

# Investor's Eye

August 18, 2017

---

## Index

Stock Update - [Infosys](#)

Stock Update - [NBCC](#)

Visit us at [www.sharekhan.com](http://www.sharekhan.com)

**Sharekhan**

by BNP PARIBAS

# Stock Update

Pushed to the wall, Dr. Sikka exits

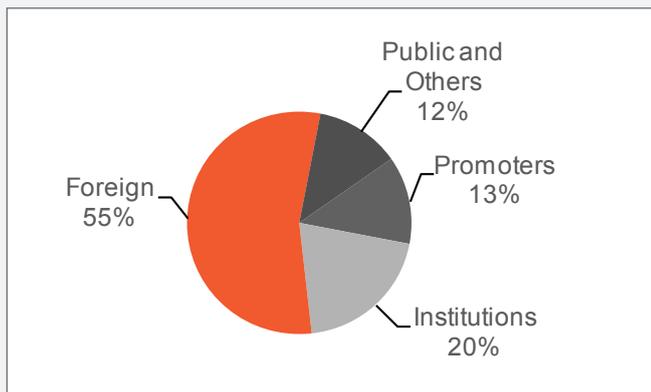
## Infosys

Reco: Hold | CMP: Rs923

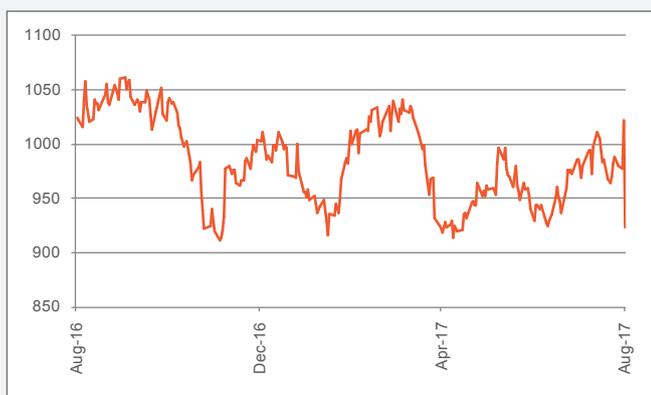
### Company details

Price target:	Under review
Market cap:	Rs212,033 cr
52-week high/low:	Rs1,080/884
NSE volume: (No of shares)	35.1 lakh
BSE code:	500209
NSE code:	INFY
Sharekhan code:	INFY
Free float: (No of shares)	200.4 cr

### Shareholding pattern



### Price chart



### Price performance

(%)	1m	3m	6m	12m
Absolute	3.7	8.8	3.6	1.4
Relative to Sensex	4.5	4.0	-8.1	-11.9

### Key points

- Vishal Sikka exits, putting Infosys and shareholders in doldrums:** In a surprise move, Dr. Vishal Sikka has resigned from the post of MD and CEO of Infosys with immediate effect and the board appointed Mr. UB Pravin Rao as the interim MD and CEO. The board and Dr. Sikka primarily blamed Mr. Narayana Murthy's criticism in the media as the foremost reason for the resignation despite strong board support. Meanwhile, Mr. Sikka has been appointed Executive Vice Chairman and will hold office until the new permanent CEO and MD takes charge on or before 31st March 2018 and will help in the smooth transition to a new leadership.
- Dr. Sikka has delivered during its stint:** Dr. Sikka was appointed as MD and CEO of Infosys in June 2014. Since then, the company's growth revival strategies and sustenance of margin trajectory have been working well under his leadership. Infosys' EBIT per employee improved marginally in the past three years, while the closest top three IT companies' EBIT per employee declined by 7-26%. Along with placing measures to shift from a cost-oriented business model to an innovation-oriented value delivery model, Dr. Sikka successfully introduced various initiatives such as Zero Distance, Design Thinking Training and Zero Bench. In the digital transformation journey, Infosys developed and launched its artificial intelligence platform Nia and acquired Panaya and Skava businesses under his leadership.
- So, who will fill Dr. Sikka's void – A colossal task:** Given the current ugly tussle between the board members and founding members, primarily led by Mr. Narayana Murthy, it will be a colossal task for the board to find a better replacement for Dr. Sikka in the next seven months (till March 2018). Further, absence of Dr. Sikka from the company's day-to-day operations will impact the long-term clients' engagements and the implementation of strategies on the new services area (such as Cloud Ecosystem, Analytics, Edge, NIA and Panaya), which accounted for around 10% of the revenue. Further, we are concerned about the continuance of the digital transformations strategy in the same enthusiasm as before and failure in finding a proper replacement for Dr. Sikka will also deepen the crisis and prolong growth recovery given the massive digital transformation in the sector.

