Institutional Equity Research

NCC

Construction | India

4QFY17 Result Update | May 24, 2017

CMP (Rs)	83
Upside/ (Downside) (%)	18
Bloomberg Ticker	NJCC IN
Market Cap. (Rs bn)	46
Free Float (%)	80
Shares O/S (mn)	556

BUY

Target Price: Rs98

An Ordinary Quarterly Performance; Maintain BUY

NCC's reported performance has come in below the expectation as dismal revenue booking and higher exceptional items dragged earnings. Further, a lower than estimated order inflow aggravated the concern. Its top-line de-grew by 13% YoY to Rs21.4bn (vs. our expectation of Rs23bn), mainly owing to revenue loss in its electrical division in UP due to assembly elections. While EBITDA declined by 17% YoY (flat on sequential comparison) to Rs1.74bn, EBITDA margin came in at 8.1% (-38 bps YoY and -101 bps). Finance cost declined by 22% YoY to Rs1.02bn led by a significant reduction in gross debt. However, exceptional item of Rs500mn pertaining to liquidated damage (DLD) for Nellore power project dragged its PBT to Rs440mn (-59% YoY and -42% QoQ). Though we have downwardly revised our EBITDA estimates by 7% and 6% for FY18E and FY19E, respectively to factor in insipid order inflow, we continue to like NCC on account of consistent balance-sheet deleveraging and better working capital management. We believe that turnaround of international business, further divestment of non-core assets and improvement in order intake will be the key catalysts for NCC in near to medium-term. **Thus, we maintain our BUY recommendation on the stock with a revised SOTP-based Target Price of Rs98 (from Rs100 earlier).**

Dismal Revenue Booking Drags Performance

A tepid order flow in 2HFY17 along with revenue loss owing to payment delays impacted NCC's revenue booking with its top-line declining by 13% YoY to Rs21.4bn in 4QFY17. NCC cited that it lost revenue to the tune of Rs4.0bn owing to payment delays (due to assembly elections in UP) and demonetization. Consequently, EBITDA de-grew by 17% YoY (flat on QoQ basis) to Rs1.74bn, while EBITDA margin came in at 8.1% (-38 bps YoY and -101 bps).

Order Book Concerns Aggravate

Current order backlog stands at Rs181bn, which is 2.3x of FY17 revenue. However, adjusting with Mining Development Order (MDO) worth Rs18.7bn, order book to sales works out at 2.0x. NCC secured orders worth Rs92.3bn (including MDO order) in FY17 compared to Rs74.2bn in FY16, while current L1 position stands at Rs20.0bn. The Management has guided for an order inflow of Rs100bn in FY18.

Outlook & Valuation

Higher-than-expected reduction in debt and efficient working capital management during FY17 are key positives. We have upwardly revised our PAT estimates by 3% and 5% for FY18E and FY19E, respectively mainly to factor in higher-than-expected savings in interest cost. We believe that turnaround of international business, further divestment of non-core assets and improvement in order intake will be the key catalysts for NCC in near to medium-term. **Thus, we maintain our BUY recommendation on the stock with a revised SOTP-based Target Price of Rs98 (from Rs100 earlier).**

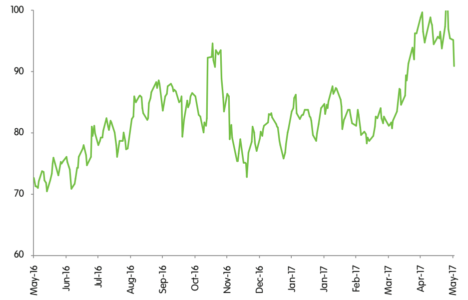
Key Financials (Rs mn)	FY16	FY17	FY18E	FY19E
Sales (Rs)	83,252	78,921	85,296	92,131
EBITDA (Rs)	7,374	6,852	7,603	8,396
PAT	2,228	2,255	2,923	3,460
EPS (Rs)	4.0	4.1	5.3	6.2
P/E (x)	20.7	20.5	15.8	13.3
EV/Sales (x)	0.8	0.8	0.7	0.6
EV/EBITDA (x)	8.5	8.9	7.6	6.9
RoE (%)	6.7	6.4	7.8	8.6
RoCE (%)	15.1	12.4	14.4	15.1
Divi. Yield (%)	0.7	0.5	0.7	1.0

