

| BSE SENSEX | | S&P CNX | | CMP: INR61 | | TP: INR66 | | | | Buy | |
|-----------------------|------------|---------|--|------------|--|-----------|--|--|--|-----|--|
| 17,707 | | 5,362 | | | | | | | | | |
| Bloomberg | NJCC IN | | | | | | | | | | |
| Equity Shares (m) | 256.6 | | | | | | | | | | |
| 52-Week Range (INR) | 118/32 | | | | | | | | | | |
| 1,6,12 Rel. Perf. (%) | 62/-10/-39 | | | | | | | | | | |
| M.Cap. (INR b) | 15.7 | | | | | | | | | | |
| M.Cap. (USD b) | 0.3 | | | | | | | | | | |

* For construction segment (consolidated, including international business)

- 3QFY12 results below expectations:** NCC posted disappointing results for 3QFY12. It reported net loss for the first time since 2003, led by poor execution and mounting operating expenses. Revenue declined 5.4% YoY to INR12.6b v/s our estimate of INR14b due to uncertain macro environment. EBITDA margin contracted 340bp YoY to 6.1%, significantly lower than our estimate of 8.8%. The decline in EBITDA margin was due to provisioning of INR150m for administrative expenses, cost and time over-run in 3-4 projects, and decline in turnover. Net loss for the quarter was INR95m; we had estimated a PAT of INR153m.
- Net working capital deteriorates meaningfully, leading to higher debt and interest burden:** As at the end of 3QFY12, NWC (excluding cash and advances to subsidiaries/associates) stood at 168 days, up from 161 days as at the end of FY11 and 126 days as at the end of FY10. This is largely a result of delays in client payments and increased advances to subcontractors. NCC has reduced its debt by INR1.2b in 3QFY12 to INR24.8b from INR26b as at the end of 2QFY12.
- Cumulative investments in power project at INR3.5b; meets first pre-condition imposed by lenders:** NCC has already received the first part of the debt disbursement for its power project from REC and PFC, and expects the pending disbursement from ICICI in February 2012. The lenders have also put a condition of signing a power purchase agreement (PPA; for at least 75% of capacity) and a fuel supply agreement (FSA) within 12 months from financial closure. NCC has signed a PPA for only 500MW with the Andhra Pradesh government, and expects to sign PPAs with Tamil Nadu and Karnataka SEBs.
- Valuation and view:** We cut our revenue estimates by 12% for FY12 and by 7% for FY13. We now expect EPS of INR1.9 in FY12 (v/s INR4.7 earlier) and INR2.9 in FY13 (v/s INR4.8 earlier). The stock quotes at 12.5x FY12E and 8.2x FY13E adjusted EPS. Maintain **Buy**, with an SOTP-based price target of INR66. However, revenue and earnings visibility remains poor, given the macro headwinds and the rising interest scenario.

Quarterly Performance (Standalone)

| Y/E March | FY11 | | | | FY12 | | | | FY11 | FY12E |
|------------------------|--------|--------|--------|--------|--------|--------|--------|--------|--------|--------|
| | 1Q | 2Q | 3Q | 4Q | 1Q | 2Q | 3Q | 4QE | | |
| Sales | 10,865 | 12,013 | 13,355 | 14,504 | 11,415 | 10,903 | 12,640 | 14,691 | 50,737 | 49,649 |
| Change (%) | 8.6 | 12.6 | 12.5 | -4.7 | 5.1 | -9.2 | -5.4 | 1.3 | 6.2 | -2.1 |
| EBITDA | 1,058 | 1,234 | 1,276 | 1,309 | 1,165 | 1,032 | 777 | 1,036 | 4,876 | 4,009 |
| Change (%) | 2.5 | 13.3 | 8.1 | -14.3 | 10.2 | -16.4 | -39.1 | -20.9 | 0.9 | -17.8 |
| As of % Sales | 9.7 | 10.3 | 9.6 | 9.0 | 10.2 | 9.5 | 6.1 | 7.1 | 9.6 | 8.1 |
| Depreciation | 156 | 168 | 175 | 186 | 197 | 202 | 214 | 216 | 685 | 828 |
| Interest | 293 | 375 | 438 | 575 | 640 | 709 | 694 | 720 | 1,682 | 2,764 |
| Other Income | 13 | 54 | 23 | 56 | 21 | 22 | 14 | 36 | 146 | 93 |
| PBT | 621 | 745 | 686 | 605 | 349 | 143 | -117 | 136 | 2,656 | 510 |
| Tax | 207 | 285 | 282 | 248 | 116 | 29 | -22 | 52 | 1,021 | 174 |
| Effective Tax Rate (%) | 33.3 | 38.3 | 41.0 | 41.0 | 33.3 | 20.2 | NA | 38.3 | 38.5 | 34.2 |
| Reported PAT | 414 | 460 | 404 | 357 | 233 | 114 | -95 | 84 | 1,634 | 336 |
| Adj PAT | 414 | 500 | 444 | 357 | 233 | 114 | -95 | 84 | 1,714 | 336 |
| Change (%) | 8.3 | 13.8 | -7.2 | -42.6 | -43.8 | -77.2 | NA | -76.5 | -10.8 | -80.4 |

