

AP region limits growth; new orders crucial for growth

NCC's topline declined 7.3% YoY to ₹ 2,187.7 crore on account of weak execution in Q1FY20. EBITDA margins expanded 84 bps YoY to 12.2%. PAT declined 21.6% YoY to ₹ 81.3 crore (our expectation: ₹ 128.2 crore) mainly on account of weaker execution & higher interest cost (₹ 125.9 crore in Q1FY20 vs. ₹ 117 crore in Q1FY19).

Standalone orderbook at ₹ 33,495 crore as of Q1FY20

NCC's standalone orderbook (OB) was at a strong ₹ 33,495 crore, 2.8x TTM revenues, providing strong revenue visibility ahead. The overall OB has declined QoQ as the management has removed orders worth ₹ 6,100 crore in Andhra Pradesh that it had earlier indicated were uncertain following a state government notification. Adjusting this, NCC has ₹ 12,500 crore orders (~37% of total order book) from AP, which consists of Amravati capital city (₹ 6,500 crore), APTIDCO housing project (₹ 4,975 crore) and Water & Irrigation projects (₹ 1,025 crore). Going ahead, with the management expecting strong order accretion post September, 2019, it expects OI worth ₹ 14,500 crore in FY20E. On the execution front, not incorporating execution in AP, the management aims revenues worth ₹ 11,000 crore in FY20E. Overall, we expect flattish revenue growth at ₹ 12,056.9 crore in FY19-21E.

Debt rises on account of steep increase in debtors

On account of non-receipt of ₹ 400 crore debtors related to work executed in Q4FY19, NCC's standalone debt increased equivalently QoQ to ~₹ 2,400 crore in Q1FY20. This non-receipt of debtors was on account of payments stuck from AP government (₹ 200 crore) and from UP & Jharkhand governments (₹ 200 crore). However, NCC expects debtors from UP and Jharkhand to be received soon as these were primarily stuck due to elections. Overall, the management expects debt to reduce to ₹ 1,800 crore by FY20E end. Nonetheless, we remain conservative on the recovery of debtors especially from the AP government and expect overall standalone debt at ~₹ 2,200 crore by FY20E end. Also, we shall closely monitor working capital cycle of NCC, which deteriorated to 139 days in Q1FY20 (vs. 104 days in Q4FY19) on account of sharp increase in receivables in Q1FY20.

Valuation & Outlook

NCC's ~37% OB are orders from AP region on which execution is at a standstill as these orders are currently being reviewed by the state government. Hence, we cut our estimates and now expect flattish revenue growth at ₹ 12,056.9 crore in FY19-21E. However, this negative news seems to be more than priced in the CMP as the stock has corrected ~40% since the news on uncertainty of AP orders unfolded. Hence, we maintain our **BUY** recommendation on the stock with a TP of ₹ 90/share (5x FY21E EV/EBITDA implying 9x FY21 EPS).

Key Financial Summary

₹ crore	FY17	FY18	FY19E	FY20E	FY21E	CAGR FY19-21E
Net Sales	7,892.1	7,559.3	12,079.8	10,404.0	12,056.9	-0.1%
EBITDA	685.1	854.9	1,423.0	1,182.4	1,414.8	-0.3%
EBITDA Margin (%)	8.7	11.3	11.8	11.4	11.7	
PAT	225.5	286.8	563.9	416.6	542.6	-1.9%
EPS (₹)	4.1	4.8	9.4	6.9	9.0	
P/E (x)	16.9	14.4	7.3	9.9	7.6	
EV/EBITDA(x)	8.2	6.3	4.1	5.3	4.5	
RoNW (%)	6.6	6.8	11.9	8.2	9.8	
RoCE (%)	14.6	15.9	21.2	16.1	18.0	

Source: Company, ICICI Direct Research



Particulars

Particular	Amount
Market Capitalization	4,117.5
Total Debt (₹ crore)	1,993.3
Cash (₹ crore)	299.0
EV (₹ crore)	5,811.8
52 week H/L (₹)	119 / 63
Equity capital	120.1
Face value	2.0