Source: Company, RSec Research

Share price (%)	1 mth	3 mth	12 mth
Absolute performance	(15.9)	2.2	16.9
Relative to Nifty	(17.5)	(2.5)	(3.9)

Shareholding Pattern (%)	Dec'16	Mar'17
Promoter	19.74	19.72
Public	80.26	80.28

1 Year Stock Price Performance



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Key Risks

- Slowdown in government's planned spending on towards infrastructure development.
- Any political uncertainty or changes in macroeconomic policies.
- Substantial deterioration in working capital cycle.

Conference Call – Key Takeaways

Order Book: NCC's current order book stands at Rs181bn vs. Rs177bn as of FY16-end. Building & Road contracts account for 46% of total order backlog, while Water and Irrigation projects account for 34% and 19%, respectively. NCC secured orders worth Rs92.3bn (including MDO order) in FY17 compared to Rs74.2bn in FY16, while current L1 position stands at Rs20.0bn. The Management has guided for an order inflow of Rs100bn in FY18.

Guidance on Revenue & Margins: NCC lost revenue to the tune of ~Rs4.0bn in FY17 mainly due to: (a) execution slowdown following payment issue faced by its electrical division owing to assembly elections in UP; (b) demonetization; and (c) slowdown in project execution in water division due to payment issues. However, NCC expects 8-10% revenue growth and an EBITDA margin of 9-9.15% in FY18.

Exceptional Item: NCC has provided for an exceptional item of Rs500mn during the quarter pertaining to liquidated damage (DLD) for Nellore power project. However, the Management expects a productive negotiation with the client.

Debt Reduction: NCC reduced its gross debt to Rs15.8bn in FY17, which stood at Rs18.8bn in FY16 mainly owing to better working capital management and divestment of non-core assets. Though divestment of non-core assets will continue in FY18, NCC foresees its debt level to be in Rs18-20bn range in FY18.

Finance Cost: Its finance cost is expected to be in the range of Rs3.6-3-7bn in FY18 (vs. Rs4.0bn in FY17). Rating up-gradation to "A-" from "BBB+" will lead to further reduction in interest cost.

Subsidiaries: NCC expects its domestic subsidiaries to witness a complete turnaround in FY18, while the losses of international subsidiaries are likely to reduce substantially.

Divestment in NCC Vizag Urban: NCC is actively negotiating with some PE players to divest its 40-45% stake in NCC Vizag Urban. It is having ~98 acres of developable land and is getting lot of interest from PE players due to bright prospects of Vizag as next IT hub.

Working Capital: Receivable days stand at 71 days in FY17 (vs. 58 days in FY16). Retention and Withhold amounts stand at Rs16.3bn and Rs4.98bn, respectively. NCC expects its working capital cycle to improve in 1QFY18.

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Exhibit 1: Quarterly Performance