- ◆ **Maintain Hold, keeping PT under review:** In the past one and a half year, Infosys has seen more than 10 top-level exits from the company, but the latest exit of Dr. Sikka is most surprising and concerning from the shareholders' perspective. When things were gradually looking up for Infosys, Dr. Sikka's exit pushes it back to wall.

Thus, even after a 12% decline in the stock price and an upcoming buyback program, it looks difficult and unclear to take a constructive call on the company. Given the uncertainties, we maintain our Hold rating on the stock, keeping the price target (PT) under review.

Valuation				Rs cr
Particulars	FY16	FY17	FY18E	FY19E
Total revenue	62,441.0	68,484.0	70,666.8	77,544.7
EBITDA margin (%)	27.4	27.2	26.5	26.8
Net profit	13,492.0	14,357.0	14,370.6	15,890.6
EPS (Rs)	59.0	62.8	62.9	69.5
P/E (x)	15.6	14.7	14.7	13.3
EV/EBITDA (x)	10.5	9.6	8.6	7.4
RoE (%)	23.2	22.0	19.8	19.9
RoCE (%)	32.1	30.5	27.5	27.5

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

# Stock Update

## Execution pick-up in large value projects to drive earnings

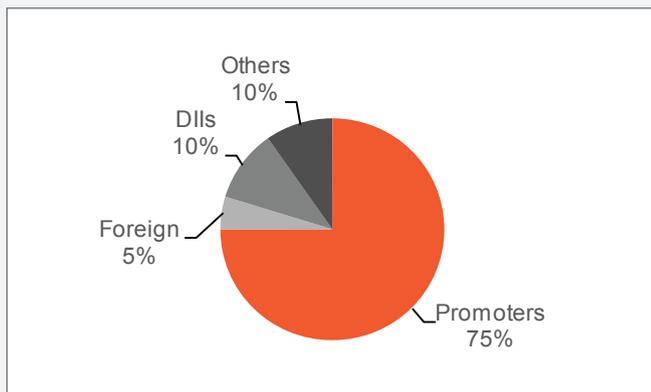
### NBCC

Reco: Buy | CMP: Rs208

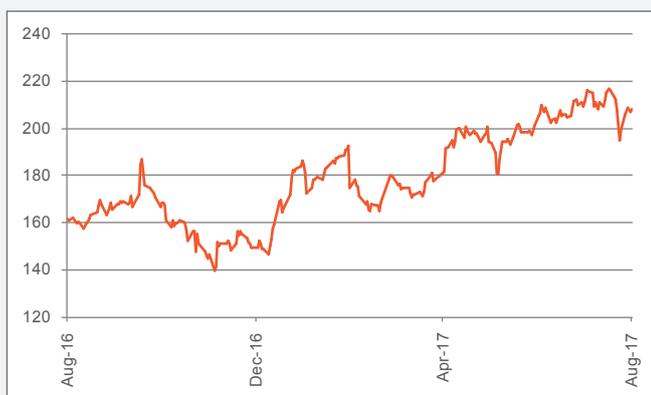
#### Company details

Price target:	Rs245
Market cap:	Rs18,720 cr
52-week high/low:	Rs219/133
NSE volume: (No of shares)	13.9 lakh
BSE code:	534309
NSE code:	NBCC
Sharekhan code:	NBCC
Free float: (No of shares)	22.5 cr

#### Shareholding pattern



#### Price chart



#### Price performance

(%)	1m	3m	6m	12m
Absolute	-1.9	3.5	18.8	36.1
Relative to Sensex	-1.1	-1.1	5.3	18.2

