBIT margins to expand from 7.3% in FY2015 to 8.9% in FY2018E.

We expect NBCC to report 32.7% PAT CAGR during FY2015-18E to ₹653cr, after factoring in lower other income assumption. Our lower other income assumption

Led by the huge Order book, we expect NBCC to report 26.7% and 32.7% top-line & bottom-line CAGR, respectively, during FY2015-18E...

captures our conservative stance that re-development projects executed would fetch lower/zero interest on advances made.

Company to gain from limited competition

NBCC is notified as a Public Works Organization under the revised Rule 126 (2) of General Financial Rules (GFR), by virtue of which, government department(s), PSUs and autonomous bodies can award works on nomination basis. Also, NBCC has been designated as implementing agency for Jawaharlal Nehru National Urban Renewal Mission (JNNURM), Pradhan Mantri Gram Sadak Yojna (PMGSY), Solid Waste Management (SWM) and other developmental work schemes in the North Eastern Region.

Preferred and nominated by various Ministries/ PSUs/ Government entities over other private players...

NBCC has a strong track record of developing government buildings and re-development of government colonies. Considering entry barriers for competition, the company's fast growing market share, and the preferential nomination it gets from government clients, we are optimistic that the company should continue to post robust growth, going forward.

We are of the view that various ministries prefer working with NBCC and not with private players owing to:

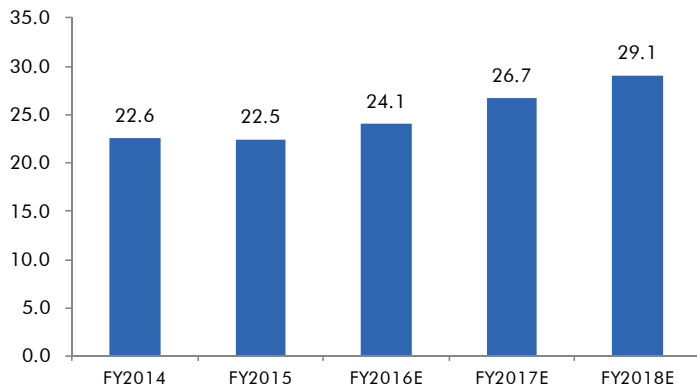
- a) Cost escalation issues with private players
- b) Avoid concerns over the due diligence process
- c) Safeguard themselves by delegating the accountability part to NBCC
- d) Avoid the scrutiny of government authorities such as CAG, CBI

Healthy Return Ratios...

NBCC undertakes Project Management & Consultancy works for Government departments/ PSUs for various types of projects. Once a project is signed, NBCC gets 10-25% of the total project cost as upfront advance, on which it earns interest. Further, the company closely monitors construction progress, gets work certified; and on attaining the respective milestone, makes payment to contractors. Hence, we are comforted that PMC contracts (contributed ~85% of FY2015 revenues) require minimal capital investment, and have the potential to generate higher return ratios.

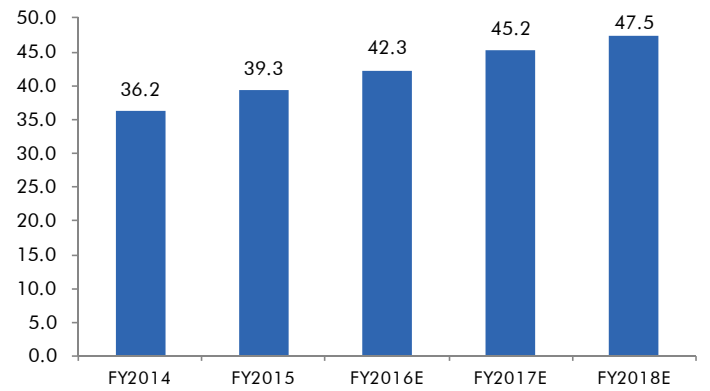
Cash rich Balance sheet status... potential to generate strong cash flow from operations...helps it generate healthy RoEs of over 20%

Exhibit 9: Return on Equity (%)



Source: Company, Angel Research

Exhibit 10: Return on Capital Employed (%)