Key Highlights

- NCC's standalone orderbook at ₹ 33,495 crore, 2.8x TTM revenues
- Revenues de-grew 7.3% YoY to ₹ 2,187.7 crore on account of weak execution in in Q1FY20
- Standalone debt sequentially increased by ₹ 400 crore to ~₹ 2,400 crore in Q1FY20
- Maintain **BUY** recommendation with target price of ₹ 90/share

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Exhibit 1: Variance analysis

Year	Q1FY20	Q1FY20	Q1FY19	YoY (%)	Q4FY19	QoQ(%)	Comments
Net Sales	2,187.7	2,187.7	2,359.6	-7.3	3,388.9	-35.4	Topline de-grew on account of weak execution during the quarter
Other Income	25.0	25.0	29.5	-15.3	36.0	-30.6	
Total Construction Expenses	985.7	985.7	1,083.1	-9.0	1,544.8	-36.2	
Employee cost	112.3	112.3	97.4	15.4	119.3	-5.8	
Other expenditure	823.0	823.0	911.3	-9.7	1,327.1	-38.0	
EBITDA	266.6	266.6	267.8	-0.4	397.7	-33.0	
EBITDA Margin (%)	12.2	12.2	11.3	84 bps	11.7	45 bps	EBITDA margin expansion due to one-off in electrical and buildings divisions
Depreciation	43.7	43.7	34.3	27.3	40.4	8.3	
Interest	125.9	125.9	101.6	23.9	117.0	7.6	
Exceptional items	0.0	0.0	0.0	NA	-11.4	NA	
PBT	122.1	122.1	161.4	-24.4	264.9	-4,882.8	
Taxes	40.7	40.7	57.7	-29.4	90.6	NA	
PAT	81.3	81.3	103.7	-21.6	174.4	-53.4	Reported PAT de-grew mainly on account of weak execution and higher interest cost during the quarter

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

₹ Crore	FY18		FY19		FY20E			FY21E			
			Old	New	% Change	Old	New	% Change			
Revenue	7,559.3	12,079.8	12,054.0	10,404.0	-13.7	13,478.9	12,056.9	-10.5	We incorporate Q1FY20 performance and management guidance		
EBITDA	854.9	1,423.0	1,414.5	1,182.4	-16.4	1,581.7	1,414.8	-10.5			
EBITDA Margin (%)	11.3	11.8	11.7	11.4	-37 bps	11.7	11.7	3 bps			
PAT	286.8	563.9	582.7	416.6	-28.5	676.9	542.6	-19.8			
EPS (₹)	4.8	9.4	9.6	6.9	-28.5	11.1	9.0	-19.8			

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

₹ crore	FY16	FY17	FY18	FY19	FY20E		FY21E		
					Current	Earlier	Current	Earlier	
Domestic Order Inflow	7,399	9,226	23,266	25,612	15,000	15,000	18,000	20,000	We incorporate management guidance
Domestic Order book	15,401	17,126	30,026	39,216	31,212	41,475	37,155	47,029	
Execution rate- Average (%)	54.1	46.1	25.2	30.8	33.3	30.7	32.5	30.7	

