NCC

Accumulate

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Result Update

GST spoiled the show, but robust order inflow positive

- NCC posted 33.3% YoY de-growth in Q2FY18 standalone revenue to ₹13bn (35.8% below estimates). The fall in revenue was primarily due to GST related issues.

- EBITDA margin increased 78bps YoY to 9.6% (41bps above estimates) due to lower construction expenses which was partially offset by higher employee cost and other expenses.

- Adj. PAT (post adjusting non-cash exceptional loss of ₹590 mn on account of stake sale in Tellapur Technocity) grew 70.8% YoY to ₹793mn (25.9% above estimates).

- NCC (standalone) bagged historical high orders worth ₹148.9bn during YTDFY18 leading to highest ever standalone order book to ₹258bn (Oct'17) providing revenue visibility for 3.5x TTM revenue. Considering sharp surge in order inflow, we upgraded our order inflow estimates to ₹178.8bn (earlier ₹103.6bn) / ₹98.3bn (earlier ₹92.9bn) for FY18E/ FY19E.

- We have downgraded/ upgraded our revenue estimates by 6.9%/ 1.6% for FY18E/ FY19E to factor in 1HFY18 nos/ higher order inflow. We expect 1.7% (close to management guidance) YoY growth in revenue for FY18E and 15.5% for FY19E and maintained EBITDA margin at 9.2%/ 9.5% for FY18E/ FY19E.

- We expect debt to rise in FY18E and FY19E due to encashment of ₹2.9bn BG by its client (Nellore Power Project) in Nov'17. Accordingly, interest cost will reduce at much slower pace due to lower interest rate and savings in bank charges led by improvement in ratings.

- We expect 13.1% CAGR in Adj. PAT over FY17-20E. We maintain ACCUMULATE on the stock with SOTP based TP of ₹112 as we roll over to FY20E (Exhibit 1).

Q2FY18 Result (₹ Mn)

Particulars	Q2FY18	Q2FY17	YoY(%)	Q1FY18	QoQ(%)
Total revenue	**13,001**	**19,479**	***(33.3)***	**20,137**	***(35.4)***
Operating expenditure	11,758	17,768	*(33.8)*	18,428	*(36.2)*
EBITDA	**1,244**	**1,711**	***(27.3)***	**1,710**	***(27.3)***
Depreciation	290	282	*2.8*	276	*5.4*
Operating profit	**953**	**1,428**	***(33.3)***	**1,434**	***(33.5)***
Other income	422	251	*68.4*	209	*102.4*
Interest	888	986	*(10.0)*	861	*3.1*
Exceptional items	(590)	48	-	124	-
EBT	**(102)**	**741**	**-**	**906**	**-**
Income tax	(305)	229	-	272	-
Net income	**203**	**512**	***(60.3)***	**634**	***(68.0)***
Adjustments	590	(48)	-	(124)	-
Adj. Net income	**793**	**464**	***70.8***	**510**	***55.4***
			bps		*bps*
EBIDTA Margin (ex. O.I.)	9.6	8.8	*78*	8.5	*107*
EBIDTA Margin (in. O.I.)	12.8	10.1	*274*	9.5	*329*
NPM (%)	5.9	2.4	*355*	2.5	*340*
Tax/PBT (%)	299.2	30.9	*26,831*	30.0	*26,923*
Const. cost. /rev. (%)	80.7	84.7	*(396)*	84.8	*(410)*

CMP	₹ 96
Target / Upside	₹ 112/17%
BSE Sensex	32,942
NSE Nifty	10,187
Scrip Details	
Equity / FV	₹ 1,112/₹ 2/-
Market Cap	₹ 53.3bn
	USD 813mn
52-week High/Low	₹ 114/71
Avg. Volume (no)	7,574,616
NSE Symbol	NCC
Bloomberg Code	NJCC IN
Shareholding Pattern Sept'17(%)	
Promoters	19.6
MF/Banks/FIs	24.8
FIIs	20.7
Public / Others	34.9

Valuation (x)

	FY18E	FY19E	FY20E
P/E	25.0	15.1	13.4
EV/EBITDA	9.5	8.3	7.8
ROE	6.0	9.3	9.6
ROCE	14.0	14.9	14.8

Estimates (₹ mn)

	FY18E	FY19E	FY20E
Net Sales	80,241	92,659	98,380
EBITDA	7,389	8,800	9,342
PAT	3,060	3,538	3,991
EPS	3.8	6.4	7.2

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DOLAT CAPITAL

November 15, 2017

Exhibit 1: SOTP Valuation

Component	Valuation Method	₹/sh	%
Standalone cons business	15x FY20E EPS	107.7	95.9
Realty Projects (excl. Dubai Harmony)	1xP/BV	3.3	2.9
Road BOTs	1xP/BV	1.3	1.2
Total		112.3	100.0
CMP		95.9	
Potential upside		17.1%	

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.

