

INDUSTRY INFRASTRUCTURE

CMP (as on 13 Nov 2018) Rs 90

Target Price Rs 168

Nifty 10,583

Sensex 35,144

KEY STOCK DATA

Bloomberg NJCC IN

No. of Shares (mn) 601

MCap (Rs bn) / (\$ mn) 54/743

6m avg traded value (Rs mn) 994

STOCK PERFORMANCE (%)

52 Week high / low Rs 142/63

3M 6M 12M

Absolute (%) (7.7) (26.2) (13.3)

Relative (%) (1.0) (25.1) (19.7)

SHAREHOLDING PATTERN (%)

Promoters 18.12

FIs & Local MFs 30.52

FPIs 16.02

Public & Others 35.34

Source : BSE

Parikshit D Kandpal, CFA

parikshitd.kandpal@hdfcsec.com

+91-22-6171-7317

Kunal Bhandari

kunal.bhandari@hdfcsec.com

+91-22-6639-3035

All engines firing

NCC Ltd. (NCC) delivered a strong 2QFY19 financial performance with net profit beat of 98% largely driven by EBIDTA margins expansion of 220bps YoY to 11.8%. Execution was 29% above estimate at Rs 31bn, despite the monsoon quarter generally being seasonally weak.

Net debt has decreased from Rs 17.1bn to Rs 15.6bn (QoQ, Rs 1.4bn reduction) resulting in net D/E reducing to 0.4x vs 0.35x QoQ. NCC has guided for FY19E gross debt of Rs 17bn vs Rs 13bn in FY18. Order inflow for 2QFY19 stood at Rs 41.8bn. Order backlog is Rs 329.5bn. This order book contains a large portion of 'fast track' orders to be executed over the next 18 months.

NCC has maintained FY19E revenue guidance of Rs 110bn with 11.5%+-0.3% EBIDTA margins. Order inflow is pegged at Rs 140bn. Consolidated results are mirroring standalone profits as international losses are over. NCC is not bidding internationally. Maintain BUY with increased Rs 168/sh TP.

Financial Summary (Standalone)

Year Ending March (Rs mn)	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)	FY17	FY18	FY19E	FY20E
Net Sales	31,048	13,001	138.8	23,596	31.6	78,921	74,363	102,325	122,784
EBITDA	3,651	1,242	193.9	2,678	36.3	6,852	7,739	11,782	13,358
APAT	1,732	793	118.5	1,037	67.0	2,758	3,123	4,780	5,285
Diluted EPS (Rs)	2.9	1.3	118.5	1.73	67.0	5.0	5.2	8.0	8.8
P/E (x)						18.1	17.3	11.3	10.2
EV / EBITDA (x)						9.4	8.6	6.1	5.5
RoE (%)						8.2	8.1	10.8	10.8

Source: Company, HDFC sec Inst Research

Highlights of the quarter

- Update on arbitration claims:** NCC highlighted that Sembcorp arbitration will complete by Jun-19E with NCC expecting Rs 7bn inflow. TAQA arbitration Rs 1.1bn already provided, arbitration to complete by Mar-19. New Dubai adverse arbitration of Rs 400mn was recognized in 2QFY19.
- Balance Sheet strong, NWC contracts:** NCC has guided for Rs 17bn+-Rs1bn debt by FY19E end. NWC days has reduced from 140days to ~100days vs. FY18, despite strong execution ramp up. Telangana debtors are max 2-3months and AP at 1month. GST receivable of Rs 1.5-2bn is in final stages of State Govt's resolution.
- Near term outlook:** We expect real estate monetization to add Rs 1bn/annum towards cash inflows. Owing to robust execution and EBIDTA margin stability we have have upgraded FY19/20E EPS by 22.4/24.4%. **We have upgraded TP from Rs 136/sh to Rs 168/sh.** We remain constructive.