E: MOSL Estimates

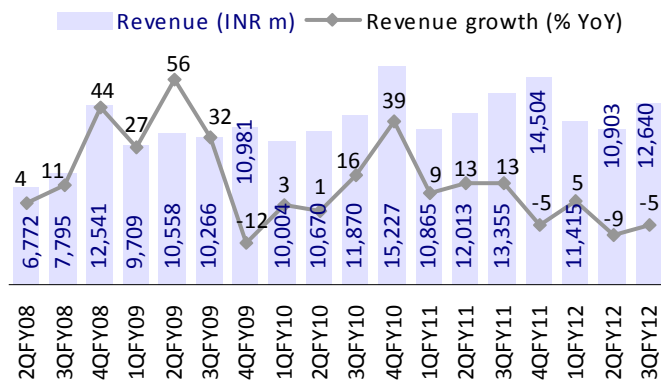
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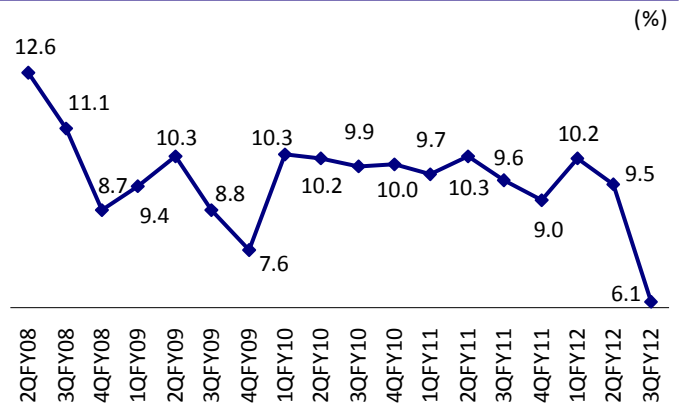
NCC 3QFY12: Revenues and PAT meaningfully below estimates

- NCC reported 3QFY12 revenues at INR12.6b (down 5.4% YoY) lower than our estimates of INR14b (up 5% YoY). Revenues declined due to various issues like poor macro environment, elections in states like Tamil Nadu and Karnataka, delay in receiving project clearances (environment/forest) and overall slowdown in the economy.
- EBITDA margins stood at 6.1% (down 340bp YoY) and were significantly lower than estimates of 8.8% (down 75bp YoY). The decline in EBITDA margins was due to (i) provisioning of INR150m for administrative expenses, non recoverable advances from clients (impacting 1.5% of the margins) (ii) Cost and time over in the 3-4 projects (impacting 1% of the margins) (iii) lastly from the drop in the turnover (impacting another 1% of the margins). Management expects to maintain EBITDA at 8.5% FY12, 9MFY12 margins stands at 8.6%. EBITDA stood at INR777m (down 40% YoY), below our estimates of INR1.2b (down 3.4%).
Net loss for the quarter stood at INR95m as compared to a PAT of INR444m and was significantly below our estimates of PAT of INR153m (down 65% YoY).
- Interest cost in 3QFY12 stood at INR693m v/s INR438m in 3QFY11 and INR709m in 2QFY12. Higher interest cost is due to rise in interest rates to 12.5-13% in 3QFY12 from 10.5-11% in 1QFY12.

