RETAIL EQUITY RESEARCH

NCC Ltd

Construction & Engineering

BSE CODE:500294 **NSE CODE:** NCC

Bloomberg CODE: NJCC:IN **SENSEX:** 34,142

Accumulate

Rating as per Mid Cap **12months investment period**

CMP Rs. 125 **TARGET** Rs. 138 **RETURN 11%**

26th February, 2018

Visibility improved…

NCC Limited (NCC) is one of the largest well diversified construction companies in India with having a foothold in every segment of construction sector.

- **Q3FY18 Order book grew by 55% YoY (4.4x TTM revenue) stimulated by 210% YoY rise in fresh orders.**
- **Revenue de-grew by 2.8% due to muted execution & GST led uncertainty.**
- **EBITDA margin improved by 463bps YoY to 13.8% as NCC has received an early completion bonus of Rs73cr, while excluding the same margins stood at 10.2% which is above our estimate.**
- **Adj. PAT grew by 97% YoY led by operational efficiency & lower tax out go.**
- **We increase FY18/19E PAT estimate by 11%/7% as visibility improved on account of robust order book.**
- **At the CMP we value standalone business at a PE of 16x FY20E EPS and BOT & real estate at 1xP/B to arrive at SOTP target price of Rs138 and retain our Accumulate rating.**

Stupendous order inflow…

9MFY18 order inflow grew by 132% YoY to Rs21,614cr supported by fresh orders in Building, road, water & environment, railway and irrigation. As a result, order book grew by 55% YoY to Rs31,627cr which is 4.4x trailing twelve month revenue. Further, NCC has L1 orders worth Rs2100cr which provide visibility for future order inflow. The increased spending by government in key infrastructure space will benefit NCC to get more orders & we expect order book will scale up by 40% CAGR over FY17-20E.

Execution needs to pickup…

9MFY18 revenue de-grew by 10.2% YoY to Rs5,165cr due to muted execution and GST led uncertainties. Building & road and water & environment division work has been impacted which constitute major part of the order book. We expect execution will pick up as most of the orders received in the last couple of quarters are to be executed in the next two years. Management pointed that, NCC has raised Rs550cr through QIP which will be sufficient to execute the current order book. Therefore, we increased FY19E revenue estimate by 4%. Execution is the key trigger to monitor for re-rating in price and we expect revenue to grow at a CAGR of 12% over FY17-20E.

Margins improved…

In Q3FY18 EBITDA margin improved by 463bps YoY to 13.8% supported by an early completion bonus received by NCC from UP expressway, excluding the same EBITDA margin improved by 105bps YoY to 10.2%. We expect margin to remain healthy on account of pick up in execution. Better operational efficiency and lower tax out go gave a 97% YoY growth in Adj. PAT to Rs130cr. Growing opportunities in infrastructure and expectation of pick up in execution we expect PAT to register a CAGR growth of 36% over FY17-20E.

Valuations

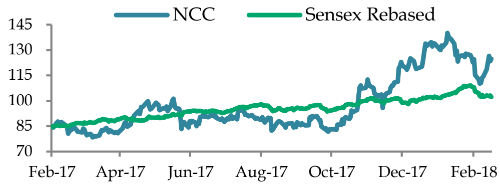
Strong order book, easing of balance sheet through asset monetisation and pick up in execution could generate revenue growth going forward. We value standalone business at a PE of 16x FY20E earnings, real estate business & BOT projects at 1x P/B and arrive at SOTP price target of Rs138 with an Accumulate rating.

Company Data	
Market Cap (cr)	Rs6,966
Enterprise Value (cr)	Rs8,700
Outstanding Shares (cr)	55.6
Free Float	80.44%
Dividend Yield	0.3%
52 week high	Rs142
52 week low	Rs77
6m average volume (cr)	0.6
Beta	1.4
Face value	Rs2

Shareholding %	Q1FY18	Q2FY18	Q3FY18
Promoters	19.57	19.57	19.56
FII's	21.37	20.72	19.91
MFs/Insti	25.91	24.78	27.61
Public	33.15	34.93	32.92
Others			
Total	100.0	100.0	100.0

Price Performance	3Month	6Month	1 Year
Absolute Return	19%	47%	52%
Absolute Sensex	2%	9%	19%
Relative Return*	17%	38%	32%

***over or under performance to benchmark index**



Standalone (Rs.cr)	FY18E	FY19E	FY20E
Sales	7,922	9,561	11,027
Growth (%)	*0*	*21*	*15*
EBITDA	753	889	1026
Margin(%)	*9.5*	*9.3*	*9.3*
PAT Adj	307	350	437
Growth (%)	*75*	*14*	*25*
Adj.EPS	5.5	6.3	7.9
Growth (%)	*75*	*14*	*25*
P/E	22.7	19.9	15.9
P/B	1.9	1.8	1.6
EV/EBITDA	11.5	9.8	8.6
RoE (%)	*8.7*	*9.2*	*10.6*
D/E	0.48	0.46	0.43

