

National Buildings Construction Corp. Ltd. (NBCC): "SUBSCRIBE"

22nd March, 2012

NBCC is one of the few public sector companies engaged in the business of (i) project management consultancy services for civil construction projects (ii) civil infrastructure for power sector and (iii) real estate development. It is headquartered in New Delhi and in addition have 10 regional / zonal offices across India. The projects undertaken by the Company are spread across 23 states and one union territory in India. In addition, it has also undertaken overseas projects overseas. Its Income from operations has increased from Rs. 14.4 bn for the financial year 2007 to Rs. 31.27 bn for the financial year 2011 at a CAGR of 21.3% during such period. Its profit after tax, as restated has increased from Rs. 778.01 million for the financial year 2007 to Rs. 1,404.73 million for the financial year 2011 at a CAGR of 15.9% during such period.

At the upper band of the issue price, NBCC is valued at 8.5x - 6MFY12 Annualized EPS/share of Rs. 12.45/- and P/BV of 1.74x at upper end of the price band. With due consideration to factors like a) significant experience of 50 years in diverse projects, b) robust order book of Rs. 10,614 crs as on January 31, 2012, c) debt free company, d) track record of prudent financial management over the past five years and steady cashflow from existing operations, we believe the stock is attractive as compared to its peers in the current slowdown in infrastructure space. We recommend investors to "SUBSCRIBE" the issue.

Financial summary

| Y/e 31 Mar (Rs. cr) | Sep 11 | FY11 | FY10 |
|---------------------|---------|---------|---------|
| Total income | 1,276.5 | 3,126.7 | 2,932.8 |
| PBIDT | 119.2 | 217 | 182.6 |
| PBIDT (%) | 9.3 | 6.9 | 6.2 |
| PBT | 111 | 209.4 | 174.6 |
| Reported PAT | 74.7 | 140.5 | 118.8 |
| PAT margin (%) | 5.85 | 4.49 | 4.05 |
| Equity Capital | 120 | 90 | 90 |
| Reserves | 608.8 | 564.27 | 458.7 |
| Networth | 728.8 | 654.2 | 548.7 |
| RoNW (%) | 10.3 | 21.5 | 21.6 |
| Book Value (Rs.) | 60.7 | 54.5 | 45.7 |

Source: RHP, Ajcon Research

| | | |
|-------------------------------------|--|------------|
| Issue date | Mar 22 – 27, 2012 | |
| Issue size | Rs. 1,272 mn at upper end of the price band | |
| FV | Rs.10 | |
| Price Band | Rs. 90 -106 per share | |
| Discount | 5% for Retail Investors and Employees | |
| Lot size/Minimum bid (no of shares) | 60 shares and in multiples of 60 thereafter | |
| Issue structure | Employee Res: 0.12 mn QIB Portion: 5.94 mn Non – Institutional: 1.78 mn Retail: 4.15 mn | |
| Type of issue | Offer for sale: 12 mn shares | |
| Equity shares prior to issue | 120 mn | |
| Equity shares post issue | 120 mn | |
| Post issue market capitalization | Rs. 12,720 mn at upper price band | |
| Book Running Lead Managers | IDBI Capital Market Services Ltd. Enam Securities Pvt. Ltd. | |
| IPO Grading | Grade 4/5 by CARE indicating above average fundamentals | |
| Registrar to the issue | Big Share Services Pvt. Ltd. | |
| Shareholding Pattern (%) | Post Issue | Post Issue |
| Govt. of India | 100 | 90 |
| Public | - | 10 |
| Total | 100 | 100 |

ABOUT THE COMPANY

The Company was incorporated in November 1960 as a wholly owned Government of India undertaking under the erstwhile Ministry of Works, Housing & Supply ("MoWHS"), which is now known as the Ministry of Urban Development ("MoUD"). As of the date of the RHP, the President of India acting through the MoUD, Gol holds 100% of its equity share capital. On October 14, 2008, the Government granted the company Schedule 'A' PSU status. It has also been awarded ISO 9001:2008 from the Bureau of Indian Standards in respect of its consultancy and project management division. It operates primarily in the following three business segments:

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1) Project Management Consultancy (PMC) for civil construction projects

Its PMC business segment includes providing management and consultancy services for a range of civil construction projects including residential and commercial complexes, redevelopment of buildings and colonies, hospitals, educational institutions; infrastructure works for security personnel, border fencing as well as infrastructure projects such as roads, water supply systems, storm water systems and water storage solutions. Some of the company's clients in this segment are or have been, ESIC, Ministry of Defence, Ministry of Home Affairs (including Security forces like CRPF, CISF, NSG, BSF), Ministry of External Affairs, MoUD, Ministry of Commerce and Industry, Ministry of Corporate Affairs, Ministry of Finance, Haryana Urban Infrastructure Development Board, IIT Roorkee, IIT Kharagpur, IIT Patna, SVNIT, amongst others.

Its key completed projects during the period April 01, 2006 till January 31, 2012, based on the total contract value, include road works at Agartala, construction of defence campus at Jaipur, Jodhpur, Ahmadabad, Ambala, Suler, CBI headquarters at New Delhi, Extension of campus of MDU University and IIT Roorkee. The Company's key domestic PMC Ongoing Projects based on the total outstanding contract value, include Indo Bangladesh Border Fencing Works at Meghalaya, Tripura, Mizoram & Assam, ESIC Mandi, ESIC, K.K. Nagar, Chennai, ESIC Medical College & Hospital Works, Bihta, ESIC Hospital, Parel (Mumbai).