Muted revenue growth due to execution constraints



Margins declined by 340bp YoY; given rise in operating expenses



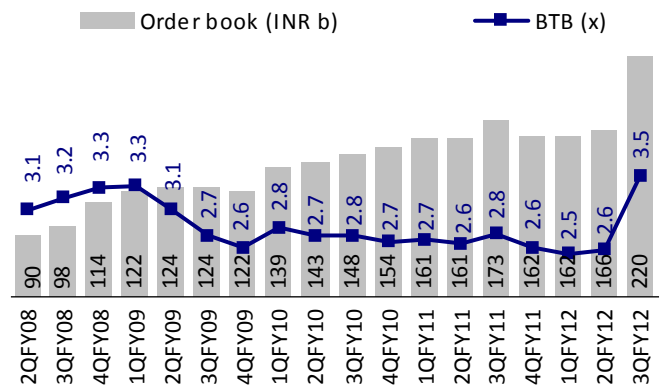
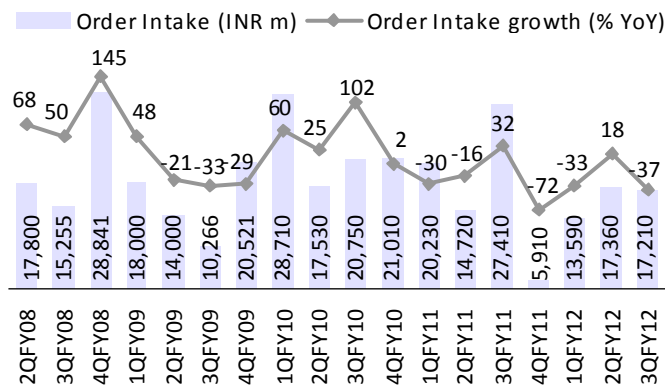
Source: Company/MOSL

Order Intake of INR17b (excl captive order of INR51b) in 3QFY12 (down 37% YoY); Order Backlog at INR220b at its historical peak

- NCC witnessed order inflows of INR17b (excl captive order of INR51b) in 3QFY12 (down 37% YoY), largely from buildings segment and balance from the power and Irrigation segments.
- 9MFY12 intake stood at INR99b (up 60% YoY); after excluding the captive intake of INR51b 9MFY12 intake declined by 23% YoY. The company expects order intake to reach INR90b during the year; YTD FY12 intake stands at INR48. Therefore to achieve the guidance management has to books orders worth INR42b (up 85% YoY); which appears difficult given macro environment and rising competition in sectors such as roads and buildings.
- However its book at INR220b (up 27% YoY) is at its historical peak with BTB ratio of 3.5xTTM revenues. Buildings (30%), Water (13%) and Roads (3%) form bulk of orders, while International orders contribute 8%. The company has submitted bids worth INR120b and is currently L1 in orders worth INR4-5b.

3QFY12 intake of INR17b (excl intake of INR51b from power)

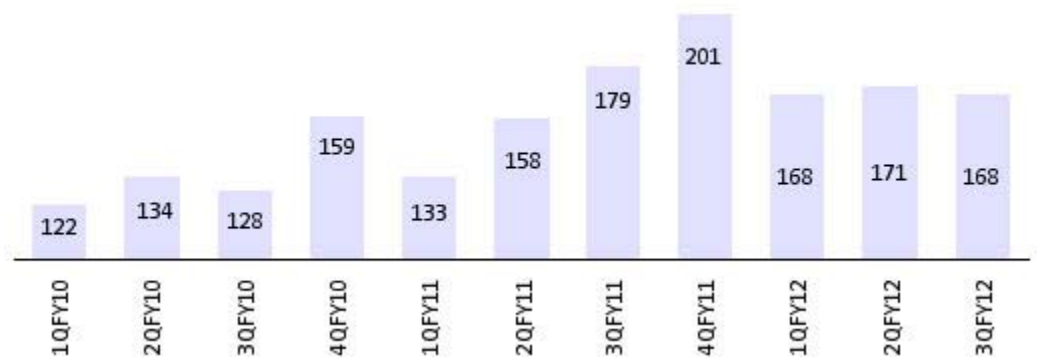
Order backlog at INR220b at its historical peak



Source: Company/MOSL

Working capital (days)

Working capital deteriorated due to delays in client payments and increased advances to subcontractors



Source: Company/MOSL

NWC has deteriorated meaningfully; leading to increased debt levels and interest burden

- NCC has witnessed a very meaningful deterioration in terms of its net working capital. As at 3QFY12, NWC (excluding cash and advances to subsidiaries / associates) stands at 168 days, up from 161 days as at end FY11 and 126 days in FY10. This is a largely a result of delays in client payments and increased advances to subcontractors.
- NCC has reduced the debt by INR1.2b in 3QFY12 at INR24.8b, from INR26b at 2QFY12-end. NCC intends to bring down debt to INR20b by end March 2012 through offloading of Real estate and BOT projects. Interest cost in 3QFY12 stood at INR693m v/s INR438m in 3QFY11 and INR709m in 2QFY12. Higher interest cost is due to rise in interest rates to 12.5-13% in 3QFY12 from 10.5-11% in 1QFY12.

