

View: Another bad quarter, recovery in FY21E; maintain Buy

- NCC reported lower than expected numbers on all fronts.
- NCC posted weak set of numbers with 44.2%/ 36.2%/ 82.7% YoY de-growth in Revenue/ EBITDA/ APAT to ₹17.3 bn/ ₹2.3 bn/ ₹300 mn due to lower execution coupled with higher depreciation + interest cost and lower other income. Core EBITDA margins (adjusting for ₹310 mn claim on Mumbai projects).
- We sharply reduce our revenue estimates by 21%/ 18.1% for FY20E/ FY21E factoring 28.2% de-growth in 1HFY20, reduced order inflow for FY20E and lower execution rate. NCC is likely to post -20.9%/ 18.7% revenue growth in FY20E/ FY21E. We maintain core EBITDA margin estimates of 11.7%/ 11.7% for FY20E/ FY21E. Accordingly, we reduce our Adj. PAT estimates by 45.1%/ 31.8% for FY20E/ FY21E primarily due to reduction in execution and higher tax rate of 33% vs. 25.6% for FY20E. We expect recovery in FY21E with 18.7%/ 59.8% growth in revenue/ Adj. PAT.
- Considering ~50% correction in stock price during YTD FY20 and recovery in FY21E, we maintain BUY with downward TP of ₹76 (9x FY21E EPS).

Key Risk – Any further order cancellation or increase in working capital leading to higher debt.

Much lower order inflow, however order book at 3.2x TTM revenue

NCC standalone won fresh orders worth ₹162.8 bn (excl. ₹61 bn AP cancellation) / ₹31.3 bn during FY19/ YTD FY20, taking the standalone order book to ₹331.7 bn (3.2x TTM revenue). We reduce our order inflow estimates to ₹100 bn (management guidance of ₹140 bn) from ₹140 bn for FY20E factoring YTD FY20 order inflow. However, we maintain our order inflow estimates of ₹140 bn for FY21E.

Q2FY20 Result (₹ Mn)

Particulars	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)
Revenue	17,320	31,048	(44.2)	21,877	(20.8)
Total Expense	14,990	27,397	(45.3)	19,211	(22.0)
EBITDA	2,330	3,651	(36.2)	2,666	(12.6)
Depreciation	449	357	25.6	437	2.7
EBIT	1,881	3,294	(42.9)	2,229	(15.6)
Other Income	703	331	112.6	250	181.1
Interest	1,308	1,082	20.9	1,259	3.9
EBT	1,112	2,068	(46.2)	1,221	(8.9)
Tax	312	811	(61.6)	407	(23.5)
RPAT	800	1,257	(36.3)	813	(1.6)
APAT	300	1,732	(82.7)	813	(63.1)
			(bps)		(bps)
Gross Margin (%)	23.1	17.5	560	20.5	254
EBITDA Margin (%)	13.5	11.8	169	12.2	127
NPM (%)	1.7	5.6	(385)	3.7	(199)
Tax Rate (%)	28.0	39.2	(1121)	33.4	(535)
EBIT Margin (%)	10.9	10.6	25	10.2	67

CMP	₹ 58
Target / Upside	₹ 76 / 31%
BSE Sensex	40,248
NSE Nifty	11,917

Script Details

Equity / FV	₹ 1,201mn / ₹ 2
Market Cap	₹ 35bn
	US\$ 494mn
52-week High/Low	₹ 119/₹ 45
Avg. Volume (no)	1,91,86,600
NSE Symbol	NCC
Bloomberg Code	NJCC IN

Shareholding Pattern Sep'19(%)

Promoters	18.1
MF/Banks/FIs	28.3
FII	17.4
Public / Others	36.2

Valuation (x)

	FY19A	FY20E	FY21E
P/E	5.6	11.0	6.9
EV/EBITDA	3.6	4.7	4.0
ROE (%)	13.6	6.5	9.8
RoACE (%)	17.7	13.6	14.7

Estimates (₹ mn)

	FY19A	FY20E	FY21E
Revenue	1,20,798	95,578	1,13,451
EBITDA	14,230	11,490	13,278
PAT	5,639	3,682	5,084
EPS (₹)	10.4	5.3	8.5

VP Research: Shravan Shah
 Tel: +91 22 40969749
 E-mail: shravans@dolatcapital.com

