

Robust order inflow will drive revenue growth

NCC posted 5.9% YoY growth in Q1FY18 standalone revenue to ₹20.1bn (in line with estimates). The rise in revenue was primarily due to growth in Electrical and Water & Environment segments with 29.7% and 23.6% YoY, respectively. EBITDA margin declined 23bps YoY to 8.5% (in line with estimates) due to higher construction expenses. Adj. PAT (post adjusting exceptional gain of ₹124 mn) decreased by 2.5% YoY to ₹510mn (in line with estimates) as decline in other income is set off against reduction in interest cost. We maintain ACCUMULATE due to healthy revenue growth led by robust order inflow and reduction in interest cost.

Strong order inflow enhances better revenue growth

NCC standalone bagged fresh orders worth ₹60.5bn (up 67.2% YoY) during Q1FY18. Moreover, it has L1 orders worth ~₹25-30bn. The standalone order book grew 12.7% YoY/ 26.6% QoQ to ₹193.1bn (excluding ₹18.5bn MDO order) as on Q1FY18 providing revenue visibility for 2.4x TTM revenue. Considering sharp surge in order inflow and L1, we upgraded/ maintained our order inflow estimates to ₹103.6bn (earlier ₹84.4bn) / ₹92.9bn for FY18E/ FY19E.

Outlook and Valuation

We have upgraded our revenue estimates by 4.1%/ 4.9% for FY18E/ FY19E to factor in higher order inflow. We expect 9.2% (close to management guidance of 10%) YoY growth in revenue for FY18E and 5.8% for FY19E and maintained EBITDA margin at 9.2%/ 9.5% for FY18E/ FY19E. We expect lower interest cost in FY18E/ FY19E supported by lower interest rate and savings in bank charges led by improvement in ratings. Thus, we expect 14.7% CAGR in Adj. PAT over FY17-19E. NCC's focus on asset monetisation helped it to reduce its standalone debt by ₹3.1bn in FY17 to ₹15.8bn. It plans to continue to the same strategy, particularly through the sale of land. We maintain ACCUMULATE on the stock with SOTP based TP of ₹102 (Exhibit 1). We have excluded OB Infra road BOT from our valuation as it has been securitised.

Q1FY18 Result (₹ Mn)

Particulars	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)
Total revenue	20,137	19,011	5.9	21,394	(5.9)
Operating expenditure	18,428	17,354	6.2	19,653	(6.2)
EBITDA	1,710	1,657	3.2	1,742	(1.8)
Depreciation	276	277	(0.7)	276	(0.3)
Operating profit	1,434	1,380	3.9	1,465	(2.1)
Other income	209	286	(27.1)	471	(55.7)
Interest	861	940	(8.4)	1,022	(15.8)
Exceptional items	124	-	-	(473)	-
EBT	906	726	24.7	440	105.7
Income tax	272	203	33.8	(197)	-
Net income	634	523	21.2	637	(0.4)
Adjustments	(124)	-	-	473	-
Adj. Net income	510	523	(2.5)	1,110	(54.1)
			bps		bps
EBIDTA Margin (ex.)	8.5	8.7	(23)	8.1	35
EBIDTA Margin (in.)	9.5	10.2	(70)	10.3	(81)
NPM (%)	2.5	2.7	(21)	5.1	(257)
Tax/PBT (%)	30.0	27.9	204	(44.6)	7,462
Const. cost./rev. (%)	84.8	84.6	18	85.5	(67)

CMP	₹ 89
Target / Upside	₹ 102/15%
BSE Sensex	32,014
NSE Nifty	9,979

Script Details

Equity / FV	₹ 1,112/₹ 2/-
Market Cap	₹ 50bn
	USD 785mn
52-week High/Low	₹ 104/71
Avg. Volume (no)	4054706
NSE Symbol	NCC
Bloomberg Code	NJCC IN

Shareholding Pattern Jun'17(%)

Promoters	19.6
MF/Banks/FIs	25.7
FIIIs	21.4
Public / Others	33.3

Valuation (x)

	FY17	FY18E	FY19E
P/E	18.0	17.1	13.7
EV/EBITDA	9.5	8.2	7.6
ROE (%)	8.2	8.1	9.4
ROCE (%)	14.0	15.2	15.4

Estimates (₹ mn)