NCC's cumulative investments in power project at INR3.5b; meets first pre-condition imposed by lenders

- NCC has already received first part of debt disbursement for its power project from REC and PFC and it is expecting the pending disbursement from ICICI in February 2012. NCC had to contribute 35% of its equity (INR3.5b) for achieving financial closure, which it has already met. The lenders have also put a condition of signing PPA (for minimum 75% of capacity) and fuel supply agreement (FSA) within 12 months from financial closure. However, as of now, NCC has signed a

PPA for only 500MW with AP government. It expects to sign PPAs with Tamil Nadu and Karnataka SEBs in the near future. It should be noted that failure to achieve required PPA and FSA within 12 months of financial closure can result in delay in disbursement of loan thereby impacting execution.

- The SPV has chosen Harbin of China for equipment supplies and NCC itself would be the EPC contractor (order value INR51b). It plans to commission Unit-1 in 39 months and Unit-2 in 42 months. All mandatory clearances for the project are in place. However, the cost of equipment will rise by INR5b, from initially estimated INR25b, due to depreciation of INR, thereby inflating project cost by 6-8%.

Other BOT assets

Himachal Sorang project execution is as per schedule; expected COD is in March 2012. Additional equity requirement in the project should not exceed INR100m in FY12. On Road BOT front, Pondicherry Tindivam project has achieved CoD, the total collection currently stands at INR0.5m/day (v/s an initial estimate of INR0.8m/day)

NJCC: Summary of BOT projects

| | Type | Cost (INR M) | NCC Stake (%) | Status |
|----------------------------|------------|--------------|---------------|---------------|
| Transportation | | | | |
| Brindavan Infrastructure | Annuity | 2,475 | 33 | Jun-06 |
| Bangalore elevated tollway | Annuity | 5,840 | 68 | Apr-10 |
| OB Infra | Toll based | 8,520 | 40 | Mar-11 |
| Western UP | Toll based | 6,349 | 43 | Mar-11 |
| Pondicherry - Tindivanam | Toll based | 3,150 | 48 | Dec-11 |
| Power | | | | |
| Himachal sorang | Hydropower | 5,987 | 67 | Mar-12 |
| Himalayan green | Hydropower | 19,600 | 54 | Apr-14 |
| NCC power | Thermal | 69,550 | 100 | Not - decided |

Source: Company/MOSL

Valuation and view

- We cut our FY12 and FY13 revenue estimates by 12% and 7% respectively. Our EBITDA margins currently stands at 8.1% for FY12 and 9.1% for FY13.
- We now expect EPS of INR1.9 in FY12 (v/s INR4.7 earlier) and INR2.9 in FY13 (v/s INR4.8 earlier). At CMP of INR61, the stock quotes at adjusted PER of 12.5x FY12 and 8.2x FY13E. Maintain **Buy**, with SOTP based price target of INR66/sh, comprising of core business of INR27/sh (6.5x FY13E EV/EBITDA) and BOT investments at INR39/sh. However, revenue and earnings visibility remains poor given the macro headwinds and rising interest scenario. The funding requirement from its 1,320MW power project will lead to incremental balance sheet pressures.

NCC: SOTP valuation

| | Method | Valuation multiple | Value (INR m) | Value (INR/sh) |
|--------------------------------------|---------------------|--------------------|---------------|----------------|
| NCC Construction | FY13E EV/EBITDA (x) | 6.5 | 4,437 | 17.3 |
| NCC International (Construction) | FY13E EV/EBITDA (x) | 5.0 | 2,443 | 9.5 |
| BOT Portfolio | | | | |
| A) Operational Projects | | | 4,355 | 17.0 |
| B) Projects under Construction Phase | | | 3,625 | 9.0 |
| Real Estate | | | 3,464 | 10.2 |
| Total | | | 18,324 | 66.0 |

Source: MOSL

NCC: an investment profile

Company description

Nagarjuna Construction Company is a Hyderabad-based Company with its origins in a partnership business, Nagarjuna Construction Corporation, set up in 1978. It is promoted by AVS Raju. The company has a fairly diversified business mix with a presence in roads, buildings, water, irrigation, and hydro power. NCC has also secured construction orders in Dubai, Muscat and Oman. The company has a portfolio of BOT projects (roads and power) and real estate development projects.