Revenue: Rs 31.0bn (+139% YoY, +32% QoQ, 29% beat)

Interest expense: Rs 1.1bn (+22% YoY, +6% QoQ).

APAT: Rs 1.7bn (+119% YoY, +67%QoQ, 98% beat)

We have adjusted for Rs 475mn of exceptional arbitration and other losses in overseas subsidiaries in 2QFY19

EBITDA: Rs 3.7bn (+194% YoY, 36% QoQ, 54% beat) margins at 11.8% (+220bps YoY, +41bps QoQ, +200bps beat)

Standalone Quarterly Financial

Particulars (Rs mn)	2QFY19	2QFY18	YoY (%)	1QFY19	QoQ (%)	1HFY19	1HFY18	YoY (%)
Net Sales	31,048	13,001	138.8	23,596	31.6	54,644	33,139	64.9
Material Expenses	25,627	10,492	144.3	19,296	32.8	44,924	27,567	63.0
Employee Expenses	1,078	858	25.6	974	10.7	2,052	1,673	22.6
Other Operating Expenses	692	409	69.2	648	6.7	1,340	945	41.8
EBITDA	3,651	1,242	193.9	2,678	36.3	6,328	2,953	114.3
Depreciation	357	290	23.2	343	4.0	701	566	23.8
EBIT	3,294	952	245.9	2,334	41.1	5,628	2,387	135.8
Other Income (including EO)	(144)	(167)	(13.8)	295	(148.8)	151	165	(8.6)
Interest Cost	1,082	887	21.9	1,016	6.5	2,097	1,748	20.0
PBT	2,068	(102)	(2,123.2)	1,614	28.1	3,682	804	358.0
Tax	811	(305)	(366.0)	577	40.5	1,388	(33)	(4,281.9)
RPAT	1,257	203	520.0	1,037	21.2	2,293	837	174.0
E/o (adj for tax)	475	590	(19.5)	-	-	475	466	2.0
APAT	1,732	793	118.5	1,037	67.0	2,768	1,303	112.5

Source: Company, HDFC sec Inst Research

Margin Analysis

	2QFY19	2QFY18	YoY (bps)	1QFY19	QoQ (bps)	1HFY19	1HFY18	YoY (bps)
Material Expenses % Net Sales	82.5	80.7	184	81.8	76	82.2	83.2	(98)
Employee Expenses % Net Sales	3.5	6.6	(313)	4.1	(66)	3.8	5.0	(129)
Other Operating Expenses % Net Sales	2.2	3.1	(92)	2.7	(52)	2.5	2.9	(40)
EBITDA Margin (%)	11.8	9.6	220	11.3	41	11.6	8.9	267
Tax Rate (%)	39.2	298.3	(25,911)	35.8	345	37.7	(4.1)	4,184
APAT Margin (%)	4.0	1.6	249	4.4	(35)	4.2	2.5	167

Source: Company, HDFC sec Inst Research

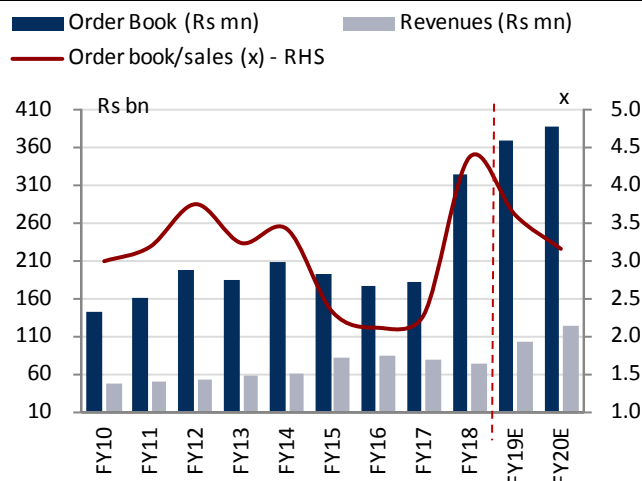
We expect NCC's order book to multiply 1.2x over the FY19-20E period to Rs 388.5bn

