Corporate Plan

(Rolling & Perspective Years, 2011-12 to 2021-22)

National Projects Construction Corporation Limited

A GOVERNMENT OF INDIA ENTERPRISE – AN ISO 9001:2000 COMPANY

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1 EXECUTIVE SUMMARY

Introduction

National Projects Construction Corporation Limited (NPCC) was incorporated on 9th January 1957. The 98.89% paid up capital of the Corporation is held by the Honourable President of India and rest 1.11% by the Governors of 14 State Governments. The Corporation was mandated with creation of infrastructure to provide impetus for economic development of the country in the post-independence era. In over five decades of its operations, NPCC has completed over 130 National Projects in addition to few international projects.

NPCC believes that a planned sustainable growth of the Corporation requires formulation of medium and long term strategic plan. In line with this, it had earlier prepared a Corporate Plan. In the fast changing scenario of infrastructure sector, NPCC felt the need for updating the existing plan and hence this Corporate Plan for NPCC for six years (2011-12 to 2016-17) with a perspective plan comprising another five years (2017-18 to 2021-22) has been prepared.

Historical perspective

NPCC had started its operations with turnover of Rs 40.5 lakh and profit of Rs 0.02 lakh. The topline of the Corporation started growing fast from 1980 onwards when it diversified into a number of fields such as construction of dams, barrages & canals, hydropower and thermal power projects, bridges & flyovers, industrial structures, surface transport projects, sewerage & water supply projects, townships & buildings and environment projects. It was a profit making entity till 1986-87 but thereafter it started incurring loss. In 2005, NPCC was referred to Board for Reconstruction of Public Sector Enterprises (BRPSE) for financial restructuring. As per recommendation of BRPSE and after making modifications as suggested by the Committee of Secretaries (COS), GoI loan and most of the accumulated interest was converted to equity capital and subsequently by way of cancellation of shares, written down to 10% of its value.

Present Status of the Corporation

Currently, the Corporation is primarily engaged in PMC job for building border infrastructure, constructing rural roads and buildings for various Ministries, Government Agencies and PSUs which are received mainly on 'nomination' or 'limited tender' basis. Value of work done by the Corporation has increased from Rs 721.9 crore in 2006-07 to Rs 1,061.3 crore in 2010-11, and it has posted positive net profit in last couple of years. At the end of 2010-11, order book position of the Corporation remained healthy at Rs 3,699 crore.

Resources of NPCC

Finance

Over the past five years, along with the growth in revenue, profitability of the Corporation has improved; however, as of March 31, 2011 the net worth is still negative of Rs 46.0 crore. In order to enable NPCC to bid for competitive open tenders, net worth needs to be positive. Moreover, presently, the Corporation has challenges such as dependence on non-operating income for profitability and large amount of receivables which need to be overcome. However, if the present profitable situation is sustained, the net worth of the Corporation will become positive in next year which will help the Corporation to bid for open tenders and receive bank facilities. On the other hand, contingent liabilities and possible shrinkage in profit margin in future because of stringent competition are two major threats to the financial revival of the organisation. Therefore, in order to overcome challenges on 'finance', the Corporation needs to sustain profitable operation, implement budgetary control system, realise receivables, increase level of computerisation and recruit professionally qualified manpower.

Construction Equipment

On the equipment front, out of the 177 equipment and vehicles available with the Corporation, only 30 are in working condition as most those are not in economically operable condition because of prolonged non usage as well as natural wear and tear. Lack of modern equipment is one of the major hindrances for the Corporation to carry out departmental work. As no infusion of fund is expected, the Corporation will have to depend on limited flow of fund from its profitable operations for any future purchase of modern equipment and vehicles. However, the option of hiring equipment is also available with the Corporation. The present status of equipment, therefore, calls for judicious usage of existing equipment, selling off redundant equipment to fetch highest value and procurement of equipment based on extent of departmental work envisaged in this plan.