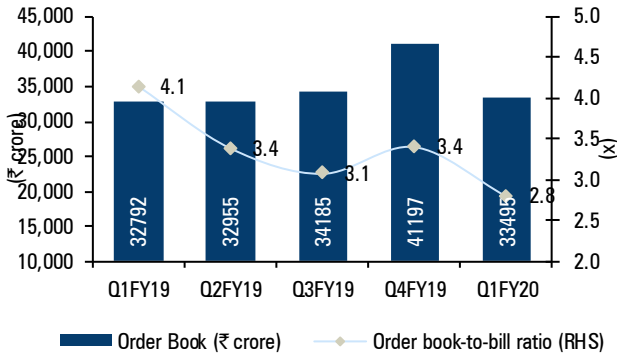
Source: Company, ICICI Direct Research

Conference call Highlights

- **Management guidance:** As per the management, execution in Andhra Pradesh (AP) has come to a standstill as the state government is currently reviewing already awarded orders to contractors in this region. Hence, not incorporating execution in AP, the management is aiming at revenues worth ₹ 11,000 crore in FY20E. In case NCC is able to execute projects in AP, the management hopes to clock overall ~₹ 12,000 crore revenues in FY20E. On the EBITDA margin front, higher margin in Q1FY20 was on account of one-off in electrical division and buildings division. Going ahead, the management has guided for 11.7-12.0% EBITDA margin in FY20E
- **Orderbook update:** NCC has received orders worth ₹ 636 crore in Q1FY20. However, the company has removed the ₹ 6,100 crore worth orders pertaining to AP that the management had earlier guided were uncertain post new state government in the state. With this, NCC's standalone orderbook was at ₹ 33,650 crore as of Q1FY20. Buildings, roads, water and electricity divisions collectively comprise ~87% of NCC's current OB. Going ahead, with the management expecting good order accretion post September, 2019, it has guided for order inflows to the tune of ₹ 14,500 crore in FY20E
- **Debt update:** Standalone debt increased by ₹ 400 crore QoQ to ~₹ 2,400 crore in Q1FY20. This was on account of non-receipt of ₹ 400 debtors worth for work executed in Q4FY19. Of these debtors, ₹ 200 crore was on account of payments stuck from AP government, while balance non-receipt of ₹ 200 crore was due to payments stuck on projects in UP and Jharkhand due to elections. However, with the management expecting these receivables to be released eventually, they do not foresee any meaningful increase in debt from here on and expects it to reduce to ₹ 1,800 crore by FY20E end
- **Working capital:** On account of steep increase in receivables, working capital days have deteriorated to 139 days in Q1FY20
- **Andhra Pradesh projects:** The company initially had orders worth ₹ 18,600 crore pertaining to AP. NCC has removed ₹ 6,100 crore orders from the OB as these were uncertain following several decisions taken by the new state government, leaving it with an OB worth ₹ 12,500 crore in AP. Of this, ₹ 6,500 crore are Amravati Capital City projects, ₹ 4,975 crore affordable housing projects and ₹ 1,025 crore water/irrigation projects. On the execution front, as per the management, execution of AP based projects have come to a standstill as the state government is currently reviewing the already awarded projects to all contractors in the state. Due to this, no meaningful execution happened in AP in April & May, 2019. Overall, the company could execute orders worth only ~₹ 440 crore in AP in Q1FY20, which has impacted overall topline growth
- **Capex:** The management has guided for ₹ 250 crore capex in FY20E
- **Arbitration:** The SembCorp arbitration case was earlier expected to be settled by September, 2019. However, with the arbitrators now taking a six month extension, it has shifted to March, 2020. With regard to the hydel arbitration, the company has appealed to the High Court. The matter is expected to be resolved in the next 12 months