(Rs mn)	4QFY17	4QFY16	% yoy	3QFY17	% qoq	FY17	FY16	% yoy
Net Sales	**21,394**	**24,522**	**(12.8)**	**19,035**	**12.4**	**78,921**	**83,252**	**(5.2)**
Cost of Materials	7,521	9,930	(24.3)	6,790	10.8	29,959	38,619	(22.4)
Change in WIP	632	803	(21.3)	749	(15.7)	1,398	390	258.8
% sales	38.1	43.8		39.6		39.7	46.9	
Construction Exps.	2,534	2,455	3.2	2,302	10.1	9,347	8,396	11.3
% sales	11.8	10.0		12.1		11.8	10.1	
Sub-contractor Works	7,597	8,049	(5.6)	6,169	23.1	26,167	23,351	12.1
% sales	35.5	32.8		32.4		33.2	28.0	
Employee Costs	871	776	12.2	829	5.0	3,316	3,008	10.2
% sales	4.1	3.2		4.4		4.2	3.6	
Other Exps.	498	419	18.8	454	9.7	1,883	2,111	(10.8)
% sales	2.3	1.7		2.4		2.4	2.5	
Total Expenditures	**19,653**	**22,432**	**(12.4)**	**17,294**	**13.6**	**72,069**	**75,875**	**(5.0)**
EBITDA	**1,742**	**2,090**	**(16.7)**	**1,741**	**0.0**	**6,852**	**7,377**	**(7.1)**
EBITDA margin (%)	**8.1**	**8.5**	**(38.2)**	**9.1**	**(100.5)**	**8.7**	**8.9**	**(17.9)**
Depreciation	276	275	0.6	284	(2.8)	1,121	1,100	1.9
Interest	1,022	1,307	(21.8)	1,009	1.3	3,957	5,089	(22.2)
Other Income	471	768	(38.7)	395	19.3	1,401	2,240	(37.5)
Exceptional Items	(473)	(203)		(78)		(503)	(203)	
PBT	**440**	**1,072**	**(58.9)**	**764**	**(42.4)**	**2,672**	**3,225**	**(17.2)**
Tax	(197)	210	(193.5)	181	(208.5)	417	823	(49.4)
% PBT	30	19.6		23.7		15.6	25.5	
PAT	**637**	**862**	**(26.1)**	**583**	**9.2**	**2,255**	**2,402**	**(6.1)**
Net Margin (%)	3.0	3.5		3.1		2.9	2.9	

Source: Company, RSec Research

Exhibit 2: Revised v/s Old Estimates

	FY18E			FY19E		
	Old	Revised	% change	Old	Revised	% change
Sales	88,302	85,296	(3.4)	95,285	92,131	(3.3)
EBITDA	8,166	7,603	(6.9)	8,907	8,396	(5.7)
EBITDA margins (%)	9.2	8.9		9.3	9.1	
Interest Cost	4,008	3,637	(9.3)	3,894	3,635	(6.7)
PAT	2,852	2,923	2.5	3,310	3,460	4.5
EPS (Rs)	5.1	5.3	2.5	6.0	6.2	4.5

Source: RSec Research

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Profit & Loss

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E
Income	**83,252**	**78,921**	**85,296**	**92,131**
% yoy growth	0.3	(5.2)	8.1	8.0
Operting Expenses	75,878	72,069	77,693	83,734
EBITDA	**7,374**	**6,852**	**7,603**	**8,396**
EBITDA Margin (%)	**8.9**	**8.7**	**8.9**	**9.1**
Depreciation & Amortization	1,100	1,121	1,201	1,292
Interest	5,076	3,957	3,637	3,635
Other Income	1,965	1,401	1,471	1,544
Exceptional Item	(203)	(503)	-	-
PBT	**2,960**	**2,672**	**4,236**	**5,014**
Tax	731	417	1,313	1,554
% Tax	24.7	15.6	31.0	31.0
Net Profit- Reported	**2,228**	**2,255**	**2,923**	**3,460**
YoY Growth (%)	99.3	1.2	29.6	18.4
Net Profit- Adjusted	**2,228**	**2,255**	**2,923**	**3,460**
Net Profit Margin (%)	2.7	2.9	3.4	3.8