Human resource

As of November, 1, 2011, total number of employees in the organisation was 1,681 comprising executives, non-executives and workmen. Value of work done per employee (excluding workmen) of the Corporation has increased over the years from Rs 0.84 crore in 2007-08 to Rs 1.52 crore in 2010-11. The average age of employees of NPCC is over 50 years, which is a matter of concern as large pool of its experienced employees will superannuate in next 5-7 years. This calls for an immediate action on regular recruitment of qualified and suitably experienced manpower considering the existing skill gaps in the organisation. Moreover, vacant positions in middle and senior management levels need to be filled up. NPCC may consider having experienced manpower on deputation from other PSUs and employ contractual manpower to meet the immediate requirement.

Business Environment

Over the last five years, between 2006-07 and 2010-11, NPCC has secured new order worth Rs 6,286 crore primarily for border infrastructure and building construction from Ministry of Home Affairs (MHA), construction of rural road under Pradhan Mantri Gram Sadak Yojana (PMGSY) from Ministry of Rural Development (MoRD) and construction of building for various Government agencies. At present, there is high concentration of sectors / clients in order book of NPCC, with border infrastructure and building work of MHA and rural road construction work from MoRD having largest share of existing order book. At the end of 2010-11, total order book of NPCC was Rs 3,699 crore which was around 3.5 times the value of work done in that year which provides strong revenue visibility for the Corporation for next 3 years.

Going forward, work for border infrastructure is expected to reduce as most of the order for border fencing, flood lighting and building border road as envisaged by MHA has been placed. However, there could be opportunities for constructing Integrated Check Posts, repair and reconstruction of existing border infrastructure and any other initiatives planned by MHA. Moreover with the growth of Central Police Forces, work for construction of building is expected to continue.

On rural road front, opportunities exist. As of May 2011, around 70-80% of the total work envisaged has been sanctioned and around 55-60% of the same has been completed. According to estimates by MoRD, Rs 1,60,000 crore is to be spent in next 3-5 years of which Rs 1,14,218 crore will be for balance work yet to be sanctioned and completion of work already sanctioned.

Construction of building is NPCC’s forte. Leveraging this, NPCC should look forward to diversify its client base. There are opportunities in health and education sector as public sector spending in these two sectors for construction of hospitals and educational institutions are expected to increase in future.

According to the Planning Commission, investments in infrastructure in 12th Five Year Plan period is pegged over Rs 40 lakh crore which is double of that of the previous plan period. Further, while the share of private sector in investment in infrastructure is expected to increase, investments in sectors such as rural development, health and education will be driven by public sector. NPCC, being mandated to serve the public sector is suitably positioned to tap opportunities in those sectors.

However, NPCC should look for avenues of growth beyond its existing sectors. Besides, health, education and rural development, substantial investments is expected in thermal and hydro power, irrigation and State road construction. While irrigation and State road construction are State subjects, greater opportunities for NPCC may exist in thermal and hydro power sectors. Given its experience in construction of buildings of various kinds, NPCC may seek opportunities in the real estate sector; however, for the same it needs be associated with partners who will provide two key resources, land and finances. Besides, NPCC may look for opportunities for aligning with private players developing / willing to develop projects under public private partnership (PPP) mode. While development of project through PPP route is to be done by private sector, NPCC may add value by sharing its expertise and experienced manpower in the field of construction. However, NPCC may have to take necessary approvals from competent authority for the same. Based on expertise and past experience, it should build capabilities in select sectors, which, going forward will have a significant share in its order book and turnover. If experience in new sectors is a bottleneck for securing orders, NPCC may try entering into JV with reputed private firms to enter new areas of operations. However, necessary approvals from competent authorities may have to be sought in this regard.

Corporate Action Plan for NPCC

Based on the analysis of present status of NPCC and assessment of external opportunities, the key challenges for NPCC have been identified and then a strategic roadmap has been presented to overcome the challenges and tap the opportunities available in the construction industry. Further, measurable and time-bound targets for NPCC have been set and a detailed plan for business development, execution, finance, manpower and equipment has been prepared in this Corporate Plan of NPCC (rolling years of 2011-12 to 2016-17 and perspective years of 2017-18 to 2021-22).