Source: Company, Angel Research

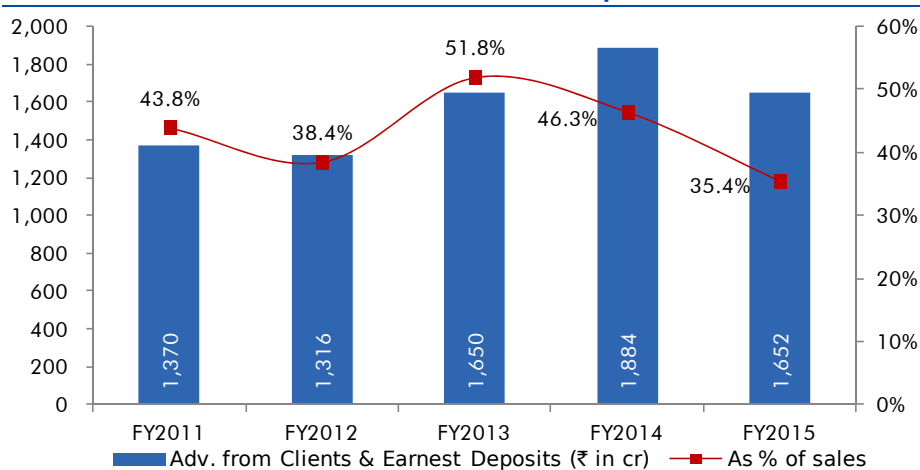
We expect RoE/ RoCE ratios of the company to improve from 22.5%/ 39.3% in FY2015 to 29.1%/ 47.5% in FY2018E, respectively.

Understanding the Business Model

Project Management Consultancy to drive growth...

The PMC business is the largest segment contributor for NBCC (~85% of FY2015 sales and ~73% of FY2015 EBIT). NBCC is a notified Public Work Organization under revised Rule 126 (2) of General Financial Rules (GFR), which positions it to get projects on nomination basis by various Ministries, government bodies and other PSUs. We are of the view that most government organisations are not well equipped to handle Project Management Works of a civil project. Being 90% held by the Government of India (GOI), NBCC fits into this need of government bodies and plays the role of a third-party project manager, which co-ordinates between the awarding government bodies and the contractors.

Exhibit 11: Advances from Clients & Earnest Deposits as % of Sales



Source: Company, Angel Research

The Management indicated that a major 70-80% of the orders it wins are on direct nomination basis and face very little competition. As a result, NBCC enjoys better terms and conditions, which result in better operating margins. This when coupled with the point that NBCC commands 10-25% of the total project cost as advance amount from the client, indicates how well the company is positioned to manage its cash flows. Given that no cash gets deployed in to business, coupled with the advances received from clients, positions NBCC as an asset light player, with potential to generate high return ratios (reflected in its financials).

Management bullish on Real Estate development business...

The Real estate business involves development of residential and commercial projects on Government/ PSU land bank, through the joint development or land bank development model. NBCC has 178 acres of land parcel spread across Delhi, Gurgaon, Kolkata, Kochi, Alwar, Meerut, Ghaziabad, Faridabad, Lucknow, and Patna, amongst other cities. Its Real Estate business contributed ~11% of FY2015 sales and ~28% of FY2015 EBIT.

NBCC's Management highlighted that the company would pursue Real Estate business by being selective on acquiring land parcels either individually or through the JV model. In the near term, the company is exploring alternatives to buy 1/2

Slum Rehabilitation related land packages. The company's Management expects this segment to report strong growth, going forward.

As a strategy, the Management has made its intent clear that rather than depending on debt, it would re-deploy the profits generated back into the business to purchase land parcels.

As a strategy to avoid purchasing land banks with high value (mainly in Tier I cities), NBCC has shifted its focus on Tier II and III cities. As a result, purchase of land parcels is resulting in less capital outflow. Also, NBCC's Management claims that being a government company, it has an edge in being able to procure land at cheaper rates from various state and central governments and also get faster approvals. The Management claims that this puts NBCC in an advantageous position to launch and scale projects quickly at attractive rates (usually 7-12% less than the competition; ie from private developers). Such attractive pricing strategy and faster churn translate into large upfront sales (in some projects, owing to high demand, the company had to depend on lottery-based mechanism) for the company. Also, the faster churn translates to minimal cash requirement for project execution, as well as lowering the risk of unsold inventory.

EPC business to gain traction...