Rise in debt and interest cost

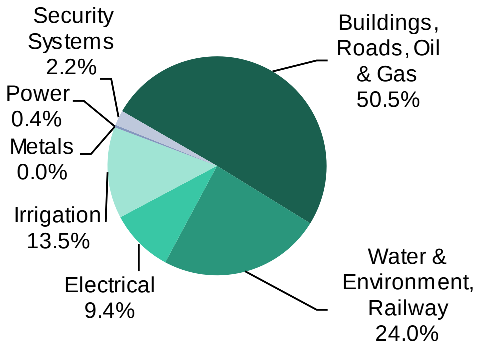
NCC's standalone debt increased by ₹4.6bn during 1HFY18 due to encashment of ₹2.9bn BG by its client (Nellore Power Project) in Nov'17 and rise in debtors led by GST related issues. Any further rise in debt and interest cost compared to our estimates then it will negatively impact its profitability.

Exhibit 2: Q2FY18 Performance (Standalone)

Particulars (₹ Mn)	Q2FY18	Q2FY17	*YoY (%)*	Q1FY18	*QoQ (%)*	H1FY18	H1FY17	*YoY (%)*
Total revenue	**13,001**	**19,479**	***(33.3)***	**20,137**	***(35.4)***	**33,139**	**38,490**	***(13.9)***
Material consumed	3,870	8,534	*(54.7)*	7,693	*(49.7)*	11,563	15,665	*(26.2)*
Construction exp.	1,344	2,218	*(39.4)*	2,502	*(46.3)*	3,846	4,511	*(14.7)*
Sub - contractor work bills	5,277	5,737	*(8.0)*	6,880	*(23.3)*	12,157	12,400	*(2.0)*
Employees cost	858	846	*1.4*	815	*5.2*	1,673	1,616	*3.6*
Other expenses	409	433	*(5.5)*	537	*(23.8)*	946	930	*1.7*
Operating expenditure	**11,758**	**17,768**	***(33.8)***	**18,428**	***(36.2)***	**30,185**	**35,122**	***(14.1)***
EBITDA	**1,244**	**1,711**	***(27.3)***	**1,710**	***(27.3)***	**2,953**	**3,368**	***(12.3)***
Depreciation	290	282	*2.8*	276	*5.4*	566	560	*1.1*
Operating profit	**953**	**1,428**	***(33.3)***	**1,434**	***(33.5)***	**2,387**	**2,808**	***(15.0)***
Other income	422	251	*68.4*	209	*102.4*	631	537	*17.5*
EBIT	**1,376**	**1,679**	***(18.1)***	**1,643**	***(16.3)***	**3,019**	**3,345**	***(9.8)***
Interest	888	986	*(10.0)*	861	*3.1*	1,749	1,926	*(9.2)*
Exceptional items	(590)	48	-	124	-	(466)	48	-
EBT	**(102)**	**741**	**-**	**906**	**-**	**804**	**1,467**	***(45.2)***
Income tax	(305)	229	-	272	-	(33)	432	-
Net income	**203**	**512**	***(60.3)***	**634**	***(68.0)***	**837**	**1,035**	***(19.1)***
Adjustments	590	(48)	-	(124)	-	466	(48)	-
Adjusted net income	**793**	**464**	***70.8***	**510**	***55.4***	**1,303**	**987**	***31.9***
EPS (₹)	**1.4**	**0.8**	***70.8***	**0.9**	***55.4***	**2.3**	**1.8**	***31.9***
			bps		*bps*			*bps*
EBIDTA Margin (ex. O.I.)	9.6	8.8	*78*	8.5	*107*	8.9	8.8	*16*
EBIDTA Margin (in. O.I.)	12.8	10.1	*274*	9.5	*329*	10.8	10.1	*67*
NPM (%)	5.9	2.4	*355*	2.5	*340*	3.9	2.5	*133*
Tax/PBT (%)	299.2	30.9	*26,831*	30.0	*26,923*	(4.1)	29.4	*(3357)*
Const. Cost/rev. (%)	80.7	84.7	*(396)*	84.8	*(410)*	83.2	84.6	*(145)*