Key challenges

Based on the assessment of present status NPCC, its resources, operating and financial performance, following challenges for NPCC has been identified:

- **Business development:** Concentration of clients/sectors in order book, limited order secured through competitive bidding (low hit ratio).
- **Engineering and execution:** Limited value addition in PMC job, limited design and engineering capability, lack of modern equipment.
- **Finance:** Negative net worth, low margin, high receivables and dependence on non-operating revenue for profitability.
- **Human resource:** High average age of manpower, reaching age of superannuation, lack of organised training and computerisation.

Strategic action plan for NPCC

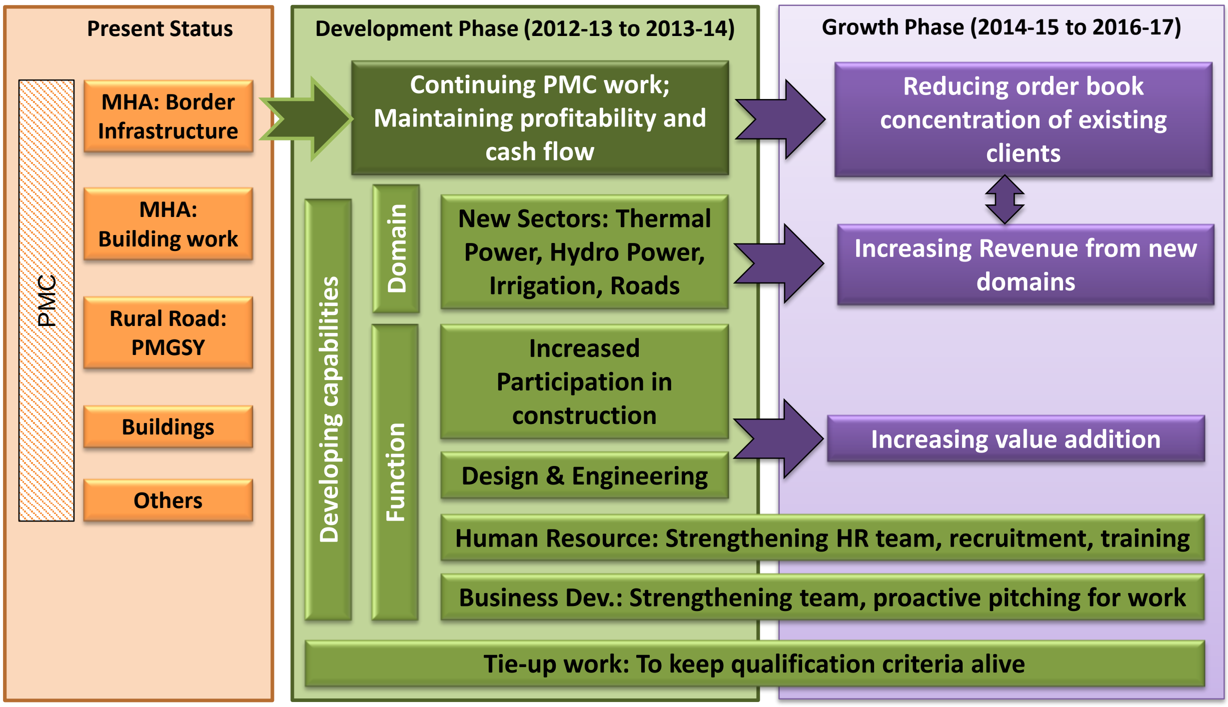
In order to overcome the challenges that the Corporation is currently facing, to gain competitive strength and to tap the opportunities available, it is imperative that NPCC takes up a firm strategic path and chart out definite action plan at this point of time. The strategic path for NPCC over the next 5 years, between 2012-13 and 2016-17 has been divided into two phases:

- Development Phase (2012-13 to 2013-14)

- Growth Phase (2014-15 to 2016-17)

The strategic path for the Corporation is depicted pictorially and has been explained subsequently.

Strategic path for NPCC



Present Status: At present the Corporation is primarily carrying out work on PMC basis where the value addition by the Corporation is limited with high concentration of few clients in the order book. However, the PMC work provides steady cash flow and is helping the Corporation to meet its expenses and remain profitable.

Development Phase: The objective of the Development Phase is to develop / strengthen competencies, both domain specific (various sectors such as thermal power, hydropower, road construction etc.) and functional such as design & engineering, human resource and business development.