Balance Sheet

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E
Equities and Liabilities				
Share Capital	1,112	1,112	1,112	1,112
Reserves & Surplus	32,976	34,965	37,487	40,413
Total Shareholder's funds	34,088	36,076	38,599	41,525
LT Borrowings	1,020	91	100	105
Deferred Tax Liability (net)	-	31	-	-
Other LT Liabilities	497	755	764	825
LT Provisions	228	268	271	293
Total NC Liabilities	35,833	37,221	39,734	42,749
ST Borrowings	17,166	15,283	16,283	15,283
Trade Payables	21,229	28,681	29,042	31,379
Other Current Liabilities	19,725	9,559	9,679	10,458
ST Provisions	492	69	70	75
Total Current Liabilities	**58,612**	**53,591**	**55,074**	**57,194**
Total Liabilities	**94,445**	**90,812**	**94,808**	**99,943**
Assets				
Gross Block	12,682	13,542	14,542	15,642
Less: Accumulated Dep. / Amort.	6,484	7,620	8,821	10,112
Net Block	6,197	5,922	5,721	5,530
CWIP	76	13	13	13
Total Fixed Assets	6,274	5,935	5,734	5,542
NC Investments	10,311	10,768	10,311	10,311
Deferred Tax Assets (Rs)	208	1,342	1,342	1,342
LT Loans & Advances	1,055	-	-	-
Other NC Assets	1,174	6,178	6,256	6,759
Total NC Assets	12,748	18,289	17,909	18,413
Current Investment	2	-	-	-
Inventories	16,568	15,258	15,451	16,693
Trade Receivables	13,245	15,750	15,949	17,232
Cash and Bank Balances	2,158	1,105	4,856	4,345
ST Loans and Advances	27,420	5,861	5,935	6,412
Other Current Assets	16,030	28,615	28,975	31,306
Total Current Assets	**75,423**	**66,588**	**71,165**	**75,988**
Total Assets	**94,445**	**90,812**	**94,808**	**99,943**

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Cash Flow Statement

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E
PBT	2,960	2,672	4,236	5,014
Depreciation	1,100	1,135	1,201	1,292
Finance Cost	5,076	3,957	3,637	3,635
Others	(1,157)	-	-	-
Op. Profit before WC Changes	7,978	7,764	9,074	9,941
Net Change in Working Capital	(2,141)	989	(408)	(2,634)
Tax	(957)	(1,520)	(1,344)	(1,554)
Net Cash from Operating Activities	**4,880**	**7,233**	**7,322**	**5,753**
Capex	(1,061)	(796)	(1,000)	(1,100)
Sale / (Purchase) of Investments	1,051	(455)	457	-
Others	3,668	-	-	-
Net Cash used in Investing Activities	**3,658**	**(1,251)**	**(543)**	**(1,100)**
Proceeds / (Repayment) of Loans (Net)	(1,116)	(2,812)	1,009	(995)
Finance Cost	(5,746)	(3,957)	(3,637)	(3,635)
Dividend and Tax thereon	(268)	(267)	(400)	(534)
Net Cash used in Financing Activities	**(7,130)**	**(7,035)**	**(3,028)**	**(5,164)**
Net Increase/ (Decrease) in Cash	1,409	(1,054)	3,751	(511)
Cash at Beginning of the Year	710	2,118	1,065	4,816
Cash at End of the Year	2,118	1,065	4,816	4,305
Other Balance as per the BS	40	40	40	40
Cl. Cash balance at B/S	2,158	1,105	4,856	4,345

Key Ratio

Y/E Mar (Rs mn)	FY16	FY17	FY18E	FY19E
Valuation Ratio (x)				
P/E	20.7	20.5	15.8	13.3
P/CEPS	13.9	13.7	11.2	9.7
P/BV	1.4	1.3	1.2	1.1
EV/EBIDTA	8.5	8.9	7.6	6.9
EV/Sales	0.8	0.8	0.7	0.6
Dividend Payout (%)	15.0	9.9	11.4	12.9
Dividend Yield (%)	0.7	0.5	0.7	1.0
Per Share Data (Rs)				
EPS (Basic)	4.0	4.1	5.3	6.2
EPS (Diluted)	4.0	4.1	5.3	6.2
CEPS	6.0	6.1	7.4	8.5
DPS	0.6	0.4	0.6	0.8
Book Value	61	65	69	75
Returns (%)				
RoCE	15.1	12.4	14.4	15.1
RoE	6.7	6.4	7.8	8.6
Turnover ratios (x)				
Asset Turnover (Gross block)	6.6	5.8	5.9	5.9
Inventory (days)	73	69	69	69
Receivables (days)	58	71	71	71
Payables (days)	93	129	129	129
WCC (days)	38	10	10	10
Solvency ratios (x)				
D/E (x)	0.49	0.4	0.3	0.3
Current Ratio (x)	0.8	0.6	0.6	0.6

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Rating Guides

Rating	Expected absolute returns (%) over 12 months
BUY	>10%
HOLD	-5% to 10%
REDUCE	>-5%