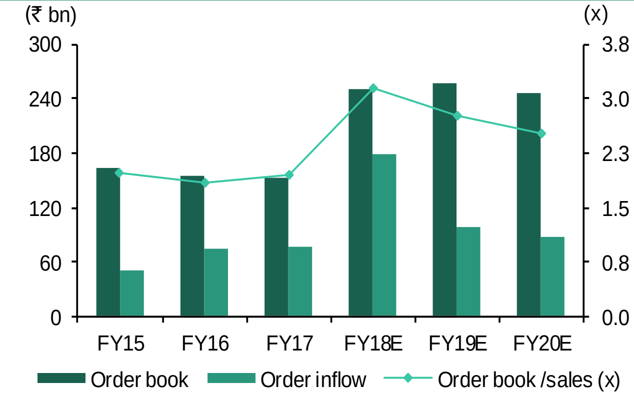
Source: Company, DART

Exhibit 3: ₹196bn order book break up (Standalone)



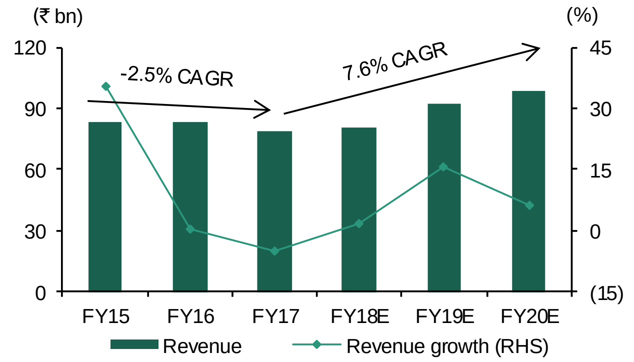
Source: Company, DART

Exhibit 4: Order book trend (Standalone)



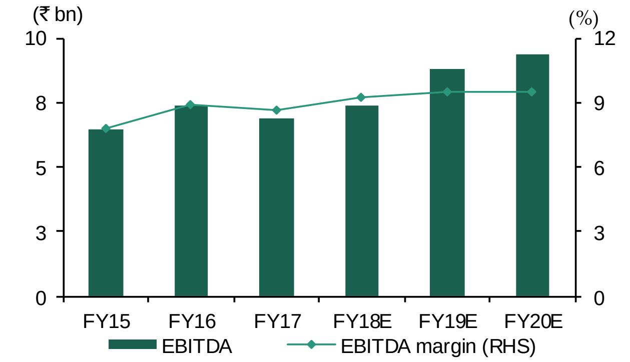
Source: Company, DART

Exhibit 5: Revenue to grow 7.6% CAGR over FY17-20E



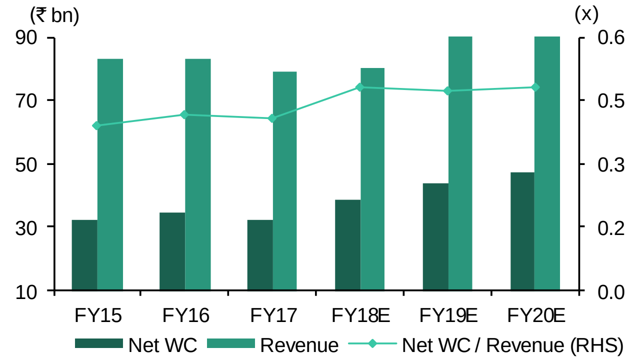
Source: Company, DART

Exhibit 6: EBITDA Margin to improve to 9.5% by FY20E



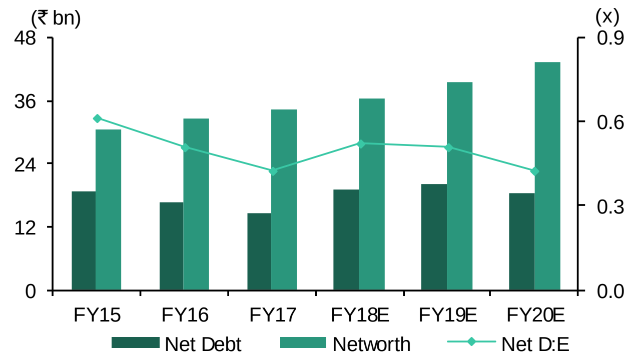
Source: Company, DART

Exhibit 7: Working capital trend



Source: Company, DART

Exhibit 8: Leverage trend



Source: Company, DART

Income Statement (Standalone)