Key investment arguments

- NCC order book stood at INR220b (up 27% YoY) is at its historical peak with BTB ratio of 3.5xTTM revenues. Buildings (30%), Water (13%) and Roads (3%) form bulk of orders, while International orders contribute 8%.
- NCC is a well diversified player with exposure to several infrastructure/industrial segments, reducing the business concentration risk.
- Improved embedded valuations for BOT/RE projects as they enter the operations phase.

Key investment risks

- BOT projects depress initial RoE.
- Retention of experienced personnel is a challenge.
- Infrastructure capex is highly cyclical and dependent on government policies.

Comparative valuations

| | | NCC* | IVRCL | HCC |
|---------------|-------|------|-------|------|
| P/E (x) | FY12E | 32.3 | - | 19.9 |
| | FY13E | 21.2 | - | 11.2 |
| P/BV (x) | FY12E | 0.7 | 1.0 | 0.5 |
| | FY13E | 0.6 | 1.0 | 0.5 |
| EV/Sales (x) | FY12E | 1.0 | 1.2 | 0.6 |
| | FY13E | 1.0 | 1.3 | 0.6 |
| EV/EBITDA (x) | FY12E | 12.5 | 16.6 | 7.0 |
| | FY13E | 11.3 | 10.5 | 6.5 |

* For construction segment (consolidated, including international business)

Shareholding pattern (%)

| | Dec-11 | Sep-11 | Dec-10 |
|---------------|--------|--------|--------|
| Promoter | 19.5 | 19.5 | 20.0 |
| Domestic Inst | 10.2 | 12.5 | 18.9 |
| Foreign | 43.3 | 44.7 | 36.0 |
| Others | 27.0 | 23.3 | 25.1 |

Recent developments

- NCC has already received first part of debt disbursement for its power project from REC and PFC and it is expecting the pending disbursement from ICICI in February 2012. NCC had to contribute 35% of its equity (INR3.5b) for achieving financial closure, which it has already met. The lenders have also put a condition of signing PPA (for minimum 75% of capacity) and fuel supply agreement (FSA) within 12 months from financial closure.
- Himachal Sorang project execution is as per schedule; expected COD is in March 2012. Additional equity requirement in the project should not exceed INR100m in FY12.
- On Road BOT front, Pondicherry Tindivam project has achieved CoD, the total collection currently stands at INR0.5m/day (v/s an initial estimate of INR0.8m/day)

Valuations

- The stock quotes at adjusted PER of 12.5x FY12E and 8.2x FY13E. Maintain **Buy** with target price of INR66.

Sector view

- Revenue growth will be impacted due to execution concerns. PAT margins are likely to drop with mounting interest burden.
- Value unlocking possibilities from BOT and real estate.

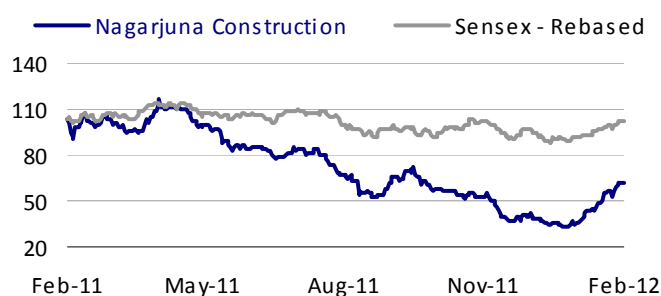
EPS: MOSL forecast v/s consensus (INR)

| | MOSL Forecast | Consensus Forecast | Variation (%) |
|------|---------------|--------------------|---------------|
| FY12 | 1.3 | 5.3 | -75.5 |
| FY13 | 1.9 | 6.2 | -69.5 |

Target price and recommendation

| Current Price (INR) | Target Price (INR) | Upside (%) | Reco. |
|---------------------|--------------------|------------|-------|
| 61 | 66 | 5.0 | Buy |