In this phase, over the next 2-3 years, NPCC will continue to work on PMC basis with its existing clients and will continue exploring more opportunities with them. However, during this phase, NPCC will develop capabilities to diversify into new sectors in the infrastructure space in order to reduce dependence on present clients/sectors and tap growth opportunities.

NPCC should also focus on possible means of increasing its 'scope of work' and thereby add more value. This can be done by increasing its value addition in design and engineering phase (carrying out design and engineering work for select projects) and construction phase (selective execution of projects by the Corporation) of a project. For design and engineering, NPCC will gradually develop and team of design engineers who will be equipped with designing skills and necessary design and drafting software. NPCC will also endeavour to increase its participation in construction work and it will gradually take up suitable construction work such as construction of approach roads, boundary wall and will clearly define the scope of work of the contractor. Further the Corporation should continuously endeavor to strengthen its Human Resource and Business Development functions which will support the growth plan of the organisation.

Finally, in order to maintain 'qualification' gained by the Corporation in select strategic sectors, the Corporation needs to continue to tie-up with its business associates until it develops capability for own execution of projects.

Growth Phase: The objective of the Growth Phase is to diversify client base, grow revenue as well as profitability of the Corporation by leveraging competencies developed in the previous phase. Besides, the Corporation should continue to strengthen its Human Resource and Business Development functions to meet the organisational challenges in the Growth Phase of the Corporation.

Key targets for NPCC

While the strategic path described in the previous section will be followed in order to maintain sustainable and profitable operations by overcoming the challenges described earlier, it is imperative to set some measurable goals with stipulated timeframe. The major goals for the Corporation are as follows:

1. Turning net worth positive
2. Increase in value addition by the Corporation: Design & Engineering
3. Increase in value addition by the Corporation: Departmental work
4. De-risking order book and developing expertise in new sectors
5. Maintaining 'qualification'

The next exhibit provides goals and measurable targets for the Corporation with stipulated timeframe.

Key goals and targets for NPCC in next five years

Sr.	Goal	Target	Timeline	Action Points
1.	Turning net worth positive	Minimum net worth of Rs 5 crore	2011-12	• Steady execution • Sustaining profitability • Control over expenses
2.	Increase in value addition: Design & Engineering	Contribution of Design & Engineering team: Rs 4.5 crore Rs 6 crore	2015-16 2016-17	• Recruiting manpower • Training • Investment in computers and software
3.	Increase in value addition: Departmental work	Execution of work worth Rs 40 crore Rs 100 crore Rs 160 crore	2014-15 2015-16 2016-17	• Purchase of equipment • Recruitment of skilled manpower
4.	De-risking order book and developing expertise in new sectors	Order from new sector : Rs 800 cr Rs 1,000 cr Rs 1,500 cr	2014-15 2015-16 2016-17	• Aggressive marketing • Recruitment of skilled manpower • Developing sector specific skills in design & engineering, construction
5.	Maintaining 'qualification'	Value of projects executed through 'tie-up' route in strategic sectors worth: Rs 165 crore Rs 200 crore Rs 220 crore	2014-15 2015-16 2016-17	• Develop qualified contractors for such job • Identify strategic sectors

Business Development and order book

Based on the assessment of market, going forward, construction of rural road and building for various organisations are expected to drive order book of the Corporation. Besides, projects from Ministry of Home Affairs for construction of buildings for Central Security Forces and construction/repair of border infrastructure are also expected to add to order book. The key challenge to the Corporation will be securing projects from new sectors which are expected to contribute to the order book from 2012-13 onwards. The exhibit below depicts composition of new order secured by the Corporation.

Plan for new orders to be booked by NPCC in next 5 years

Particular	2012-13	2013-14	2014-15	2015-16	2016-17
New orders from existing sectors	1,150	1,200	1,200	1,500	1,500
New orders from new sectors	250	500	800	1,000	1,500
Total new order secured	1,400	1,700	2,000	2,500	3,000

Going forward, new order to be secured by NPCC is expected to grow further from Rs 3,500 crore in 2017-18 to Rs 4,750 crore in 2021-22.

Execution plan

Going ahead, for next three years, execution of projects by NPCC and revenue generation will be driven by existing order book; however, the new order booked during this period will also be executed as shown in exhibit below.