Particulars (₹ mn)	Mar17	Mar18E	Mar19E	Mar20E
Revenue	**78,921**	**80,241**	**92,659**	**98,380**
Growth (%)	*(5.2)*	*1.7*	*15.5*	*6.2*
Total Expenditure	**72,069**	**72,853**	**83,859**	**89,039**
Material consumption	31,357	31,110	36,702	38,821
Construction expenses	9,347	9,830	11,582	12,298
Sub-contractors work bills	26,167	26,271	29,447	31,265
Employees cost	3,315	3,647	4,012	4,413
Other Expenses	1,883	1,996	2,115	2,242
Other Income	1,401	1,200	1,150	1,150
EBIDTA (Excl. OI)	**6,852**	**7,389**	**8,800**	**9,342**
Growth (%)	*(7.1)*	*7.8*	*19.1*	*6.1*
EBIDTA (Incl. OI)	**8,253**	**8,589**	**9,950**	**10,492**
Depreciation	1,121	1,156	1,230	1,311
EBIT	**7,132**	**7,433**	**8,721**	**9,181**
Interest	3,957	3,700	3,600	3,400
Exceptional Items	503	466	0	0
Profit Before Tax	2,672	4,198	5,121	5,781
Tax	417	1,014	1,582	1,790
Net Profit	**2,255**	**3,185**	**3,538**	**3,991**
Adjustments	503	(124)	0	0
Adj. Net Profit	**2,758**	**3,060**	**3,538**	**3,991**
Growth (%)	*5.9*	*(22.8)*	*66.2*	*12.8*

Balance Sheet (Standalone)

Particulars (₹ mn)	Mar17	Mar18E	Mar19E	Mar20E
Sources of Funds				
Equity Capital	1,112	1,112	1,112	1,112
Reserves	33,311	35,180	38,458	42,189
Net Worth	**34,423**	**36,292**	**39,570**	**43,301**
Long Term Loan	484	638	703	768
Short Term Loan	15,283	19,283	20,283	19,213
Loan Funds	**15,767**	**19,921**	**20,986**	**19,981**
Deferred Tax Liability	(1,354)	(1,412)	(1,473)	(1,539)
Total Capital Employed	**48,835**	**54,801**	**59,083**	**61,743**
Application of Funds				
Gross Block	13,682	14,682	15,682	16,682
Less: Acc Depreciation	7,279	8,435	9,664	10,975
Net Block	**6,403**	**6,247**	**6,018**	**5,707**
Capital Work in Progress	13	20	20	20
Investments	10,287	9,787	9,287	8,787
Current Assets, Loans & Advances				
Inventories	15,258	16,028	18,449	19,589
Sundry Debtors	35,358	38,516	42,623	45,255
Cash and Bank Balance	1,095	976	812	1,554
Loans and Advances	9,938	11,510	13,250	14,068
Other Current Assets	9,453	10,271	11,768	12,593
sub total	71,101	77,301	86,902	93,058
Less: Current Liabilities & Provisions				
Current Liabilities	38,632	38,174	42,694	45,326
Provisions	337	380	450	504
sub total	38,969	38,554	43,144	45,829
Net Current Assets	32,132	38,746	43,758	47,229
Total Assets	**48,835**	**54,801**	**59,083**	**61,743**

E – Estimates

Cash Flow (Standalone)

Particulars (₹ mn)	Mar17	Mar18E	Mar19E	Mar20E
Profit before tax	**2,672**	**3,267**	**5,121**	**5,781**
Depreciation	1,121	1,156	1,230	1,311
Finance cost	3,957	3,700	3,600	3,400
Other income	(1,392)	(1,200)	(1,150)	(1,150)
Others	793	(124)	0	0
Direct taxes paid	(436)	(1,072)	(1,644)	(1,856)
Change in Working Capital	(4,746)	(6,732)	(5,176)	(2,730)
(A) CF from Operations	**1,968**	**(1,005)**	**1,981**	**4,756**
Capex	(1,350)	(1,007)	(1,000)	(1,000)
Free Cash Flow	**618**	**(2,012)**	**981**	**3,756**
Inc./ (Dec.) in Investments	4,000	500	500	500
Other	1,871	1,200	1,150	1,150
(B) CF from Investments	**4,520**	**693**	**650**	**650**
Issue of Equity/ Preference	0	0	0	0
Inc./(Dec.) in Debt	(3,068)	4,154	1,065	(1,005)
Interest exp net	(4,083)	(3,700)	(3,600)	(3,400)
Dividend Paid (Incl. Tax)	(402)	(260)	(260)	(260)
(C) CF from Financing	**(7,552)**	**194**	**(2,795)**	**(4,665)**
Net Change in Cash	(1,064)	(118)	(164)	741
Opening Cash balances	**2,158**	**1,095**	**976**	**812**
Closing Cash balances	**1,095**	**976**	**812**	**1,554**