Building, roads and water segments will be the key drivers of the order book

We expect EBITDA margins to be in the range of 10.9-11.5%

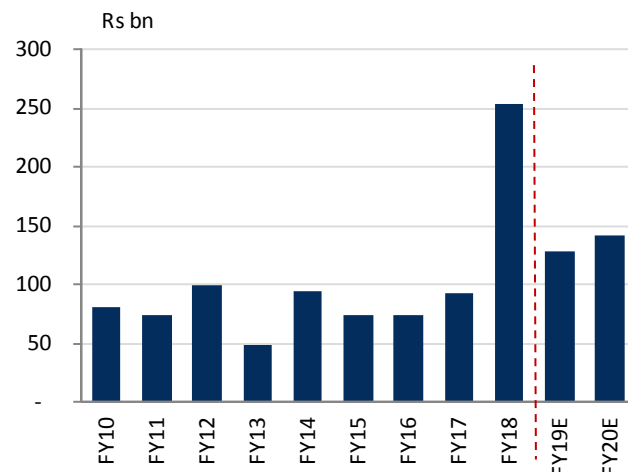
Over FY19-20E, annual order inflows would be in the range of Rs 120-130bn

Order book To Multiply 1.2x Over FY19-20E



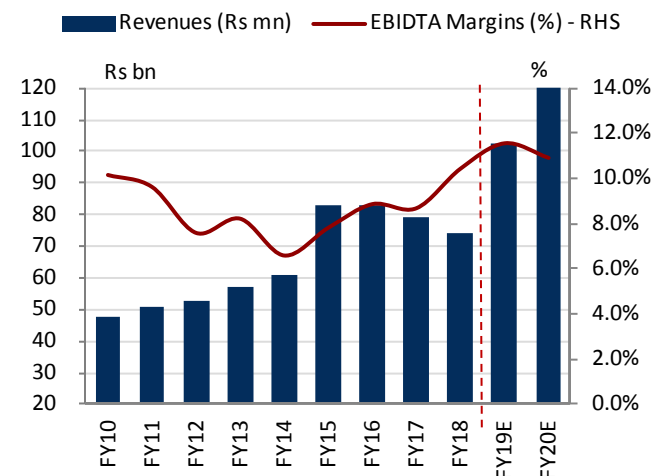
Source: Company, HDFC sec Inst Research

Order Inflow range: Rs 120-130bn FY19-20E



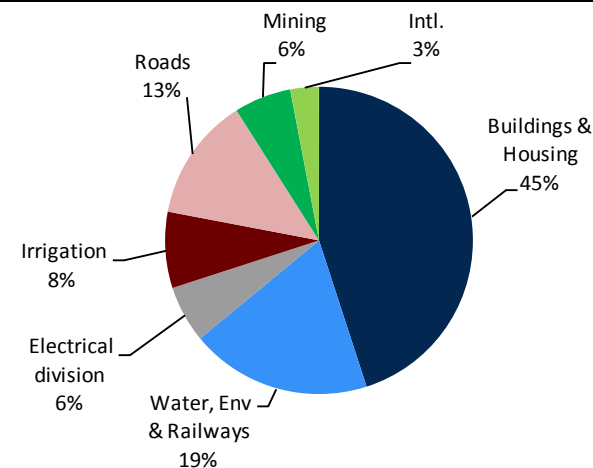
Source: Company, HDFC sec Inst Research

EBIDTA Margins To Increase



Source: Company, HDFC sec Inst Research

Order Book Mix (2QFY19) – Dominated by Buildings & Water



Source: Company, HDFC sec Inst Research

After record inflows in FY18, we expect Rs120-130bn annual inflows

Margins will be in the range of 10.9-11.5%

PAT will remain around Rs 5.2bn in FY20E

We are building in cumulative Rs4.5bn capex over FY19-20E

Key Assumptions & Estimates

Key Assumptions (Rs mn)	FY19E	FY20E	Growth %		Comments
			FY19E	FY20E	
Closing order book	369,500	388,460	13.6	5.1	We expect 5.1% FY19-20E order book growth
New order booking	128,858	141,744	(49.1)	10.0	After record inflows in FY18, we expect Rs120-130bn annual inflows
Book to bill ratio	3.6	3.2			Book-to-bill ratio to reduce to 3.2 by FY20E
Total Revenue	102,325	122,784	37.6	20.0	We model for 38/20% growth in FY19/20E respectively
EBIDTA	11,782	13,358	52.3	13.4	
EBIDTA margin (%)	11.5	10.9	110.8	(63.5)	Sustainable margins in the range of 10.9-11.5%
Depreciation	1,423	1,589	21.2	11.6	
Financial Charges	4,255	4,764	12.3	12.0	Interest costs will increase as debt increases on account of execution ramping up
Other income	776	1,126	(14.0)	45.1	
PBT	6,880	8,131	87.1	18.2	
Tax	2,574	2,846	218.0	10.6	
Tax rate (%)	37.4	35.0			
Exceptional	475.0	-			
APAT	4,780	5,285	83.0	10.6	PAT will remain around Rs 5.3bn in FY20E
Gross Block Turnover	5.4	5.7			
Debtor days	133	125			
CFO - a	866	4,859			Cash flow improvements in line with EBIDTA growth and EBIDTA margins expansion
CFI - b	(1,818)	(1,434)			We are building cumulative Rs4.5bn capex over FY19-20E