NBCC was incorporated 1960, as a pure play EPC company, where the scope of works was to provide execution, engineering and construction services for projects such as chimneys, cooling towers, various types of power plant works, and projects from Sewerage & Water Treatment space. Over the years, the company has diversified across other areas and its dependency on this segment has declined.

The EPC segment contributed ~4% of FY2015 sales. Growth across this segment in the last few years has remained subdued. However, with government shifting its priority towards infrastructure spending, we are optimistic that NBCC would gain from here-on. The company as a diversification strategy has started looking at politically stable Middle East countries for EPC business. As an entry strategy, NBCC formed JV with a local player in Oman and expects to win an order in 2HFY2016E itself. Also, its 'Navratna' status gives flexibility for the company to take investment decisions up to ₹1,000cr. Even though international revenues contribute negligibly to the current business, the Management expects revenues from the international business to contribute by ~5% in the long-run.

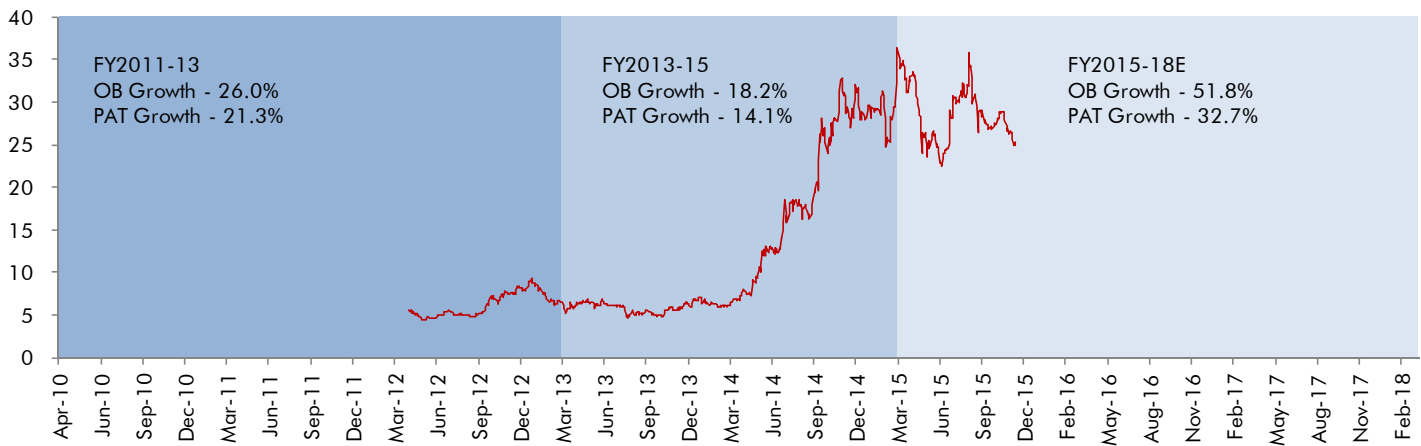
Outlook & Valuation

Strong bid pipeline, huge order book, growth in earnings profile, coupled with strong balance sheet comforts us to assign 20.0x FY2018E P/E multiple to arrive at value of ₹1,089/share. **Given the upside, we initiate coverage on the stock with a Buy recommendation...**

NBCC during FY2011-13, reported an order book CAGR of 26%, whereas slower execution translated to 14.1% PAT CAGR during FY2013-15.

NBCC as of 2QFY2016 is sitting on a huge order book of ₹30,000cr. Considering this and with an uptick in re-development projects (which draw higher margins vs other contracts from the PMC segment), we are optimistic towards NBCC reporting strong growth. We expect the company to post 26.7% top-line and 32.7% bottom-line CAGR during FY2015-18E to ₹9,506cr and ₹653cr, respectively.