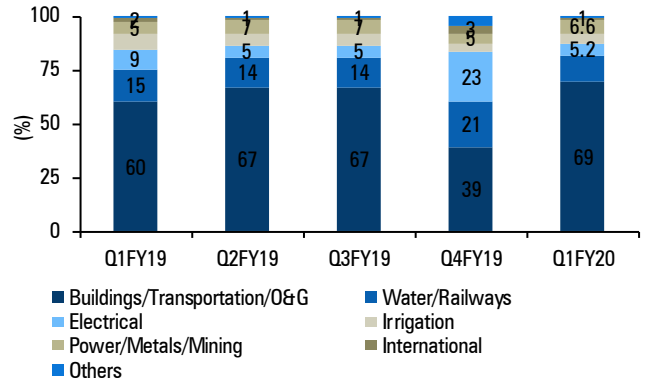
Company Analysis

Exhibit 4: Quarterly orderbook trend



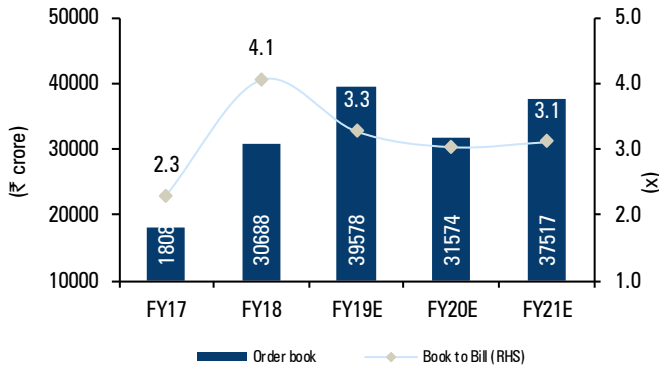
Source: Company, ICICI Direct Research

Exhibit 5: Orderbook composition



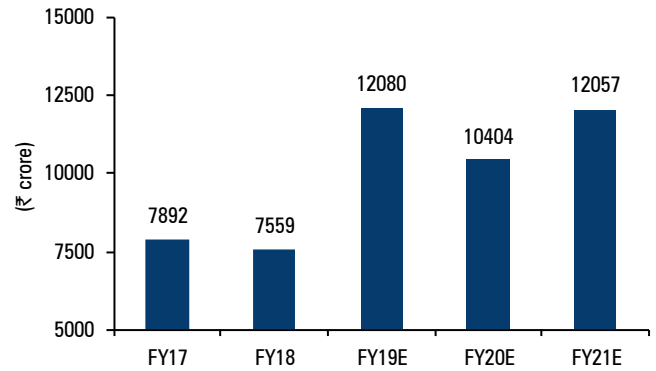
Source: Company, ICICI Direct Research

Exhibit 6: Annual orderbook trend



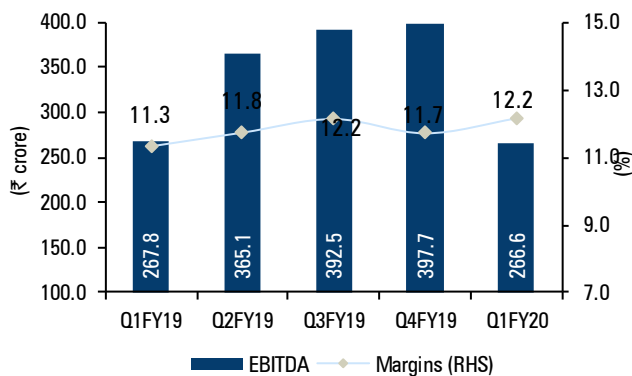
Source: Company, ICICI Direct Research

Exhibit 7: Annual revenue trend



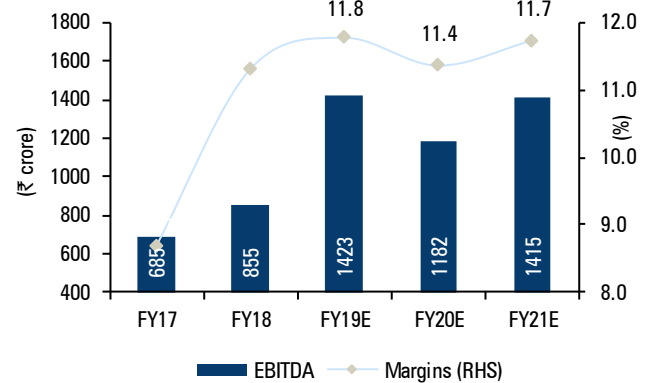
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly EBITDA trend