#### Key points

- Margins expanded despite flat topline; Revenue guidance maintained:** NBCC reported flat topline performance during Q1FY2018. The company's topline stood at Rs.1,267 crore due to poor performance of the PMC segment (91% mix) in Q1FY2018. The PMC segment's revenue declined by 2% YoY to Rs.1,149 crore due to delay in execution of large orders during the period. The EPC segment's revenue grew by 81% YoY to Rs.103 crore, while the real estate segment's revenue declined significantly and stood at Rs.9 crore due to sluggish domestic market. However, NBCC's OPM expanded by 157BPS to 5.1% due to a decline in raw-material cost (fall of 614BPS) despite higher other expenses. The PMC segment's PBIT margin expanded by 576BPS to 13.4% due to execution of some large projects. Hence, NBCC's operating profit grew by 45% YoY to Rs.65 crore. Steady operational performance did not reflect in the company's bottom line due to lower other income. Adjusted PAT grew by 23% YoY to Rs.56 crore during Q1FY2018. Management is expecting 40% revenue growth on standalone basis and increased margins due to execution of large value order book, receipt of marketing charges on redevelopment projects and land management opportunity in FY2018. On strong order book visibility, management reiterated its revenue growth guidance of around 25% CAGR for the next few years.
- Massive order backlog provides steady revenue visibility:** NBCC is currently sitting on a massive order book of Rs.75,000 crore (12x its FY2017 revenue) excluding Hindustan Steelworks Construction Ltd.'s (HSCL) order book. Including the HSCL order backlog of Rs.5,000 crore, the backlog stood at ~Rs.80,000 crore at the end of Q1FY2018. Out of the 75,000 crore order backlog, 92% belongs to the PMC segment, 3% to the EPC segment while the balance 5% belongs to the real estate segment. Management expects order inflow of Rs.25,000 crore-30,000 crore on account of large orders from AIIMS, Delhi Development Authority (DDA), irrigation project and redevelopment of railway stations. Management stated status quo regarding Air India order and excludes redevelopment project of Dharavi in the order inflow guidance. The positive outlook on revenue guidance for the next two years is on account of revenue booking to kick start from large projects of Nauroji Nagar, Netaji Nagar and Sarojini Nagar.

♦ **Reiterate Buy with unchanged PT:** We have marginally tweaked our earnings estimates on account of strong order inflow guidance and margin expansion despite flat topline in Q1. Hence, we expect NBCC to deliver an earnings CAGR of 51% during FY2017-FY2019E. Backed

by strong earnings visibility, a lean balance sheet, high return ratios and its quasi-monopoly position, we reiterate our Buy recommendation on the stock with unchanged price target (PT) of Rs.245.

**Results**

Particulars	Rs cr				
	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Net Sales	1,267	1,264	0.2	2,346	(46.0)
RM cost	(27)	(63)	(56.9)	(10)	174.4
Consultancy Exp.	1,105	1,216	(9.2)	2,053	(46.2)
Staff cost	88	55	61.7	73	21.7
Other exp.	36	11	215.3	20	75.0
Total Expenditure	1,202	1,219	(1.4)	2,136	(43.7)
Operating Profit	65	45	44.6	210	(69.1)
Other income	20	35	(43.1)	23	(12.8)
Depreciation	1	1	13.0	1	(3.6)
Interest	0	10	(99.8)	0	(85.0)
PBT	84	69	21.1	232	(63.8)
Tax	28	24	17.0	57	(50.8)
E.O	-	-		-	
Adjusted PAT	56	45	23.2	175	(68.0)
Adj. EPS	0.6	0.5	23.2	1.9	(68.0)
			bps		bps
OPM	5.1	3.5	157	8.9	(382)
NPM	4.4	3.6	82	7.4	(303)
Tax rate	33.3	34.5	(115)	24.5	880

**Valuation**

Particulars	Rs cr				
	FY2015	FY2016	FY2017	FY2018E	FY2019E
Net Sales	4,402	5,812	6,279	8,510	16,243
Operating profit	291	307	402	560	1,118
Operating profit %	6.6	5.3	6.4	6.6	6.9
Net Profit (adj)	277	287	351	446	818
Adj EPS (Rs)	3.1	3.2	3.9	5.0	9.1
EPS Growth (%)	(0.9)	3.5	22.3	26.9	83.5
PER (x)	67.5	65.2	53.3	42.0	22.9
P/BV (x)	14.1	12.3	11.2	10.2	8.0
EV/EBITDA (x)	60.6	57.3	42.7	31.0	15.0
ROCE (%)	33.5	29.5	32.4	40.2	61.6
ROE (%)	22.5	20.1	22.0	25.4	39.3