Exhibit 12: PE Band and financials

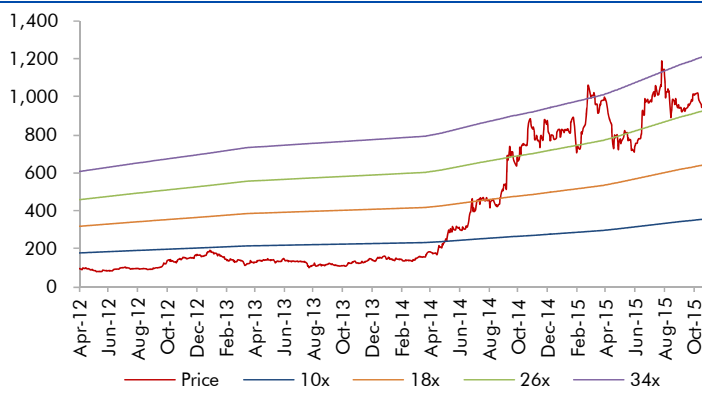


Source: Company, Angel Research

Also NBCC is sitting on cash balance of ₹1,042cr (as of 1HFY2016-end), which further gives comfort that growth would not get hindered due to unavailability of capital, which has been the case for some of the other infra companies.

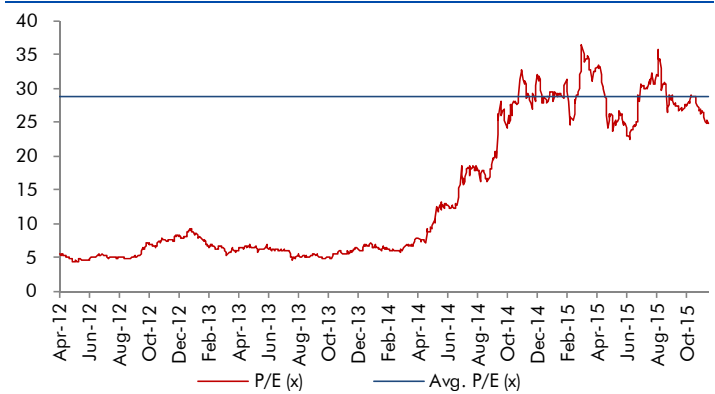
On considering the company's cash rich status and strong potential to generate further cash, we expect NBCC to report impressive FY2017/18E RoEs of 26.7%/29.1%, respectively.

Exhibit 13: PE Band



Source: Company, Angel Research

Exhibit 14: One year forward avg. PE Band



Source: Company, Angel Research

At the current market price of ₹893/share, NBCC is trading at FY2017E and FY2018E P/E multiple of 22.4x and 16.4x.

Given the strong bid pipeline, huge order book, strong earnings growth profile, coupled with strong balance sheet comforts us to conservatively assign 20.0x FY2018E P/E multiple to arrive at a business value of ₹1,089/share. **Given the upside the stock has from the current levels, we initiate coverage on the stock with a BUY rating.**

Risks to our Estimates

- NBCC executes PMC or redevelopment projects which are mostly funded and approved by the government. Government inaction may result in execution delays and can negatively impact our growth estimates.
- Slowdown in real estate demand can negatively impact our growth and balance sheet estimates.
- Currently, NBCC gets redevelopment projects on a nomination basis. Any switch in awarding process through competitive bidding route could lower our growth and margin estimates.
- Any expansion in the equity base of the company through announcement of a FPO could act as an overhang on the stock's performance.

Company Overview

National Buildings Construction Corporation (NBCC) is a Navratna PSU company engaged in the business of Project Management Consultancy (PMC), Engineering Procurement and Construction (EPC) and Real Estate development.

PMC business contributed ~85% of FY2015 sales and ~73% of FY2015 EBIT. NBCC works on the entire project cycle, right from concept stage to commissioning to civil construction works. NBCC gets PMC contracts on nomination basis, as it is notified as Public Work Organization under revised Rule 126 (2) of General Financial Rules (GFR).

The real estate business involves development of residential and commercial projects on Government/ PSU land bank, through the joint development or land bank development model. NBCC has 140+ acres of land parcel spread across Delhi, Gurgaon, Kolkata, Kochi, Alwar, Meerut, Ghaziabad, Faridabad, Lucknow, and Patna, amongst other cities. The Real Estate business contributed ~11% of FY2015 sales and ~28% of FY2015 EBIT.