	FY17	FY18E	FY19E
Net Sales	78,921	86,197	91,207
EBITDA	6,852	7,942	8,667
PAT	2,758	2,651	3,627
EPS	5.0	5.2	6.5

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Exhibit 1: SOTP Valuation

Component	Valuation Method	₹/sh	%
Standalone cons business	15x FY19E EPS	97.9	95.5
Realty Projects (excl. Dubai Harmony)	1xP/BV	3.3	3.2
Road BOTs	1xP/BV	1.3	1.3
Total		102.5	100.0
CMP		89.2	
Potential upside		14.9%	

Source: Company, DART

Downside risk to our valuation

Execution delays

Project delays due to an impediment at the client's end or other regulatory bottlenecks could adversely affect NCC's revenue and profitability.

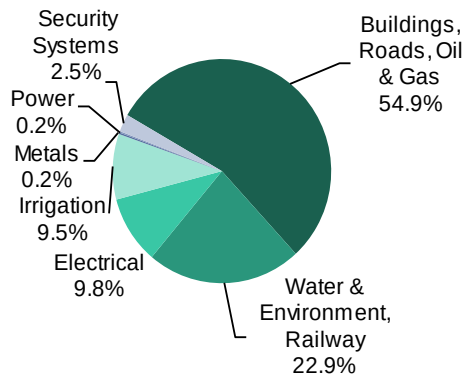
Delay in order intake

Any postponement in capex by private and government sectors will lead to a delay in the awarding of orders to NCC, negatively impacting its revenue and profitability.

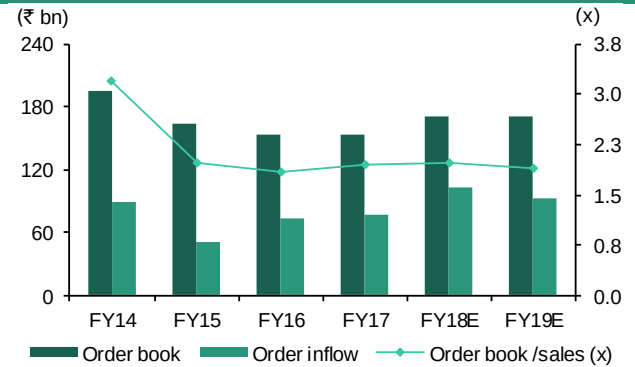
Exhibit 2: Q1FY18 Performance (Standalone)

Particulars (₹ Mn)	Q1FY18	Q1FY17	YoY (%)	Q4FY17	QoQ (%)	FY17	FY16	YoY (%)
Total revenue	20,137	19,011	5.9	21,394	(5.9)	78,921	83,252	(5.2)
Material consumed	7,693	7,131	7.9	8,152	(5.6)	31,357	39,009	(19.6)
Construction exp.	2,502	2,293	9.1	2,534	(1.3)	9,347	8,396	11.3
Sub - contractor work bills	6,880	6,663	3.3	7,597	(9.4)	26,167	23,351	12.1
Employees cost	815	770	6.0	871	(6.3)	3,316	3,008	10.3
Other expenses	537	498	7.9	498	7.7	1,883	2,111	(10.8)
Operating expenditure	18,428	17,354	6.2	19,653	(6.2)	72,069	75,875	(5.0)
EBITDA	1,710	1,657	3.2	1,742	(1.8)	6,852	7,376	(7.1)
Depreciation	276	277	(0.7)	276	(0.3)	1,121	1,100	1.9
Operating profit	1,434	1,380	3.9	1,465	(2.1)	5,731	6,277	(8.7)
Other income	209	286	(27.1)	471	(55.7)	1,401	2,240	(37.5)
EBIT	1,643	1,666	(1.4)	1,936	(15.1)	7,132	8,517	(16.3)
Interest	861	940	(8.4)	1,022	(15.8)	3,957	5,089	(22.2)
Exceptional items	124	-	-	(473)	-	(503)	(203)	-
EBT	906	726	24.7	440	105.7	2,672	3,225	(17.2)
Income tax	272	203	33.8	(197)	-	417	823	(49.4)
Net income	634	523	21.2	637	(0.4)	2,255	2,402	(6.1)
Adjustments	(124)	-	-	473	-	503	203	147.7
Adjusted net income	510	523	(2.5)	1,110	(54.1)	2,758	2,605	5.9
EPS (₹)	0.9	0.9	(2.5)	2.0	(54.1)	5.0	4.7	5.9
			bps		bps			bps
EBIDTA Margin (ex. O.I.)	8.5	8.7	(23)	8.1	35	8.7	8.9	(18)
EBIDTA Margin (in. O.I.)	9.5	10.2	(70)	10.3	(81)	10.5	11.6	(109)
NPM (%)	2.5	2.7	(21)	5.1	(257)	3.4	3.0	39
Tax/PBT (%)	30.0	27.9	204	(44.6)	7,462	15.6	25.5	(994)
Const. Cost/rev. (%)	84.8	84.6	18	85.5	(67)	84.7	85.0	(26)