**Segmental performance**

Particulars	Rs cr				
	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
PMC	1,149	1,171	(1.9)	2,075	(44.6)
Real Estate	9	17	(49.1)	104	(91.5)
EPC	103	57	80.9	163	(37.0)
Total Sales	1,261	1,245	1.2	2,342	(46.2)
PMC	154	89	72.3	196	(21.7)
Real Estate	2	8	(79.3)	32	(95.1)
EPC	5	3	44.6	16	(70.9)
Unallocated	(76)	(21)	261.4	(12)	516.6
Total PBIT	84	79	6.3	232	(63.8)
Margins (%)			BPS		BPS
PMC	13.4	7.6	576	9.5	391
Real Estate	17.8	43.8	(2,603)	30.7	(1,294)
EPC	4.5	5.6	(112)	9.6	(519)
Total	6.7	6.3	32	9.9	(324)

Sharekhan Limited, its analyst or dependant(s) of the analyst might be holding or having a position in the companies mentioned in the article.

# Sharekhan Stock Ideas

## Automobiles

Apollo Tyres  
Ashok Leyland  
Bajaj Auto  
Gabriel Industries  
Hero MotoCorp  
M&M  
Maruti Suzuki  
Rico Auto Industries  
TVS Motor

## Banks & Finance

Axis (UTI) Bank  
Bajaj Finance  
Bajaj Finserv  
Bank of Baroda  
Bank of India  
Capital First  
Federal Bank  
HDFC  
HDFC Bank  
ICICI Bank  
LIC Housing Finance  
PTC India Financial Services  
Punjab National Bank  
SBI  
Union Bank of India  
Yes Bank

## Consumer goods

Britannia  
Emami  
GSK Consumers  
Godrej Consumer Products  
Hindustan Unilever  
ITC  
Jyothy Laboratories  
Marico  
Zydus Wellness

## IT / IT services

Firstsource Solution  
HCL Technologies  
Infosys  
Persistent Systems  
Tata Consultancy Services  
Wipro

## Capital goods / Power

CESC  
CG Power & Industrial Solutions  
Finolex Cable  
Greaves Cotton  
Kalpataru Power Transmission  
KEC International  
PTC India  
Skipper  
Thermax  
Triveni Turbine  
V-Guard Industries  
Va Tech Wabag

## Infrastructure / Real estate

Gayatri Projects  
ITNL  
IRB Infra  
Jaiprakash Associates  
Larsen & Toubro  
NBCC (India)  
Sadbhav Engineering

## Oil & gas

Oil India  
Reliance Ind  
Selan Exploration Technology

## Pharmaceuticals

Aurobindo Pharma  
Cipla  
Cadila Healthcare  
Divi's Labs  
Glenmark Pharmaceuticals  
Lupin  
Sun Pharmaceutical Industries  
Torrent Pharma

## Building materials

Grasim  
The Ramco Cements  
Shree Cement  
UltraTech Cement

## Discretionary consumption

Arvind Ltd  
Century Plyboards (India)  
Cox and Kings  
Inox Leisure  
Info Edge (India)  
KKCL  
Orbit Exports  
Relaxo Footwear  
Thomas Cook India  
Wonderla Holidays  
Zee Entertainment

## Diversified / Miscellaneous

Aditya Birla Nuvo  
Bajaj Holdings  
Bharti Airtel  
Bharat Electronics  
Gateway Distriparks  
Max Financial Services  
PI Industries  
Ratnamani Metals and Tubes  
Supreme Industries  
United Phosphorus

# Sharekhan

by BNP PARIBAS

Know more about our products and services

**Disclaimer:** This document has been prepared by Sharekhan Ltd. (SHAREKHAN) and is intended for use only by the person or entity to which it is addressed to. This Document may contain confidential and/or privileged material and is not for any type of circulation and any review, retransmission, or any other use is strictly prohibited. This Document is subject to changes without prior notice. This document does not constitute an offer to sell or solicitation for the purchase or sale of any financial instrument or as an official confirmation of any transaction. Though disseminated to all customers who are due to receive the same, not all customers may receive this report at the same time. SHAREKHAN will not treat recipients as customers by virtue of their receiving this report.