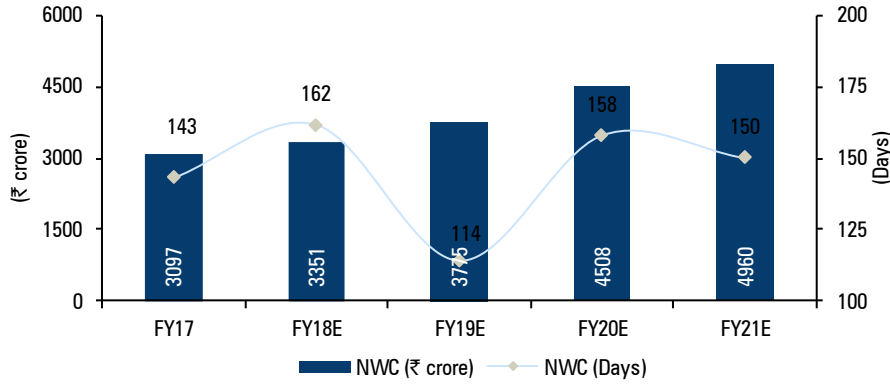
Source: Company, ICICI Direct Research

Exhibit 9: Annual EBITDA trend



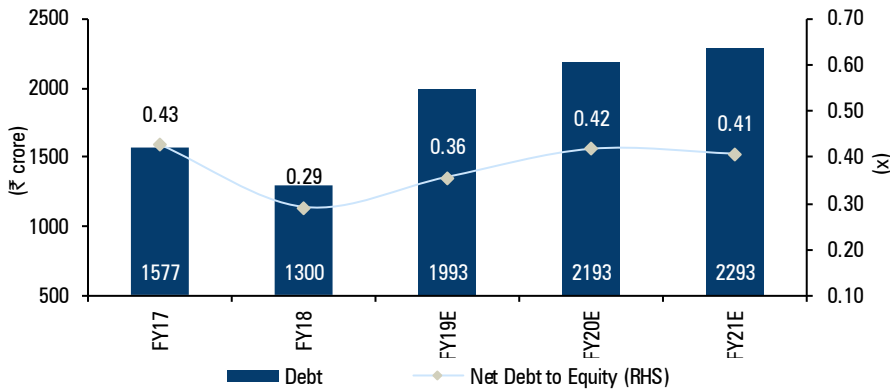
Source: Company, ICICI Direct Research

Exhibit 10: Net working capital (NWC) trend



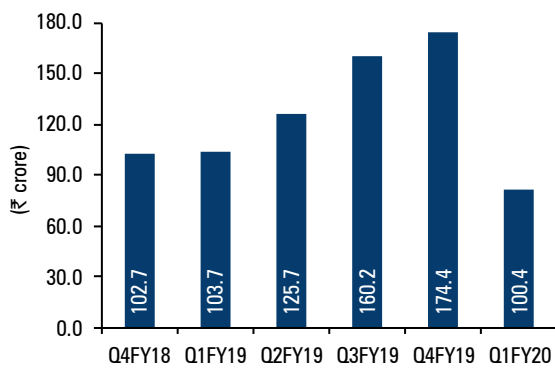
Source: Company, ICICI Direct Research

Exhibit 11: Leverage trend



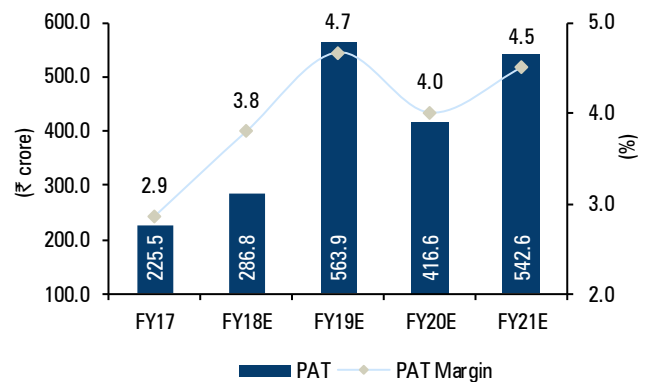
Source: Company, ICICI Direct Research

Exhibit 12: Quarterly PAT trend



Source: Company, ICICI Direct Research

Exhibit 13: Annual PAT trend



Source: Company, ICICI Direct Research

Valuation & Outlook

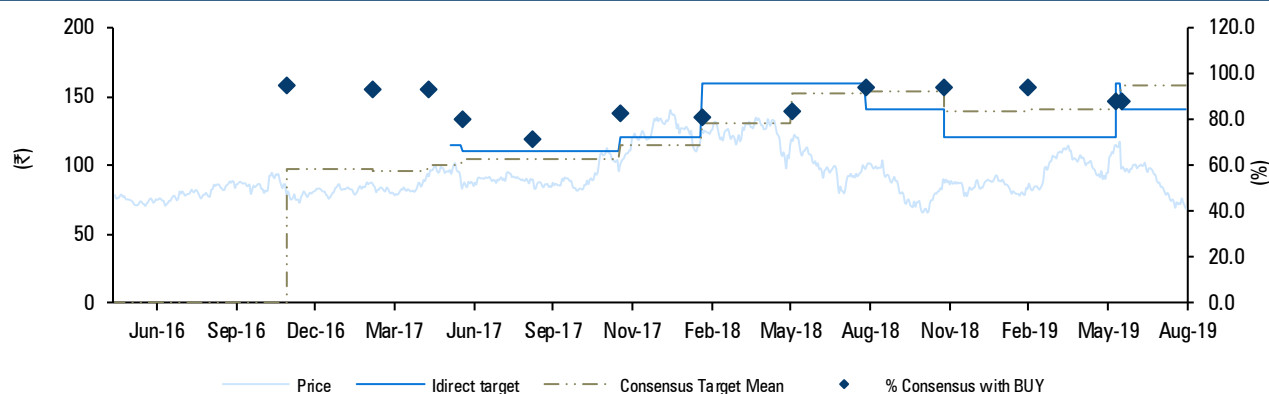
NCC's ~37% OB are orders from AP region on which execution is at a standstill as these orders are currently being reviewed by the state government. Hence, we cut our estimates and now expect flattish revenue growth at ₹ 12,056.9 crore in FY19-21E. However, this negative news seems to be more than priced in the CMP as the stock has corrected ~40% since the news on uncertainty of AP orders unfolded. Hence, we maintain our **BUY** recommendation on the stock with a target price of ₹ 90/share (5x FY21E EV/EBITDA implying 9x FY21 EPS).

Exhibit 14: Valuation metrics