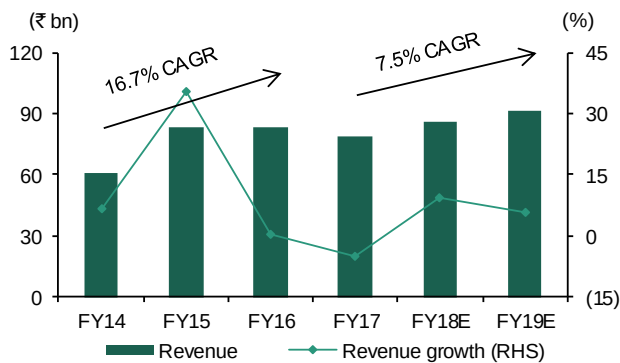
Source: Company, DART

Exhibit 1: ₹193bn order book break up (Standalone)


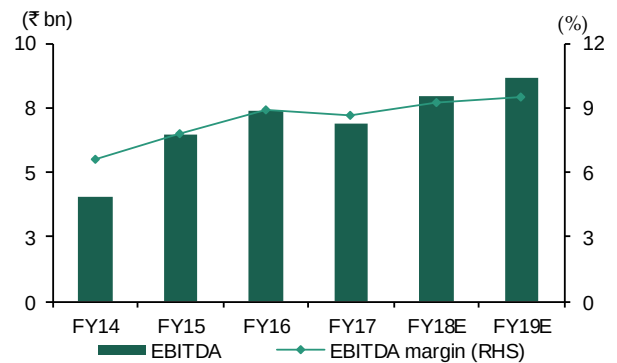
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Exhibit 2: Order book trend (Standalone)


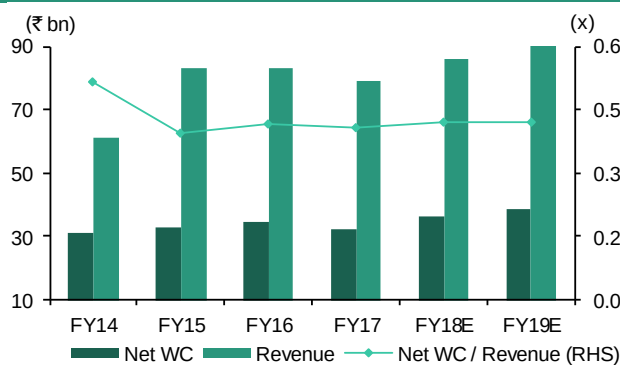
Source: Company, DART

Exhibit 3: Revenue to grow 7.5% CAGR over FY17-19E


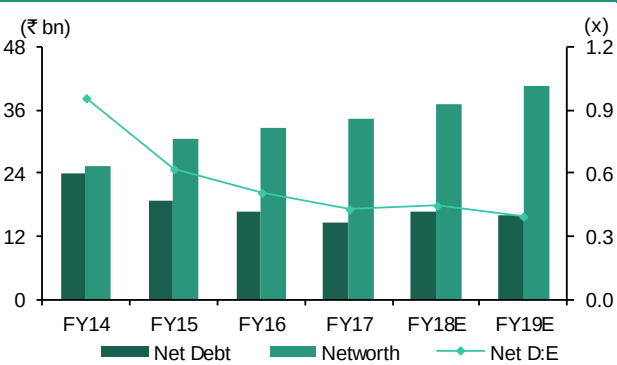
Source: Company, DART

Exhibit 4: EBITDA Margin to improve to 9.5% by FY19E


Source: Company, DART

Exhibit 5: Comfortable working capital


Source: Company, DART

Exhibit 6: Declining leverage


Source: Company, DART

Income Statement (Standalone)