Antu Eapen Thomas
Analyst

SOTP Valuation

Particulars	Value (Rs Cr)	Value/Share (Rs)	Rationale
Standalone EPC	6,985	125.6	PE 16x FY20E EPS
Road BOT	361	3.6	1x P/BV
Real Estate	512	9.2	1x P/BV
Total Value per share		**138**	

Financials

Profit & Loss Account

(Rs cr)	Q3FY18	Q3FY17	YoY Growth(%)	Q2FY18	QoQ Growth (%)
Sales	**1,851**	**1,904**	*-2.8*	**1,300**	*42.3*
EBITDA	**255**	**174**	*46.4*	**124**	*105.2*
Margin%	13.8	9.2	*78bps*	9.6	*107bps*
Depreciation	30	28	*4.6*	29	*2.4*
EBIT	**253**	**185**	*37.0*	**138**	*84.3*
Interest	104	101	*3.4*	89	*17.5*
Other Income	28	39	*-28.5*	42	*-33.5*
Exceptional Items	-30	-8		-59	
PBT	**119**	**76**	*56.0*	**-10**	
Tax	19	18	*3.6*	-30	
Reported PAT	**100**	**58**	*72.2*	**20**	
Adjustment	30	8	*97.4*	59	*64.5*
Adj PAT	**130**	**66**	*97.4*	**79**	*64.5*
No. of shares (cr)	55.6	55.6		55.6	
EPS (Rs)	**2.3**	**1.2**	*97.4*	**1.4**	*64.5*

Change in estimates

	Old estimates		New estimates		Change %	
Year / Rs cr	**FY18E**	**FY19E**	**FY18E**	**FY19E**	**FY18E**	**FY19E**
Revenue	**7,942**	**9,168**	**7,922**	**9,561**	*-0.3*	*4.3*
EBITDA	**723**	**853**	**753**	**889**	*4.1*	*4.2*
Margins (%)	**9.1**	**9.3**	**9.5**	**9.3**	*40bps*	*0bps*
PAT	**277**	**327**	**307**	**350**	*10.7*	*7.0*
EPS	**5.0**	**5.9**	**5.5**	**6.3**	*10.7*	*7.0*

Standalone Financials

Profit & Loss Account

Y.E March (Rs cr)	FY16A	FY17A	FY18E	FY19E	FY20E
Sales	**8,325**	**7892**	**7,922**	**9,561**	**11,027**
% change	*0*	*(5)*	*0*	*21*	*15*
EBITDA	**738**	**685**	**753**	**889**	**1026**
% change	*14*	*(7)*	*10*	*18*	*15*
Depreciation	110	112	115	122	127
EBIT	628	573	637	767	899
Interest	509	396	386	404	420
Other Income	224	140	130	140	150
PBT	**322**	**267**	**305**	**503**	**628**
% change	*103*	*(17)*	*14*	*65*	*25*
Tax	82	42	75	154	192
Tax Rate (%)	*26*	*16*	*25*	*31*	*31*
Reported PAT	**240**	**226**	**230**	**350**	**437**
Adj*	(20)	(50)	(77)	-	-
Adj PAT	**220**	**175**	**307**	**350**	**437**
% change	*97*	*(20)*	*75*	*14*	*25*
No. of shares (mn)	55.6	55.6	55.6	55.6	55.6
Adj EPS (Rs)	**4.0**	**3.2**	**5.5**	**6.3**	**7.9**
% change	*97*	*-20*	*75*	*14*	*25*
DPS (Rs)	0.2	0.2	0.2	0.2	0.2

*Provision for warranties & claims

Balance Sheet

Y.E March (Rs cr)	FY16A	FY17A	FY18E	FY19E	FY20E
Cash	216	109	317	390	331
Accounts Receivable	3,204	3,703	3,820	4,453	5,136
Inventories	1,657	1,526	1,481	1,756	2,035
Other Cur. Assets	2,342	1,665	1,671	1,807	2,024
Investments	957	1,029	1,132	1,256	1,394
Gross Fixed Assets	1,216	1,307	1,357	1,402	1,442
Net Fixed Assets	580	590	526	452	368
CWIP	8	1	2	3	3
Intangible Assets	3.73	2.25	4.12	4.72	2.32
Def. Tax (Net)	81	135	(2)	(4)	(7)
Other Assets	207	154	115	115	115
Total Assets	**9,255**	**8,916**	**9,066**	**10,232**	**11,401**
Current Liabilities	4,058	3,851	3,612	4,390	5,088
Provisions	32	37	37	47	54
Debt Funds	1,818	1,537	1,734	1,807	1,880
Other Liabilities	87	49	50	50	50
Equity Capital	111	111	111	111	111
Reserves & Surplus	3,150	3,331	3,522	3,826	4,217
Shareholder's Fund	3,261	3,442	3,633	3,938	4,329
Total Liabilities	**9,256**	**8,916**	**9,066**	**10,232**	**11,401**
BVPS (Rs)	**59**	**62**	**65**	**71**	**78**