	Sales (₹ cr)	Growth (%)	EPS (₹)	Growth (%)	PE (x)	EV/EBITDA (x)	RoNW (%)	RoCE (%)
FY16	8325.2	0.3	4.3	114.9	15.9	7.8	7.0	16.0
FY17	7892.1	-5.2	4.1	-6.1	16.9	8.2	6.6	14.6
FY18	7559.3	-4.2	4.8	17.7	14.4	6.3	6.8	15.9
FY19	12079.8	59.8	9.4	96.6	7.3	4.1	11.9	21.2
FY20E	10404.0	-13.9	6.9	-26.1	9.9	5.3	8.2	16.1
FY21E	12056.9	15.9	9.0	30.2	7.6	4.5	9.8	18.0

Source: Company, ICICI Direct Research

Exhibit 15: Recommendation History vs. Consensus



Source: Bloomberg, Company, ICICI Direct Research

Exhibit 16: Top 10 Shareholders

Rank	Name	Latest Date	Filing % O/S	Position (m)	Change (m)
1	Jhunjhunwala (Rekha Rakesh)	30-Jun-19	7.9%	47.6	2.5
2	AVSR Holdings Pvt. Ltd.	30-Jun-19	6.7%	40.5	0.0
3	Aditya Birla Sun Life AMC Limited	30-Jun-19	6.3%	37.9	3.4
4	Reliance Nippon Life Asset Management Limited	30-Jun-19	6.2%	37.1	-1.8
5	Sundaram Asset Management Company Limited	31-Mar-18	4.3%	26.0	15.4
6	IDFC Asset Management Company Private Limited	30-Jun-19	2.7%	16.4	1.1
7	Dimensional Fund Advisors, L.P.	30-Jun-19	2.7%	16.4	0.0
8	The Vanguard Group, Inc.	30-Jun-19	2.4%	14.7	-0.1
9	UTI Asset Management Co. Ltd.	30-Jun-19	2.3%	13.7	-0.7
10	Alluri (Ananta Venkata Ranga Raju)	30-Jun-19	2.3%	13.6	0.0