Execution plan for next five years

Particulars	2010-11	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
New Business Secured	596	1,100	1,400	1,700	2,000	2,500	3,000
Value of work done	**1061**	**1145**	**1280**	**1468**	**1646**	**1961**	**2155**
Order Book Position	3699	3654	3774	4006	4360	4899	5744
Order book/Turnover	3.5	3.2	2.9	2.7	2.6	2.5	2.7

Further growing forward, revenue from work done will increase from Rs 2,351 crore in 2017-18 to Rs 3,431 crore in 2021-22 as shown in the next exhibit.

Execution plan for subsequent five years

Particulars	2017-18	2018-19	2019-20	2020-21	2021-22
New Business Secured	3,500	4,000	4,250	4,500	4,750
Revenue	**2351**	**2594**	**2840**	**3136**	**3431**
Order Book Position	6893	8299	9709	11073	12392
Order book/Revenue	2.9	3.2	3.4	3.5	3.6

Finance plan

As shown in the execution plan, value of work done (operating income) of the Corporation will increase from Rs 1,145 crore in 2011-12 to Rs 2,155 crore in 2016-17. Other income will comprise of interest earned on deposit money, sale proceeds from scrap, hire charges etc. Further, NPCC has around Rs 50 crore[1] of provisions / liabilities that had been made quite some time back, which have remained unclaimed by the counterparties and can be written back over next couple of years.

While primary mode of execution of projects will be PMC basis, projects will be executed on 'tie-up' basis as well as by its own. Initially, EBIDTA margin will be high on account of non-operating income primarily because of provisions / liability which will be written back. Subsequently, as the operations stabilise, EBIDTA margin will be driven by higher scale of operations and greater value addition in terms of own execution.

Driven by the profitability, net worth of the Corporation is expected to be positive at the end of 2011-12. The same will help the Corporation to bid for open tenders where positive net worth is an eligibility criterion. Key factors that will determine turning net worth positive in 2011-12 are revenue from increased scale of operations and control over expenses supplemented by non-operating revenue, primarily the write back of liability / provisions that have remained unclaimed by the counterparties for a very long period of time and tax liabilities. The next exhibit provides snapshot of key financial indicators from Profit & Loss Statement and Balance Sheet for the ongoing year of 2011-12 and five years (2012-13 to 2016-17).

[1] Subject to validation by auditors

Key projected financial parameters for NPCC for next five years including current year

Parameter	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Select Profit & Loss Indicators						
Operating income	1145	1280	1468	1646	1961	2155
Other Income	66	40	32	34	39	45
Total revenue	**1211**	**1320**	**1500**	**1680**	**2000**	**2200**
EBIDTA	91	71	68	76	100	114
EBIDTA Margin	7.5%	5.4%	4.6%	4.5%	5.0%	5.2%
PAT	50	45	52	52	64	73
PAT Margin	4.1%	3.4%	3.5%	3.1%	3.2%	3.3%
Select Balance Sheet Indicators	2011-12	2012-13	2013-14	2014-15	2015-16	2016-17
Total Equity	94.5	94.5	94.5	94.5	94.5	94.5
Reserve & Surplus	(90.4)	(45.1)	7.1	59.2	123.4	196.5
Net Worth	**4.1**	**49.4**	**101.7**	**153.7**	**218.0**	**291.0**

P&L indicators have been rounded off for better representation

Note: Refer Appendix III for major assumptions of the finance plan. Refer Appendix IV, V and VI for the projected financial statements, i.e. Profit & Loss Statement, Balance Sheet and Cash Flow Statement for the period 2011-12 to 2021-22.

Equipment plan

Procurement of construction equipment will be required when NPCC starts execution of projects, or part of it, on its own. As no capital infusion in form of debt or equity has been envisaged, procurement of equipment will be constrained by availability of surplus fund from operating cash flow.

The industry operates with a mix of own and hired equipment and the same varies among companies. While construction companies with relatively old equipment have revenue of around 16-18 times the gross block of equipment, for some other companies which have made investments in equipment in recent past, the same varies around 4-5 times gross block of equipment. Based on this industry benchmark and the value of work done by own execution, the following plan for investment in equipment has been envisaged.