FCF - a+b	(952)	3,425			
CFF - c	961	(3,048)			
Total change in cash - a+b+c	9	378			

Source: HDFC sec Inst Research

We have valued NCC's standalone business at 18x Mar-20E EPS

Real estate at 0.5x equity invested - Rs 9/sh

We have excluded roads, power and international business from our valuation estimates. These have either been terminated or have no basis to be a 'going concern'

Target price increased to Rs 168/sh (from Rs 136/sh earlier) on account of upward revision in EBITDA margin

We have upgraded EBITDA margin estimates by 96.5/130bps for FY19/20E respectively based on the margin profile of newer projects, management guidance and also the margin trajectory over the last few quarters

Outlook and valuation

Maintain BUY – Increase Target Price to Rs 168/Sh

Valuation Methodology

- We value NCC's standalone business at 18x Mar-20E EPS at Rs 159/sh and real estate at 0.5x equity invested Rs 9/sh. We have not valued Roads, Power and International business as these have been largely monetized or securitized.
- NCC has total group exposure of Rs 15.7bn to the subsidiaries. Total investment in subsidiaries is Rs 9.5bn

and Loan is Rs 6.1bn. Further, re-rating is contingent on real estate monetization.

■ The price has corrected since the QIP in FY18. Further, re-rating is contingent on velocity of real estate monetization. We adopt SOTP methodology and value NCC at Rs 168/sh (vs Rs 136/sh earlier) (Standalone at 18x Mar-20E EPS – Rs 159/sh, Real Estate – Rs 9/sh). We maintain our stance as **BUY**.

Valuation

Particulars	Segments	Value (Rs mn)	Value per share(Rs)	Rationale
NCC Standalone	Construction business	95,127	159	At 18x Mar-20 EPS
Real Estate	Real Estate	5,500	9	At P/B multiple of 0.5x
Total		100,627	168	

Change In Estimates

	FY19E			FY20E		
	New	Old	%/ bps	New	Old	%/ bps
Revenues (Rs mn)	102,325	100,278	2.0	122,784	122,784	-
EBITDA (Rs mn)	11,782	10,579	11.4	13,358	11,761	13.6
EBITDA margin (%)	11.5	10.5	96.5	10.9	9.6	130.0
APAT (Rs mn)	4,780	3,907	22.4	5,285	4,248	24.4
EPS (Rs)	8.0	6.5	22.4	8.8	7.1	24.4