Source: Reuters, ICICI Direct Research

Exhibit 17: Recent Activity

Buys			Sells		
Investor name	Value(m)	Shares(m)	Investor name	Value(m)	Shares(m)
V (Radhakrishna)	6.4	4.5	Jhunjhunwala (Rakesh Radheshyam)	-11.3	-8.0
Aditya Birla Sun Life AMC Limited	4.8	3.4	BNP Paribas Asset Management India Pvt. Ltd.	-2.6	-1.9
Jhunjhunwala (Rekha Rakesh)	3.5	2.5	Reliance Nippon Life Asset Management Limited	-2.5	-1.8
DSP Investment Managers Pvt. Ltd.	3.2	2.2	Sydivest	-1.7	-1.2
IDFC Asset Management Company Private Limited	1.5	1.1	Franklin Templeton Asset Management (India) Pvt. Ltd.	-1.5	-1.1

Source: Reuters, ICICI Direct Research

Exhibit 18: Shareholding Pattern

(in %)	Jun-18	Sep-18	Dec-18	Mar-19	Jun-19
Promoter	18.1	18.1	18.1	18.1	18.1
Public	81.9	81.9	81.9	81.9	81.9
Others	0.0	0.0	0.0	0.0	0.0
Total	100	100	100	100	100

Source: Company, ICICI Direct Research

Financial summary

Exhibit 19: Profit and loss statement				
	₹ crore			
₹ crore	FY18	FY19	FY20E	FY21E
Net Sales	7,559.3	12,079.8	10,404.0	12,056.9
Other Income	115.8	118.3	136.0	156.4
Total revenues	7,675.2	12,198.0	10,540.0	12,213.3
Raw Material Expenses	2,776.5	4,763.6	3,797.5	4,356.2
Employee benefit expenses	364.1	439.3	501.1	580.7
Construction expenses	3,354.5	5,166.9	4,650.6	5,389.5
Other Expenses	209.3	287.0	272.4	315.7
Total operating expenses	6,704.5	10,656.8	9,221.6	10,642.1
EBITDA	854.9	1,423.0	1,182.4	1,414.8
Interest	378.9	451.3	505.2	541.5
Depreciation	117.5	149.4	172.2	195.0
PBT	367.7	881.7	641.0	834.7
Taxes	80.9	317.8	224.3	292.1
PAT	286.8	563.9	416.6	542.6
EPS	4.8	9.4	6.9	9.0

Source: Company, ICICI Direct Research

Exhibit 21: Balance sheet				
	₹ crore			
₹ crore	FY18	FY19	FY20E	FY21E
Equity Capital	120.1	120.1	120.1	120.1
Reserve and Surplus	4,121.5	4,636.7	4,970.0	5,404.0
Total Shareholders funds	4,241.7	4,756.8	5,090.1	5,524.1
Total Debt	1,300.0	1,993.3	2,193.0	2,293.0
Other Non-current Liabilities	-	-	-	-
Deferred Tax Liability	(179.3)	(172.6)	(172.6)	(172.6)
Source of Funds	5,362.4	6,577.4	7,110.5	7,644.5
Gross Block	1,550.3	1,962.2	2,262.2	2,562.2
Less: Accumulated Dep	802.5	853.6	1,124.1	1,319.1
Net Block	747.8	1,108.6	1,138.1	1,243.0
Capital WIP	22.9	13.2	13.2	13.2
Total Fixed Assets	770.7	1,121.8	1,151.3	1,256.2
Investments	1,082.4	1,119.4	1,119.4	1,119.4
Inventory	1,695.6	512.9	712.6	660.7
Sundry Debtors	4,688.9	3,154.2	3,278.0	3,699.7
Loans & Advances	632.4	496.5	427.6	495.6
Cash & Bank Balances	65.9	299.0	70.2	47.4
Other Current Assets	1,592.9	6,020.2	5,273.3	6,111.1
Total Current Assets	8,675.7	10,482.8	9,761.7	11,014.4
Trade Payable	3,512.5	4,492.3	3,563.0	4,129.1
Provisions	43.9	61.7	53.1	61.6
Other Current Liabilities	1,702.5	1,854.5	1,567.7	1,816.8
Total Current Liabilities	5,258.9	6,408.5	5,183.9	6,007.5
Net Current Assets	3,416.8	4,074.3	4,577.8	5,006.9
Application of Funds	5,362.4	6,577.4	7,110.5	7,644.5