Plan for investments in equipment in next 10 years

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Investments in Equipment (Rs crore)		5.0	5.0	5.0	5.0
	2017-18	2018-19	2019-20	2020-21	2021-22
Investments in Equipment (Rs crore)	5.0	5.0	5.0	5.0	5.0

Manpower plan

Over the years there has been marked improvement in execution efficiency of the employees as indicated by increased revenue generated per employee. Proposed computerisation and training will also help in increasing efficiency of manpower. However, owing to the law of 'learning curve', growth in efficiency of manpower will be more gradual in future.

Therefore, manpower, both executive and non-executive has to be recruited to replenish superannuating manpower and to sustain revenue growth. Based on gradual growth in productivity of employees and the value of work to be done as estimated in finance plan, number of manpower required for every year has been estimated. Further, based on retirement schedule computed for next 10 years, additional manpower to be required has been estimated. Please refer Chapter on Corporate Action Plan for NPCC and Appendix VII for detailed basis of manpower plan for next 10 years.

It is estimated that in rest of the period of 2011-12 around 10 executives will be recruited and beyond that, up to 2016-17, 330 executives and 30 non-executives will have to be recruited, which underlines the requirement of strengthening the human resource team for recruitment. The exhibit below summarises manpower recruitment plan.

Manpower recruitment plan in next 10 years

Particulars	2012-13	2013-14	2014-15	2015-16	2016-17
Recruitment of Executives	30	40	60	100	100
Recruitment of Non-Executives			10	10	10
	2017-18	2018-19	2019-20	2020-21	2021-22
Recruitment of Executives	60	75	75	80	80
Recruitment of Non-Executives	5	10	15	15	15

Computerisation

Usage of computers for data processing and communication leads to reduced paper handling, faster processes, higher efficiency, reduced requirement of space and manpower. These factors incentivise companies across sectors for greater computerisation. In construction industry, companies with revenue of Rs 1,000-2,000 crore typically spends Rs 0.5 crore to Rs 1 crore per annum on computer and software.

Given the existing level of computerisation, NPCC needs to increase level of computerisation in the organisation and needs to install Accounting and Financial Management software like Tally.ERP 9. Moreover, design and engineering software needs to be installed and computers need to be procured. However, in the absence of any infusion of fund, the investment on computerisation will be limited by surplus fund from operating cash flow. In next five years the Corporation is expected invest Rs 2.75 crore on computerisation.

Implementation and Monitoring of Corporate Plan

Plan for implementation and periodic monitoring of progress of the overall performance of the firm vis-à-vis what envisaged as part of the Corporate Plan are two most important and integral parts of the Corporate Plan.

Implementation Plan

Implementation of the Corporate Plan should start with breaking down the corporate level goals and targets to measurable goals and target of each department such as Project Monitoring, Contract, Works and Marketing, Human Resource, Finance as well as each of the zones and units. The goals and target at the organisational level, as envisaged in this Corporate Plan should be shared with all the senior personnel heading corporate departments and the zones. They in turn will communicate the same to every personnel in their respective departments.

'Communication' is one of the key elements for achieving successful implementation of the Corporate Plan. Each employee of the organisation needs to be communicated at regular interval about the goals and targets, progress of the organisation and future strategies through possible online and offline media such as emails, newsletters/internal publications and posters at offices. Further, a small team may be formed in order to manage implementation of the Corporate Plan which should report to the Chairman & Managing Director of the Corporation. The responsibility of the team will include convening meetings, preparing MIS, helping in implementing the plan throughout the organisation and communication.

Monitoring Plan

During the initial stage of implementation, key metrics can be identified for each function of the organisation based on which goals and targets may be set and monitored. An organisation-wide review of the performance with all the zonal managers and department heads may be organised at regular intervals. The purpose of this monitoring meeting will be assessment of progress, extent of achievement of targets, identification of reasons for slippage and roadblocks, if any and formulation of solution for the same.

The field of operations of NPCC, construction in the infrastructure sector, is fast changing in the country. The changing scenario of the industry may necessitate relook at the Corporate Plan every year for necessary changes to be brought in to reflect the impact of the changing scenario.