Stock performance (1 year)



Financials and Valuation

| Income Statement | | (INR Million) | | | | |
|--------------------------|---------------|---------------|---------------|---------------|---------------|--|
| Y/E March | 2009 | 2010 | 2011 | 2012E | 2013E | |
| Net Sales | 41,514 | 47,778 | 50,737 | 49,649 | 52,820 | |
| Change (%) | 19.5 | 15.1 | 6.2 | -2.1 | 6.4 | |
| Construction Expens | 34,972 | 40,133 | 42,221 | 41,651 | 43,451 | |
| Staff Cost | 1,886 | 1,841 | 2,438 | 2,682 | 2,951 | |
| Office and Site Est. E | 920 | 969 | 1,201 | 1,307 | 1,600 | |
| EBITDA | 3,736 | 4,834 | 4,876 | 4,009 | 4,819 | |
| % of Net Sales | 9.0 | 10.1 | 9.6 | 8.1 | 9.1 | |
| Depreciation | 533 | 525 | 685 | 828 | 989 | |
| Interest | 964 | 1,332 | 1,682 | 2,764 | 3,229 | |
| Other Income | 42 | 554 | 146 | 93 | 146 | |
| PBT | 2,281 | 3,531 | 2,656 | 510 | 748 | |
| Tax | 743 | 1,204 | 1,021 | 174 | 255 | |
| Rate (%) | 32.6 | 34.1 | 38.5 | 34.2 | 34.1 | |
| Reported PAT | 1,538 | 2,326 | 1,634 | 336 | 492 | |
| EO Expenses | 11 | -405 | 80 | 0 | 0 | |
| Adjusted PAT | 1,549 | 1,922 | 1,714 | 336 | 492 | |
| Change (%) | -4.6 | 24.1 | -10.8 | -80.4 | 46.7 | |
| Consolidated PAT* | 1,788 | 2,861 | 2,218 | 485 | 739 | |
| Change (%) | 6.5 | 60.0 | -22.5 | -78.1 | 52.3 | |

| Balance Sheet | | (INR Million) | | | | |
|----------------------------------|---------------|---------------|---------------|---------------|---------------|--|
| Y/E March | 2009 | 2010 | 2011 | 2012E | 2013E | |
| Share Capital | 458 | 513 | 513 | 513 | 513 | |
| Reserves | 16,398 | 21,943 | 23,274 | 23,539 | 23,928 | |
| Net Worth | 16,856 | 22,457 | 23,787 | 24,052 | 24,441 | |
| Loans (incl mobiliza | 17,101 | 20,095 | 30,304 | 35,365 | 39,743 | |
| Deffered Tax Liabilit | 188 | 255 | 308 | 308 | 308 | |
| Capital Employed | 34,144 | 42,806 | 54,399 | 59,724 | 64,491 | |
| Gross Fixed Assets | 6,233 | 7,561 | 9,230 | 10,730 | 12,530 | |
| Less: Depreciation | 1,641 | 2,023 | 2,485 | 3,313 | 4,302 | |
| Net Fixed Assets | 4,592 | 5,538 | 6,745 | 7,417 | 8,228 | |
| Capital WIP | 281 | 434 | 469 | 469 | 469 | |
| Investments | 7,402 | 9,411 | 12,008 | 14,375 | 16,065 | |
| Curr. Assets | 33,615 | 41,082 | 49,455 | 49,826 | 52,832 | |
| Inventory | 7,495 | 7,539 | 8,960 | 8,951 | 9,209 | |
| Debtors | 10,260 | 12,995 | 14,536 | 14,898 | 15,564 | |
| Cash & Bank Balance | 1,345 | 1,997 | 1,397 | 834 | 803 | |
| Loans & Advances | 14,484 | 18,520 | 24,469 | 25,050 | 27,206 | |
| Other Current Assets | 30 | 32 | 93 | 93 | 50 | |
| Current Liab. & Prov. | 11,746 | 13,659 | 14,279 | 12,363 | 13,104 | |
| Creditors | 7,966 | 9,691 | 9,969 | 7,988 | 8,333 | |
| Other Liabilities | 2,913 | 3,013 | 3,598 | 3,521 | 3,746 | |
| Provisions | 867 | 956 | 712 | 854 | 1,025 | |
| Net Current Assets | 21,868 | 27,423 | 35,176 | 37,463 | 39,728 | |
| Application of Funds | 34,144 | 42,806 | 54,399 | 59,724 | 64,491 | |