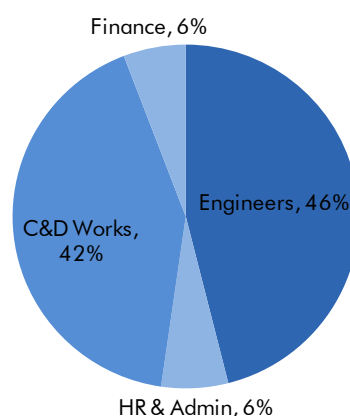
NBCC also undertakes EPC contracts, which involve civil works in the power BOP space, and Sewerage & Water Treatment space. This segment contributed ~4% of FY2015 sales.

As of 2QFY2016-end, NBCC had an order book of ~₹30,000cr, which is 5.8x its LTM revenues.

Employees

NBCC has strength of 2,047 regular employees, well led by a qualified and proven Management team. Majorly, 1,100+ of them are engineers and ~1,000 are C&D workers.

Exhibit 15: Employee Split (functionality-wise)



Source: Company, Angel Research

Exhibit 16: List of recently won Projects

Project details	Order won during	Order Val. (₹ in cr)
Construction of Trade Facilitation Centre and Crafts Museum at Varanasi, U.P.	2QFY2016	197
Re-development of Indian Institute of Public Administration (IIPA) campus at IP estate, New Delhi	2QFY2016	435
Development of Lake View Complex, on 25 acres DDA land at Trilokpuri, Delhi	1QFY2016	2,000
Construction of 2,400 seats Indoor Auditorium at Alipur, Kolkata	1QFY2016	418
Construct Medical College Campus & Upgrade Govt. Hospital at Bharatpur & Dungarpur, Rajasthan	1QFY2016	378
Develop 4 Waqf Board properties at Gulistan Shadi Mahal, Masjid-e-Mavalli, Dargah Hazrat Attaullah Shah (all 3 in Bangalore) and Takiya Chand Shah (in Jodhpur)	1QFY2016	398
Develop 30 hectare land at East Delhi Hub, Karkardooma	4QFY2015	6,000
PMC business works from Indian Institute of Technology (IIT), Roorkee	4QFY2015	231
PMGSY works from Orissa	4QFY2015	1,237
Construction/ Improvement/ Maintenance of roads at Miao-Vijaynagar, Arunachal Pradesh	3QFY2015	1,850
Construct Engineering Core Lab, Research Complex (Phase-I) and retrofit Aerospace Engineering block Multi-storied building at IIT, Kanpur	3QFY2015	338
Total Order Book (as of 2QFY2016)		30,000

Source: Company, Angel Research

Profit and Loss Statement (Consolidated)

Y/E March (₹ cr)	FY14	FY15	FY16E	FY17E	FY18E
Net Sales	4,070	4,674	5,816	7,382	9,506
% Chg		14.8	24.4	26.9	28.8
Total Expenditure	3,831	4,386	5,416	6,816	8,689
Land & Materials Consumed	426	299	364	499	643
Work and Consultancy Expenses	3,169	3,835	4,734	5,921	7,564
Employee benefits Expense	182	195	248	308	378
Other Expenses	55	57	69	88	104
EBITDA	239	288	400	566	817
% Chg		20.8	38.8	41.5	44.3
EBIDTA %	5.9	6.2	6.9	7.7	8.6
Depreciation	1	2	3	3	3
EBIT	237	286	397	563	814
% Chg		20.5	38.9	41.8	44.5
Interest and Financial Charges	22	40	45	50	53
Other Income	134	147	155	169	172
PBT	349	393	507	683	933
Tax	92	115	152	205	280
% of PBT	26.3	29.2	30.0	30.0	30.0
PAT before Extraordinary item	257	278	355	478	653
Extraordinary item	0	0	0	0	0
PAT before Minority Interest	257	278	355	478	653
Minority Interest	0	0	0	0	0
Share of Profit/ (Loss) of Associates	0	0	0	0	0
PAT after MI, profit share from Associat.	257	278	355	478	653
% Chg		8.1	27.6	34.6	36.7
PAT %	6.3	6.0	6.1	6.5	6.9

Balance Sheet (Consolidated)