Source: HDFC sec Inst Research

Peer Set Comparison: Core EPC

COMPANY	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E	FY18	FY19E	FY20E
Dilip Buildcon	58.4	427	BUY	1060	46.5	53.8	54.1	7.3	6.3	6.3	5.9	4.5	3.7	29.5	26.0	20.8
IRB Infra Developers	49.6	141	BUY	256	19.7	14.5	17.2	0.7	1.0	0.8	1.9	2.1	1.9	30.2	22.0	24.4
NCC	54.1	90	BUY	168	5.2	8.0	8.8	15.5	10.2	9.2	7.9	5.6	5.1	8.1	10.8	10.8
PNC Infratech	38.0	148	BUY	270	4.1	8.6	13.0	22.5	10.7	7.1	9.3	6.5	4.7	6.2	11.4	15.1
Sadbhav Engineering	36.9	215	BUY	375	12.9	14.0	14.9	8.6	7.9	7.5	8.1	6.5	5.3	11.8	11.5	11.0
Ashoka Buildcon	37.3	133	BUY	223	8.4	8.3	8.5	7.4	7.6	7.4	6.1	5.4	4.9	13.0	11.5	10.7
KNR Constructions	26.7	190	BUY	330	13.4	11.6	15.0	9.7	11.2	8.7	5.2	5.3	4.2	18.3	13.0	14.3
ITD Cementation *	19.6	114	BUY	189	6.1	8.3	10.5	18.7	13.7	10.9	8.6	6.4	6.3	16.2	16.7	15.3
Ahluwalia Contracts	21.4	319	BUY	431	17.3	21.2	23.2	17.7	14.4	13.2	8.9	7.5	6.7	20.5	20.5	18.6
JMC Projects	14.8	88	BUY	163	6.3	7.3	8.0	10.0	8.6	7.9	5.8	5.1	4.5	14.4	14.4	13.9
PSP Projects	14.3	397	BUY	576	18.0	23.5	32.0	22.0	16.9	12.4	11.9	8.9	6.2	31.7	25.0	27.5
HG Infra	14.3	219	BUY	399	12.9	20.7	25.6	16.9	10.6	8.6	8.0	5.2	4.3	23.5	22.1	22.0
J. Kumar Infraprojects	11.4	151	BUY	306	17.5	21.0	25.6	8.6	7.2	5.9	4.7	3.8	3.4	9.2	10.1	11.4
Average					14.5	17.0	19.7	12.8	9.7	8.1	7.1	5.6	4.7	17.9	16.6	16.6

Source: Company, HDFC sec Inst Research *ITD Cementation FY19E/FY20E should be read as 15MFY19E/FY20E, 10th August 2018 Prices

Income Statement (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Net Revenues	83,252	78,921	74,363	102,325	122,784
Growth (%)	0.3	(5.2)	(5.8)	37.6	20.0
Material Expenses	70,756	66,871	60,890	83,892	100,831
Employee Expenses	3,008	3,315	3,641	4,195	4,789
Other Operating Expenses	2,111	1,883	2,093	2,456	3,806
EBIDTA	7,376	6,852	7,739	11,782	13,358
EBIDTA (%)	8.9	8.7	10.4	11.5	10.9
EBIDTA Growth (%)	13.6	(7.1)	12.9	52.3	13.4
Depreciation	1,100	1,121	1,175	1,423	1,589
EBIT	6,277	5,731	6,564	10,359	11,769
Other income (including EO)	2,240	897	903	776	1,126
Interest	5,089	3,957	3,789	4,255	4,764
PBT	3,428	2,672	3,677	6,880	8,131
Tax	823	417	809	2,574	2,846
RPAT	2,605	2,255	2,868	4,305	5,285
EO Items	203	503	256	475	-
APAT	2,402	2,758	3,123	4,780	5,285
APAT Growth (%)	114.8	14.9	13.2	53.1	10.6
EPS	4.3	5.0	5.2	8.0	8.8
EPS Growth (%)	114.8	14.9	4.8	53.1	10.6