E: MOSL Estimates

| Ratios | | | | | | |
|---------------------------------|------------|-------------|------------|------------|------------|--|
| Y/E March | 2009 | 2010 | 2011 | 2012E | 2013E | |
| Basic (INR) | | | | | | |
| Adjusted EPS | 6.7 | 7.5 | 6.7 | 1.3 | 1.9 | |
| Growth (%) | -5.5 | 12.2 | -10.8 | -80.4 | 46.7 | |
| Cash EPS | 9.0 | 9.5 | 9.4 | 4.5 | 5.8 | |
| Consolidated EPS * | 7.8 | 11.1 | 8.6 | 1.9 | 2.9 | |
| Book Value | 73.7 | 87.5 | 92.7 | 93.7 | 95.3 | |
| DPS | 1.1 | 1.6 | 1.1 | 0.2 | 0.3 | |
| Payout (incl. Div. Tax) | 19.1 | 21.0 | 21.0 | 21.0 | 21.0 | |
| Valuation | | | | | | |
| P/E (standalone) | | | 9.1 | 48.2 | 32.8 | |
| Cash P/E | | | 6.5 | 13.9 | 10.9 | |
| EV/EBITDA | | | 9.1 | 12.6 | 11.4 | |
| EV/Sales | | | 0.9 | 1.0 | 1.0 | |
| Price/Book Value | | | 0.7 | 0.7 | 0.7 | |
| Dividend Yield (%) | | | 1.9 | 0.4 | 0.5 | |
| Profitability Ratios (%) | | | | | | |
| RoE | 9.4 | 9.8 | 7.4 | 1.4 | 2.0 | |
| RoCE | 10.2 | 12.6 | 8.9 | 5.7 | 6.4 | |
| Turnover Ratios | | | | | | |
| Debtors (Days) | 90 | 100 | 105 | 110 | 108 | |
| Inventory (Days) | 66 | 58 | 64 | 66 | 64 | |
| Creditors. (Days) | 70 | 74 | 72 | 70 | 70 | |
| Asset Turnover (x) | 1.3 | 1.2 | 1.0 | 0.9 | 0.9 | |
| Leverage Ratio | | | | | | |
| Debt/Equity (x) | 1.0 | 0.9 | 1.3 | 1.5 | 1.6 | |

* Consolidated for overseas construction business

| Cash Flow Statement | | (INR Million) | | | | |
|------------------------------|---------------|---------------|---------------|---------------|---------------|--|
| Y/E March | 2009 | 2010 | 2011 | 2012E | 2013E | |
| PBT before EO Items | 2,281 | 3,531 | 2,656 | 510 | 748 | |
| Add : Depreciation | 533 | 525 | 685 | 828 | 989 | |
| Interest | 964 | 1,332 | 1,682 | 2,764 | 3,229 | |
| Less: Direct Taxes Pa | 743 | 1,204 | 1,021 | 174 | 255 | |
| (Inc)/Dec in WC | -4,183 | -4,903 | -8,353 | -2,849 | -2,297 | |
| CF from Operations | -1,148 | -719 | -4,352 | 1,078 | 2,413 | |
| (Inc)/Dec in FA | -67 | -1,625 | -1,928 | -1,500 | -1,800 | |
| (Pur)/Sale of Investm | -1,754 | -2,008 | -2,597 | -2,368 | -1,690 | |
| CF from Investments | -1,821 | -3,633 | -4,525 | -3,868 | -3,490 | |
| (Inc)/Dec in Net Wor | -91 | 3,830 | 92 | 0 | 0 | |
| (Inc)/Dec in Debt | 3,334 | 2,994 | 10,209 | 5,060 | 4,378 | |
| Less : Interest Paid | 964 | 1,332 | 1,682 | 2,764 | 3,229 | |
| Dividend Paid | 295 | 489 | 343 | 70 | 103 | |
| CF from Fin. Activity | 1,985 | 5,004 | 8,276 | 2,226 | 1,045 | |
| Inc/Dec of Cash | -984 | 652 | -600 | -563 | -32 | |
| Add: Beginning Bala | 2,330 | 1,345 | 1,997 | 1,397 | 834 | |
| Closing Balance | 1,345 | 1,997 | 1,397 | 834 | 803 | |

N O T E S

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