Source: Company, ICICI Direct Research

Exhibit 20: Cash flow statement				
	₹ crore			
₹ crore	FY18	FY19	FY20E	FY21E
Profit after Tax	286.8	563.9	416.6	542.6
Depreciation	117.5	149.4	172.2	195.0
Interest paid	378.9	451.3	505.2	541.5
Cash Flow before wc changes	809.7	1,482.3	1,318.4	1,571.2
Net Increase in Current Assets	-	-	-	-
Net Increase in Current Liabilities	-	-	-	-
Net cash flow from op. activities	(32.1)	125.4	(143.5)	285.7
(Purchase)/Sale of Fixed Assets	(248.2)	(499.9)	(201.7)	(300.0)
(Purchase)/Sale of Investments	(53.7)	(37.0)	-	-
Net cash flow from inv. activities	(247.3)	(536.8)	(201.7)	(300.0)
Proceeds from Secured Borrowing	(276.6)	647.3	199.7	100.0
Proceeds from Unsecured Borrowing	-	46.0	-	-
Net cash flow from fin. activities	235.9	644.5	116.4	(8.5)
Net Cash flow	(43.5)	233.1	(228.8)	(22.8)
Opening Cash	109.4	65.9	299.0	70.2
Closing Cash	65.9	299.0	70.2	47.4

Source: Company, ICICI Direct Research

Exhibit 22: Key ratios				
	₹ crore			
₹ crore	FY18	FY19	FY20E	FY21E
Per Share Data				
Reported EPS	4.8	9.4	6.9	9.0
Cash EPS	6.7	11.9	9.8	12.3
BVPS	70.6	79.2	84.7	92.0
Operating Ratios				
EBITDA / Net Sales	11.3	11.8	11.4	11.7
PAT / Net Sales	3.8	4.7	4.0	4.5
Return Ratios				
RoE	6.8	11.9	8.2	9.8
RoCE	15.9	21.2	16.1	18.0
RoIC	14.0	20.3	14.4	16.1
Valuation Ratios				
EV / EBITDA	6.3	4.1	5.3	4.5
P/E	14.4	7.3	9.9	7.6
EV / Net Sales	0.7	0.5	0.6	0.5
Market Cap / Sales	0.5	0.3	0.4	0.3
Price to Book Value	1.0	0.9	0.8	0.7
Turnover Ratios				
Asset turnover	1.4	1.8	1.5	1.6
Debtors Turnover Ratio	1.6	3.8	3.2	3.3
Creditors Turnover Ratio	2.2	2.7	2.9	2.9
Solvency Ratios				
Net Debt / Equity	0.3	0.4	0.4	0.4
Current Ratio	1.6	1.6	1.9	1.8
Quick Ratio	1.3	1.5	1.7	1.7

Source: Company, ICICI Direct Research

Exhibit 23: ICICI Direct coverage universe (Construction)

Sector / Company	CMP		M Cap (₹ Cr)	EPS (₹)			P/E (x)			EV/EBITDA (x)			P/B (x)			RoE (%)			
	(₹)	TP(₹)		Rating	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
NBCC (NBCC)	64	77	Buy	11,520	2.1	2.3	3.3	30.7	27.7	19.2	18.8	18.8	10.4	4.9	4.2	3.4	16.0	15.1	17.9
Simplex Infra (SIMCON)	143	130	Reduce	842	20.8	19.8	28.9	6.9	7.2	4.9	6.2	5.8	5.4	0.4	0.4	0.3	6.1	5.3	6.9
NCC (NAGCON)	70	90	Buy	4,118	9.3	6.9	9.0	7.3	9.9	7.6	4.1	5.3	4.5	0.9	0.8	0.7	11.9	8.2	9.8

Source: Company, ICICI Direct Research

RATING RATIONALE

ICICI Direct endeavors to provide objective opinions and recommendations. ICICI Direct assigns ratings to its stocks according to their notional target price vs. current market price and then categorizes them as Buy, Hold, Reduce and Sell. The performance horizon is two years unless specified and the notional target price is defined as the analysts' valuation for a stock

Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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