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
SOURCES OF FUNDS					
Share Capital	1,112	1,112	1,201	1,201	1,201
Reserves	31,496	33,311	41,215	45,237	50,238
Total Shareholders Funds	32,608	34,423	42,416	46,438	51,440
Long Term Debt	1,020	91	1,185	2,185	2,185
Short Term Debt	17,816	15,676	11,815	16,315	18,315
Total Debt	18,836	15,767	13,001	18,501	20,501
Net Deferred Taxes	(814)	(1,354)	(1,793)	(1,793)	(1,793)
Other Long-term Liabilities (Retention Money)	497	842	1,394	1,394	1,394
TOTAL SOURCES OF FUNDS	51,127	49,677	55,019	64,540	71,542
APPLICATION OF FUNDS					
Net Block	6,183	6,403	8,081	9,407	10,319
CWIP	76	13	229	13	13
Investments	9,570	10,287	15,110	15,170	15,230
Non Current Assets	2,159	2,535	3,556	3,837	4,911
Total Non-current Assets	17,988	19,238	26,976	28,428	30,473
Inventories	16,568	15,258	16,956	20,686	23,481
Debtors	19,648	23,501	34,620	39,949	44,404
Cash & Equivalents	2,158	1,095	659	668	1,045
Other Current Assets	35,365	28,994	27,002	30,060	32,302
Total Current Assets	73,739	68,848	79,237	91,363	101,232
Creditors	27,711	28,688	33,882	42,892	47,736
Other Current Liabilities	13,199	9,721	17,313	12,357	12,428
Total Current Liabilities	40,909	38,409	51,195	55,249	60,164
Net Current Assets	32,830	30,440	28,043	36,113	41,068
Misc Exp	309	-	-	-	-
TOTAL APPLICATION OF FUNDS	51,127	49,677	55,019	64,540	71,542

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

Year ending March (Rs mn)	FY16	FY17	FY18	FY19E	FY20E
Reported PBT	3,225	2,672	3,677	6,880	8,131
Non-operating & EO items	(1,399)	(599)	401	(776)	(1,126)
Interest expenses	5,089	3,957	3,789	4,255	4,764
Depreciation	1,100	1,121	1,175	1,423	1,589
Working Capital Change	(2,201)	(4,746)	(3,310)	(8,342)	(5,652)
Taxes Paid	(926)	(436)	(1,263)	(2,574)	(2,846)
OPERATING CASH FLOW (a)	4,886	1,968	4,469	866	4,859
Capex	(910)	(1,286)	(3,076)	(2,534)	(2,500)
Free cash flow (FCF)	3,976	682	1,393	(1,668)	2,359
Investments and Income on investments and deposits	4,562	5,838	(456)	716	1,066
INVESTING CASH FLOW (b)	3,652	4,552	(3,532)	(1,818)	(1,434)
Debt Issuance (Net of repayments)	(1,116)	(3,068)	(2,766)	5,500	2,000
Interest expenses	(5,746)	(4,083)	(3,752)	(4,255)	(4,764)
FCFE	(2,886)	(6,469)	(5,124)	(423)	(405)
Share capital Issuance	-	-	5,413	-	-
Dividend	(268)	(402)	(268)	(284)	(283)
FINANCING CASH FLOW (c)	(7,130)	(7,552)	(1,372)	961	(3,048)
NET CASH FLOW (a+b+c)	1,408	(1,032)	(435)	9	378
Non-operating and EO items	(377)	(32)	-	-	(1)
Closing Cash & Equivalents	2,158	1,095	659	668	1,045