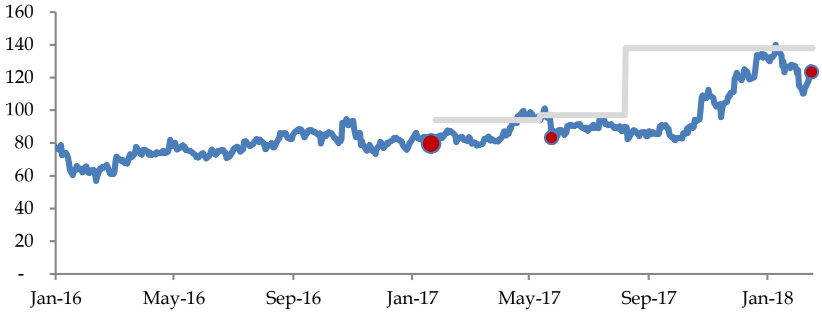
Cash flow

Y.E March (Rs cr)	FY16A	FY17A	FY18E	FY19E	FY20E
Net inc. + Depn.	432	379	420	625	755
Non-cash adj.	414	350	448	253	232
Changes in W.C	(220)	(475)	(139)	(256)	(474)
C.F.O	**489**	**197**	**859**	**762**	**663**
Capital exp.	(107)	(135)	(45)	(42)	(40)
Change in inv.	(0)	(0)	(103)	(124)	(138)
Other invest.CF	2	2	39	-	-
C.F - investing	**365**	**455**	**(239)**	**(306)**	**(328)**
Issue of equity	-	-	-	-	-
Issue/repay debt	(103)	(317)	197	73	73
Dividends paid	(27)	(40)	(39)	(45)	(45)
Other finance.CF	3	(3)	(9)	(7)	(1)
C.F - Financing	**(710)**	**(758)**	**(237)**	**(383)**	**(393)**
Chg. in cash	144	(106)	209	73	(58)
Closing cash	216	109	319	390	331

Ratios

Y.E March	FY16A	FY17A	FY18E	FY19E	FY20E
Profitab. & Return					
EBITDA margin (%)	8.9	8.7	9.5	9.3	9.3
EBIT margin (%)	7.5	7.3	8.0	8.0	8.1
Net profit mgn.(%)	2.6	2.2	3.9	3.7	4.0
ROE (%)	6.8	5.2	8.7	9.2	10.6
ROCE (%)	9.5	7.4	10.0	9.4	9.9
W.C & Liquidity					
Receivables (days)	100.1	159.7	173.3	157.9	158.7
Inventory (days)	89.2	86.9	83.2	73.7	74.5
Payables (days)	46.8	3.4	63.0	101.4	88.4
Current ratio (x)	1.8	1.8	2.0	1.9	1.9
Quick ratio (x)	0.8	1.0	1.1	1.0	1.0
Turnover &Levg.					
Gross asset T.O (x)	6.9	6.3	5.9	6.9	7.8
Total asset T.O (x)	0.9	0.9	0.9	1.0	1.0
Int. covge. ratio (x)	1.2	1.4	1.7	1.9	2.1
Adj. debt/equity (x)	0.56	0.45	0.48	0.46	0.43
Valuation ratios					
EV/Sales (x)	1.0	1.0	1.1	0.9	0.8
EV/EBITDA (x)	11.5	11.9	11.5	9.8	8.6
P/E (x)	30.2	37.9	22.7	19.9	15.9
P/BV (x)	2.0	1.9	1.9	1.8	1.6

Recommendation Summary (last 3 years)



Source: Bloomberg, Geojit Research

Dates	Rating	Target
25th January 2017	*BUY	94
26th May 2017	Accumulate	97
26th February 2018	Accumulate	138

*Initiating Coverage

Investment Rating Criteria

Large Cap Stocks;			Mid Cap and Small Cap;		
Buy	**-**	**Upside is 10% or more.**	**Buy**	**-**	**Upside is above 15%.**
Hold	**-**	**Upside is between 0% - 10%.**	**Accumulate**	**-**	**Upside is between 10% - 15%.**
Reduce	**-**	**Downside is more than 0%.**	**Hold**	**-**	**Upside is between 0% - 10%.**
Neutral	**-**	**Not Applicable**	**Reduce/Sell**	**-**	**Downside is more than 0%.**
			Neutral	**-**	**Not Applicable**

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.
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Digitally signed by Antu Eapen Thomas
Date: 2018.02.26 14:05:05 +05'30'

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