It presently has one overseas PMC Ongoing Project at Male, Maldives for construction of India – Maldives Friendship Faculty of Hospitality & Tourism Studies. Further, as on January 31, 2012 it has three forthcoming projects at (i) Police Academy work at Male (ii) Renovation of Indira Gandhi Memorial Hospital Male and (iii) Renovation of Hospital at Male, Republic of Maldives.

2) Civil Infrastructure for power sector

Civil Infrastructure for power sector segment includes providing engineering and construction services for power projects, including design and execution of (i) civil and structural works for power projects (ii) Cooling towers (iii) Chimneys. Some of its clients in this segment include NTPC Limited, BHEL, APGENCO Limited, Uttar Pradesh Rajya Vidyut Utpadan Nigam Limited, MAHAGENCO Limited and Karnataka Power Corporation Limited.

Its completed key projects, during the period April 01, 2006 till January 31, 2012 based on the total contract value, include construction of civil, structural and architectural works for 2x250 MW at Korba, Chhattisgarh; Rihand Main Plant – Civil Works in Uttar Pradesh; Site levelling work at Barh, Patna, Bihar and 220M/275M Twin Steel Flue with RCC Chimney Elevator at (i) Dadri, Uttar Pradesh, (ii) Mejia, West Bengal, (iii) Kadappa, Andhra Pradesh. Further, its key Ongoing PMC Projects, based on the total outstanding contract value, include cooling tower, chimney at Farakka Super Thermal Power Project, West Bengal, Koderma Thermal Power Project at Jharkhand, Durgapur, Thermal Power Project at West Bengal, Rihand Super Thermal Power Project, Uttar Pradesh, Barh Super Thermal Power Project, Patna, Mauda and Vindhyachal Super Thermal Project at Maharashtra & Madhya Pradesh respectively.

3) Real Estate Development

The Company's real estate development segment focuses on principally two types of projects, namely, (i) residential projects, such as apartments and townships and (ii) commercial projects, such as corporate office buildings and shopping malls. The Company has undertaken real estate projects which are spread across 10 states in India. As of January 31, 2012, its Land Reserves aggregate approximately 125.245 Acres. The company's Land Reserves are located in Delhi, Uttar Pradesh, Patna, Gurgaon, Kolkata, Kochi, Alwar and Lucknow.

As on January 31, 2012, its completed commercial projects include commercial complex at Vadodara, Cuttack, Agartala, Ghaziabad (Uttar Pradesh), Ahmadabad and at Bhikaji Cama Place, Pragati Vihar and Pushp Vihar in New Delhi. Further, some of its key real estate development Ongoing Projects include residential complex at "NBCC Heights" at Sector-89, Gurgaon, Haryana; Khekra (Phase-I), Baghpat, Uttar Pradesh; residential-cum-commercial

complex at Bahadurpur, Phase-I, Patna; NBCC Vibgyor Towers at Rajarhat, Kolkata; and commercial complex at "NBCC Centre" at Okhla- Phase-I, New Delhi, Sukias Lane at Kolkata and Hemanta Basu Sarani Complex at Kolkata.

KEY POSITIVES

Established brand name and reputation

The company started its operations in 1960 and the Government granted NBCC, Schedule 'A' PSU status. It has established client relationships with different State and Central Government ministries, department and agencies and various public sector undertakings. Over the past five decades, its ability to successfully manage projects as well as maintain quality standards has helped us in developing its brand as a trusted service provider. This provides the company with access to business opportunities especially in its PMC segment. The company has received several awards and accreditations from time to time. It has been awarded ISO 9001:2008 from the Bureau of Indian Standards in respect of its Project management and consultancy divisions. It has also received for each of the Fiscal years 2004 to 2010, "Excellent" rating from MoUD and in this connection, the Ministry of Heavy Industries & Public Enterprises has awarded us with an "Excellence Award". Further in 2011, it received an 'Appreciation Shield' on quality and timely completion of NSEZ Noida Project from the Ministry of Commerce and Industry and the Development Commissioner, NSEZ.

Operations in diverse sectors with strong Order Book position

The Company, over the years, leveraged its PMC expertise in diverse segments of the civil construction such as residential and commercial complexes, institutions, hospitals and other buildings, sewage treatment plants, roads; and civil infrastructure for power sector such as cooling towers, chimneys and other civil and structural works. Each of these segments / sub-segments require specific skill sets and experience which has been developed by the Company for the timely execution of the projects in these sectors. As of January 31, 2012, its Order Book for the PMC and Civil Infrastructure for power sector was Rs. 106.13 bn. As of January 31, 2012, the total Order Book comprised of 28.46% in the hospitals segment, 30.33% in the infrastructure segment, 25.85% in the institutional construction segment, 9.67% for commercial construction and 2.74% for residential construction. The Company continues to add new orders to its existing Order Book. Management of the Company believes that the size and diversification of its Order Book may enable it to sustain the financial condition and results of operations through difficult economic condition and reduce its dependence on any particular segment and negate cyclical risks associated with a particular industry or sector.

RISK AND CONCERNS

The company has significant contingent liabilities, primarily relating to claims against the Company not acknowledged as debts. As of September 30, 2011, the aggregate contingent liabilities were Rs. 13.49 bn. Its contingent liabilities as at the end of the respective fiscal years have been greater than its profit after tax for such respective periods. In the event that any such contingent liability was to materialize, it may have an adverse effect on our financial condition and results of operations.

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