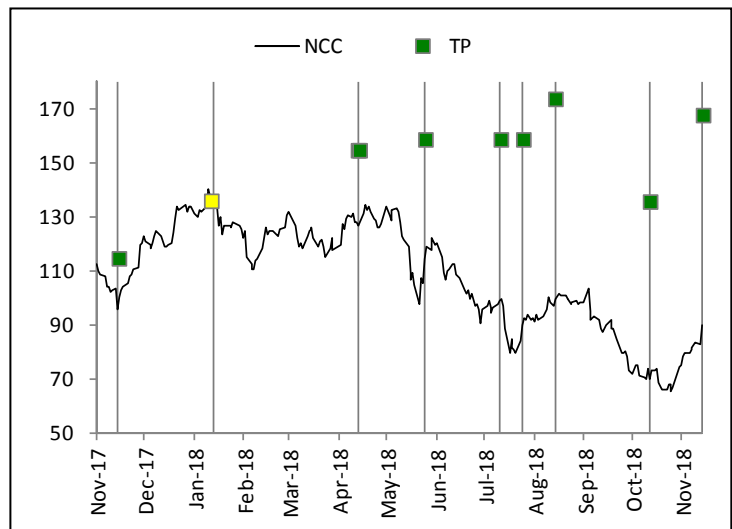
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY16	FY17	FY18	FY19E	FY20E
PROFITABILITY (%)					
GPM	15.0	15.3	18.1	18.0	17.9
EBITDA Margin	8.9	8.7	10.4	11.5	10.9
EBIT Margin	7.5	7.3	8.8	10.1	9.6
APAT Margin	2.9	3.5	4.2	4.7	4.3
RoE	7.4	8.2	8.1	10.8	10.8
Core RoCE	12.1	12.6	13.0	13.3	13.8
RoCE	12.7	11.3	10.6	10.8	11.7
EFFICIENCY					
Tax Rate (%)	24.0	15.6	22.0	37.4	35.0
Asset Turnover (x)	6.6	5.8	4.6	5.4	5.7
Inventory (days)	76	74	79	67	66
Debtors (days)	73	100	143	133	125
Other Current assets (days)	155	134	137	102	93
Payables (days)	121	133	166	153	142
Other Current liab & provns (days)	58	45	85	44	37
Cash Conversion Cycle (days)	124	130	108	105	105
Debt/EBITDA (x)	2.6	2.3	1.7	1.6	1.5
Net D/E	0.5	0.4	0.3	0.4	0.4
Interest Coverage	1.2	1.4	1.7	2.4	2.5
PER SHARE DATA					
EPS (Rs/sh)	4.3	5.0	5.2	8.0	8.8
CEPS (Rs/sh)	6.7	6.1	6.7	9.5	11.4
DPS (Rs/sh)	0.4	0.6	0.6	0.6	0.6
BV (Rs/sh)	58.7	61.9	70.6	77.3	85.7
VALUATION					
P/E	20.8	18.1	17.3	11.3	10.2
P/BV	1.5	1.5	1.3	1.2	1.1
EV/EBITDA	9.0	9.4	8.6	6.1	5.5
EV/Revenues	0.8	0.8	0.9	0.7	0.6
OCF/EV (%)	7.3	3.0	6.7	1.2	6.6
FCF/EV (%)	6.0	1.1	2.1	(2.3)	3.2
FCFE/Market Cap (%)	7.9	1.4	2.6	(3.1)	4.4
Dividend Yield (%)	0.4	0.7	0.7	0.7	0.7

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
15-Nov-17	96	BUY	115
12-Jan-18	136	NEU	136
12-Apr-18	128	BUY	155
14-Apr-18	127	BUY	155
25-May-18	114	BUY	159
10-Jul-18	97	BUY	159
25-Jul-18	90	BUY	159
13-Aug-18	99	BUY	174
11-Oct-18	74	BUY	136
14-Nov-18	90	BUY	168

Rating Definitions

BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period

NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period

SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

INSTITUTIONAL RESEARCH

Disclosure:

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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