Important Ratios

Particulars	Mar17	Mar18E	Mar19E	Mar20E
(A) Measures of Performance (%)				
EBIDTA Margin (excl. O.I.)	8.7	9.2	9.5	9.5
EBIDTA Margin (incl. O.I.)	10.5	10.7	10.7	10.7
EBIT Margin	9.0	9.3	9.4	9.3
Interest/EBIT	55.5	49.8	41.3	37.0
Tax/PBT	15.6	24.1	30.9	31.0
Net Profit Margin	3.5	3.8	3.8	4.1
(B) As Percentage of Net Sales				
Raw Material	39.7	38.8	39.6	39.5
Construction expenses	11.8	12.3	12.5	12.5
Sub-contractors work bills	33.2	32.7	31.8	31.8
Employees expenses	4.2	4.5	4.3	4.5
Other Expenses	2.4	2.5	2.3	2.3
(C) Measures of Financial Status				
Debt / Equity (x)	0.5	0.5	0.5	0.5
Interest Coverage (x)	2.1	2.3	2.8	3.1
Average Cost Of Debt (%)	22.9	20.7	17.6	16.6
Debtors Period (days)	164	175	168	168
Closing stock (days)	71	73	73	73
Working Capital (days)	149	176	172	175
Fixed Assets Turnover (x)	5.8	5.5	5.9	5.9
(D) Measures of Investment				
Diluted EPS (₹)	5.0	3.8	6.4	7.2
CEPS (₹)	7.0	5.9	8.6	9.5
DPS (₹)	0.4	0.4	0.4	0.4
Book Value (₹)	61.9	65.3	71.2	77.9
RoANW (%)	8.2	6.0	9.3	9.6
RoACE (%)	14.0	14.0	14.9	14.8
RoAIC (%)	18.7	18.2	18.7	18.3
(E) Valuation Ratios				
CMP (₹)	96	96	96	96
P/E (x)	19.3	25.0	15.1	13.4
Market Cap. (₹ mn)	53,314	53,314	53,314	53,314
MCap/ Sales (x)	0.7	0.7	0.6	0.5
EV (₹ mn)	68,985	70,122	72,873	72,614
EV/Sales (x)	0.9	0.9	0.8	0.7
EV/EBDITA (x)	10.1	9.5	8.3	7.8
P/BV (x)	1.5	1.5	1.3	1.2
FCFE Yield (%)	(12.1)	(2.9)	(2.9)	(1.2)
Dividend Yield (%)	0.4	0.4	0.4	0.4

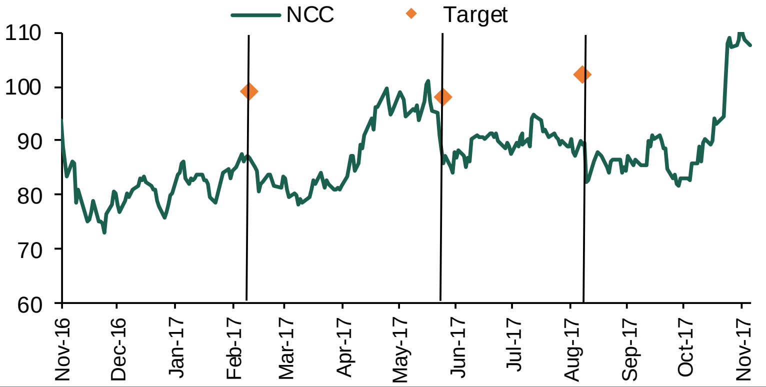
E – Estimates

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 (₹)	Price (₹)*
Feb-17	Accumulate	99	87
May-17	Accumulate	98	91
Aug-17	Accumulate	102	89

** As on Recommendation Date*

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