The information contained herein is obtained from publicly available data or other sources believed to be reliable and SHAREKHAN has not independently verified the accuracy and completeness of the said data and hence it should not be relied upon as such. While we would endeavour to update the information herein on reasonable basis, SHAREKHAN, its subsidiaries and associated companies, their directors and employees ("SHAREKHAN and affiliates") are under no obligation to update or keep the information current. Also, there may be regulatory, compliance, or other reasons that may prevent SHAREKHAN and affiliates from doing so. This document is prepared for assistance only and is not intended to be and must not alone be taken as the basis for an investment decision. Recipients of this report should also be aware that past performance is not necessarily a guide to future performance and value of investments can go down as well. The user assumes the entire risk of any use made of this information. Each recipient of this document should make such investigations as it deems necessary to arrive at an independent evaluation of an investment in the securities of companies referred to in this document (including the merits and risks involved), and should consult its own advisors to determine the merits and risks of such an investment. The investment discussed or views expressed may not be suitable for all investors. We do not undertake to advise you as to any change of our views. Affiliates of Sharekhan may have issued other reports that are inconsistent with and reach different conclusion from the information presented in this report.

This report is not directed or intended for distribution to, or use by, any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject SHAREKHAN and affiliates to any registration or licencing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to certain category of investors. Persons in whose possession this document may come are required to inform themselves of and to observe such restriction.

The analyst certifies that the analyst has not dealt or traded directly or indirectly in securities of the company and that all of the views expressed in this document accurately reflect his or her personal views about the subject company or companies and its or their securities and do not necessarily reflect those of SHAREKHAN. The analyst further certifies that neither he nor his relatives has any direct or indirect financial interest nor have actual or beneficial ownership of 1% or more in the securities of the company nor have any material conflict of interest nor has served as officer, director or employee or engaged in market making activity of the company. Further, the analyst has also not been a part of the team which has managed or co-managed the public offerings of the company and no part of the analyst's compensation was, is or will be, directly or indirectly related to specific recommendations or views expressed in this document.

Either SHAREKHAN or its affiliates or its directors or employees / representatives / clients or their relatives may have position(s), make market, act as principal or engage in transactions of purchase or sell of securities, from time to time or may be materially interested in any of the securities or related securities referred to in this report and they may have used the information set forth herein before publication. SHAREKHAN may from time to time solicit from, or perform investment banking, or other services for, any company mentioned herein. Without limiting any of the foregoing, in no event shall SHAREKHAN, any of its affiliates or any third party involved in, or related to, computing or compiling the information have any liability for any damages of any kind.

Compliance Officer: Ms. Namita Amod Godbole; Tel: 022-61150000; For any queries or grievances kindly email [igc@sharekhan.com](mailto:igc@sharekhan.com) or contact: [myaccount@sharekhan.com](mailto:myaccount@sharekhan.com)

**Registered Office:** Sharekhan Limited, 10th Floor, Beta Building, Lodha iThink Techno Campus, Off. JVLR, Opp. Kanjurmarg Railway Station, Kanjurmarg (East), Mumbai – 400042, Maharashtra. Tel: 022 - 61150000. Sharekhan Ltd.: SEBI Regn. Nos.: BSE: INB/INF011073351 / BSE-CD; NSE: INB/INF/INE231073330 ; MSEI: INB/INF261073333 / INE261073330 ; DP: NSDL-IN-DP-NSDL-233-2003 ; CDSL-IN-DP-CDSL-271-2004; PMS-INP000000662 ; Mutual Fund-ARN 20669 ; Research Analyst: INH000000370; For any complaints email at [igc@sharekhan.com](mailto:igc@sharekhan.com) ; Disclaimer: Client should read the Risk Disclosure Document issued by SEBI & relevant exchanges and the T & C on [www.sharekhan.com](http://www.sharekhan.com) ; Investment in securities market are subject to market risks, read all the related documents carefully before investing.