Particulars (₹ mn)	Mar-16	Mar 17	Mar 18E	Mar 19E
Revenue	83,252	78,921	86,197	91,207
Growth (%)	0.3	(5.2)	9.2	5.8
Total Expenditure	75,875	72,069	78,255	82,540
Material consumption	39,009	31,357	33,617	36,027
Construction expenses	8,396	9,347	10,775	11,401
Sub-contractors work bills	23,351	26,167	28,221	28,985
Employees cost	3,008	3,315	3,647	4,012
Other Expenses	2,111	1,883	1,996	2,115
Other Income	2,240	1,401	1,150	1,150
EBIDTA (Excl. OI)	7,376	6,852	7,942	8,667
Growth (%)	13.6	(7.1)	15.9	9.1
EBIDTA (Incl. OI)	9,616	8,253	9,092	9,817
Depreciation	1,100	1,121	1,135	1,215
EBIT	8,517	7,132	7,958	8,602
Interest	5,089	3,957	3,700	3,350
Exceptional Items	203	503	(124)	0
Profit Before Tax	3,225	2,672	4,133	5,252
Tax	823	417	1,359	1,625
Net Profit	2,402	2,255	2,775	3,627
Adjustments	203	503	(124)	0
Adj. Net Profit	2,605	2,758	2,651	3,627
Growth (%)	133.0	5.9	5.1	25.1

Balance Sheet

Particulars (₹ mn)	Mar-16	Mar 17	Mar 18E	Mar 19E
Sources of Funds				
Equity Capital	1,112	1,112	1,112	1,112
Reserves	31,496	33,311	35,950	39,317
Net Worth	32,608	34,423	37,062	40,428
Long Term Loan	1,669	487	183	248
Short Term Loan	17,166	15,283	17,093	16,543
Loan Funds	18,834	15,770	17,276	16,791
Deferred Tax Liability	(814)	(1,354)	(1,411)	(1,472)
Total Capital Employed	50,628	48,839	52,927	55,748
Application of Funds				
Gross Block	12,649	13,682	14,682	15,682
Less: Acc Depreciation	6,451	7,279	8,413	9,628
Net Block	6,197	6,403	6,269	6,054
Capital Work in Progress	76	13	20	20
Investments	9,568	10,287	10,537	11,287
Current Assets, Loans & Advances				
Inventories	16,568	15,258	17,216	18,159
Sundry Debtors	30,866	35,358	37,927	40,131
Cash and Bank Balance	2,158	1,095	789	674
Loans and Advances	15,726	9,938	11,347	11,968
Other Current Assets	10,582	9,453	10,344	10,033
sub total	75,901	71,101	77,623	80,964
Less: Current Liabilities & Provisions				
Current Liabilities	40,827	38,629	41,121	42,125
Provisions	287	337	401	453
sub total	41,114	38,966	41,522	42,578
Net Current Assets	34,786	32,136	36,101	38,387
Total Assets	50,628	48,839	52,927	55,748

E – Estimates

Cash Flow (Standalone)

Particulars (₹ mn)	Mar-16	Mar 17	Mar 18E	Mar 19E
Profit before tax	3,225	2,672	4,382	5,252
Depreciation	1,100	1,121	1,135	1,215
Finance cost	5,089	3,957	3,700	3,350
Other income	(1,867)	(1,392)	(1,150)	(1,150)
Others	468	793	(124)	0
Direct taxes paid	(926)	(436)	(1,415)	(1,686)
Change in Working Capital	(2,201)	(4,746)	(4,271)	(2,401)
(A) CF from Operations	4,886	1,968	2,256	4,579
Capex	(1,067)	(1,350)	(1,007)	(1,000)
Free Cash Flow	3,820	618	1,249	3,579
Inc./ (Dec.) in Investments	2,362	4,000	(250)	(750)
Other	1,980	1,871	1,150	1,150
(B) CF from Investments	3,275	4,520	(107)	(600)
Issue of Equity/ Preference	0	0	0	0
Inc./ (Dec.) in Debt	(1,116)	(3,068)	1,506	(485)
Interest exp net	(5,746)	(4,083)	(3,700)	(3,350)
Dividend Paid (Incl. Tax)	(268)	(402)	(260)	(260)
(C) CF from Financing	(7,130)	(7,552)	(2,454)	(4,095)
Net Change in Cash	1,032	(1,064)	(305)	(116)
Opening Cash balances	1,127	2,158	1,095	789
Closing Cash balances	2,158	1,095	789	674