Y/E March (₹ cr)	FY14	FY15	FY16E	FY17E	FY18E
Sources of Funds					
Equity Capital	120	120	120	120	120
Reserves Total	1,021	1,218	1,485	1,860	2,391
Networth	1,141	1,338	1,605	1,980	2,511
Minority Interest	0	0	0	0	0
Total Debt	0	0	0	0	0
Long-term Liabilities	53	45	52	54	56
Total Liabilities	1,194	1,383	1,657	2,034	2,567
Application of Funds					
Gross Block	35	42	43	47	50
Accumulated Depreciation	13	15	18	21	24
Net Block	23	26	25	25	26
Capital WIP	0	0	0	0	0
Investments	100	146	161	161	161
Goodwill	0	0	0	0	0
Current Assets					
Inventories	1,020	1,173	1,274	1,604	2,140
Sundry Debtors	1,315	1,704	1,776	2,245	2,894
Cash and Bank Balance	1,201	1,067	1,571	1,839	2,221
Loans & Advances	515	612	685	926	1,125
Other Current Asset	11	16	21	26	34
Current Liabilities	3,013	3,381	3,877	4,813	6,054
Net Current Assets	1,047	1,192	1,451	1,828	2,360
Deferred Tax Asset	23	20	20	20	20
Total Assets	1,194	1,383	1,657	2,034	2,567

Cash Flow Statement (Consolidated)

Y/E March (₹ cr)	FY14	FY15	FY16E	FY17E	FY18E
Profit before tax	334	391	507	683	933
Depreciation & Amortization Exp.	1	2	3	3	3
Other non-Cash Expenses	(122)	(158)	(158)	(171)	(177)
Change in Working Capital & Oth. Adj.	(619)	(342)	297	(61)	(97)
Cash Generated from Operations	(407)	(107)	648	454	661
Direct taxes paid	(32)	(47)	(165)	(220)	(298)
Net Cash Flow from Operations	(439)	(154)	483	234	363
(Inc)/ Dec in Fixed Assets	0	(7)	(1)	(4)	(3)
(Inc)/ Dec in Investments	718	(140)	(73)	(50)	(70)
(Inc)/ Dec in Other Investing Cash Flows	101	142	129	139	145
Cash Flow from Investing	818	(5)	55	86	71
Issue/ (Buy Back) of Equity	0	0	0	0	0
Inc./ (Dec.) in Loans	0	0	0	0	0
Dividend Paid (Incl. Tax)	(53)	(70)	(89)	(102)	(123)
Other Financing Cash Flows	0	0	0	0	0
Cash Flow from Financing	(53)	(70)	(89)	(102)	(123)
Inc./ (Dec.) in Cash	327	(229)	449	218	312
Opening Cash balance & Oth. Adj.	569	896	667	1,116	1,334
Closing Cash balances	896	667	1,116	1,334	1,646

Key Ratios

Y/E March	FY14	FY15	FY16E	FY17E	FY18E
Valuation Ratio (x)					
P/E (on FDEPS)	41.6	38.5	30.2	22.4	16.4
P/CEPS	41.4	38.2	30.0	22.3	16.3
Dividend yield (%)	0.6	0.6	0.7	0.8	1.0
EV/Sales	2.3	2.1	1.6	1.2	0.9
EV/EBITDA	39.5	33.0	22.5	15.4	10.2
EV / Total Assets	7.9	6.9	5.4	4.3	3.3
Per Share Data (₹)					
EPS (fully diluted)	21.5	23.2	29.6	39.8	54.4
Cash EPS	41.4	38.2	30.0	22.3	16.3
DPS	5.0	5.5	6.3	7.3	8.7
Book Value	95	112	134	165	209
Returns (%)					
RoCE (Pre-tax)	36.2	39.3	42.3	45.2	47.5
Angel RoIC (Pre-tax)	32.6	32.4	34.4	37.0	39.3
RoE	22.6	22.5	24.1	26.7	29.1
Turnover ratios (x)					
Inventory / Sales (days)	91	86	77	71	72
Receivables (days)	118	118	109	99	99
Payables (days)	287	266	245	233	228

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Disclosure of Interest Statement

1. Analyst ownership of the stock
2. Angel and its Group companies ownership of the stock
3. Angel and its Group companies' Directors ownership of the stock
4. Broking relationship with company covered

NBCC

No
No
No
No

Note: We have not considered any Exposure below ₹1 lakh for Angel, its Group companies and Directors

Ratings (Based on expected returns over 12 months investment period):

Buy (> 15%)

Accumulate (5% to 15%)
Reduce (-5% to -15%)

Neutral (-5 to 5%)
Sell (< -15)