Important Ratios

Particulars	Mar-16	Mar 17	Mar 18E	Mar 19E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	8.9	8.7	9.2	9.5
EBIDTA Margin (incl. O.I.)	11.6	10.5	10.5	10.8
EBIT Margin	10.2	9.0	9.2	9.4
Interest/EBIT	59.7	55.5	46.5	38.9
Tax/PBT	25.5	15.6	32.9	30.9
Net Profit Margin	3.1	3.5	3.1	4.0
(B) As Percentage of Net Sales				
Raw Material	46.9	39.7	39.0	39.5
Construction expenses	10.1	11.8	12.5	12.5
Sub-contractors work bills	28.0	33.2	32.7	31.8
Employees expenses	3.6	4.2	4.2	4.4
(C) Measures of Financial Status				
Debt / Equity (x)	0.6	0.5	0.5	0.4
Interest Coverage (x)	1.9	2.1	2.5	2.9
Average Cost Of Debt (%)	26.2	22.9	22.4	19.7
Debtors Period (days)	135	164	161	161
Closing stock (days)	73	71	73	73
Working Capital (days)	153	149	153	154
Fixed Assets Turnover (x)	6.6	5.8	5.9	5.8
(D) Measures of Investment				
Diluted EPS (₹)	4.7	5.0	5.2	6.5
CEPS (₹)	6.7	7.0	7.3	8.7
DPS (₹)	0.6	0.4	0.4	0.4
Book Value (₹)	58.7	61.9	66.7	72.7
RoANW (%)	8.3	8.2	8.1	9.4
RoACE (%)	16.7	14.0	15.2	15.4
RoAIC (%)	22.2	18.7	20.1	20.1
(E) Valuation Ratios				
CMP (₹)	89	89	89	89
P/E (x)	19.0	18.0	17.1	13.7
Market Cap. (₹ mn)	49,589	49,589	49,589	49,589
MCap/ Sales (x)	0.6	0.6	0.6	0.5
EV (₹ mn)	67,336	65,265	65,170	65,891
EV/Sales (x)	0.8	0.8	0.8	0.7
EV/EBDITA (x)	9.1	9.5	8.2	7.6
P/BV (x)	1.5	1.4	1.3	1.2
FCFE Yield (%)	(5.8)	(13.0)	(1.9)	(0.5)
Dividend Yield (%)	0.7	0.4	0.4	0.4

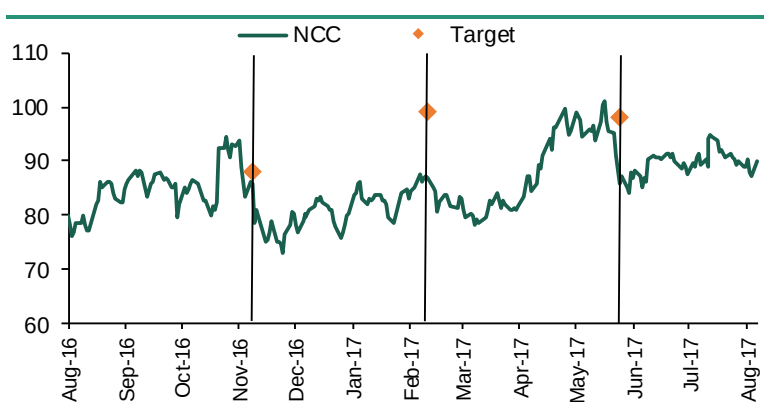
E – Estimate

DART RATING MATRIX

Total Return Expectation (12 Months)

Buy	> 20%
Accumulate	10 to 20%
Reduce	0 to 10%
Sell	< 0%

Rating and Target Price History



Month	Rating	TP (₹)	CMP (₹)
Nov'16	Accumulate	88	79
Feb'17	Accumulate	99	87
May'17	Accumulate	98	91

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