Associate: Maulik Shah
 Tel: +91 22 40969775
 E-mail: mauliks@dolatcapital.com

Exhibit 1: Actual vs. DART estimates

(in ₹ mn)	Actual	DART Est.	% Variation	Comment
Revenue	17,320	20,576	(15.8)	Lower execution run rate due to monsoon
EBITDA	2,330	2,460	(5.3)	
EBITDA Margin (%)	13.5	12.0	150 bps	Due to claims of ₹310 mn. Core margins stood at 11.7% (down 30 bps vs. estimate)
Adj. PAT	300	638	(53.0)	Due to poor operating performance

Source: Company, DART

Exhibit 2: Change in estimates

(₹ mn)	FY20E			FY21E		
	New	Old	% chg	New	Old	% chg
Revenue	95,578	1,21,035	(21.0)	1,13,451	1,38,455	(18.1)
YoY growth (%)	(20.9)	0.2	-	18.7	14.4	431
EBITDA	11,490	14,162	(18.9)	13,278	16,205	(18.1)
EBITDA Margin (%)	12.0	11.7	32	11.7	11.7	(0)
Adj. PAT	3,182	5,794	(45.1)	5,084	7,458	(31.8)
EPS (₹)	5.3	9.7	(45.1)	8.5	12.4	(31.8)

Source: Company, DART

Key earnings takeaways

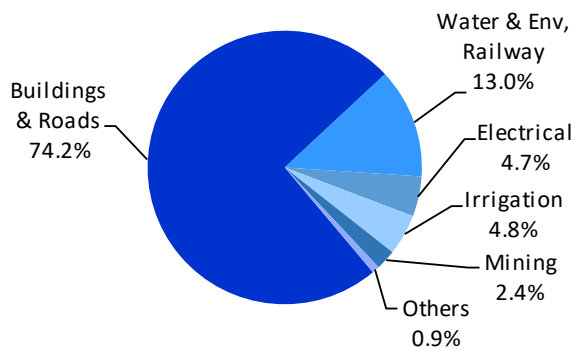
- For affordable housing projects (₹43.5 bn) in AP, NCC is in discussion with the state government but awaiting clarity from them. Also, there is no clarity on ₹66 bn orders in the state of AP where execution has stopped.
- Revenue & EBITDA margin – Revenue decreased by 44.2% in Q2FY20 primarily due to very less execution in AP post stoppage of work and extended monsoon. EBITDA margins up 169 bps YoY to 13.5% due to onetime claim of ₹310 mn; core EBITDA margins stood at 11.7%. NCC lowered its revenue guidance to ₹100 bn from ₹110 bn and guided gross margin of 17-18%.
- Order inflow – Maintained guidance of ₹140 bn for FY20E. Significant inflows expected in H2FY20E. H1FY20 inflows were low due to general elections and monsoon.
- Debt & Capex - Standalone debt decreased from ₹24 bn to ₹22.9 bn QoQ. Guided for ₹18-19 bn debt level at the end of FY20E. Capex for 1HFY20 is ₹820 mn.
- Unbilled revenue/ Mobilization advance/ Retention money stood at ₹17 bn/ ₹16.7 bn/ ₹22.8 bn respectively. Receivables from AP govt. stands at ₹8 bn.
- Exposure to JV's & Subsidiary – Total investment and loans & advances to subsidiaries decreased by ₹300 mn to ₹14.5 bn during Q2FY20.
- Arbitration – Sembcorp hearing is going on and outcome is expected by Mar'20.
- Loss of all subsidiaries, associates and JVs for Q2FY20 stood at ₹15.2 mn.
- Total Limits stands at ₹110.6 bn which includes ₹90 bn Non Fund based and ₹20.6 bn Fund based. Plans to enhance BG limits by ₹40 bn, LC limits by ₹3 bn and fund based limit by ₹1.4 bn. NCC plans to add new banks for funding limits where outcome is expected in 2-3 months.

Exhibit 3: Q2FY20 Performance (Standalone)

Particulars (₹ mn)	Q2FY20	Q2FY19	YoY (%)	Q1FY20	QoQ (%)	H1FY20	H1FY19	YoY (%)
Revenue	17,320	31,048	(44.2)	21,877	(20.8)	39,197	54,644	(28.3)
Material consumed	5,890	13,269	(55.6)	7,639	(22.9)	13,529	22,263	(39.2)
Construction exp.	1,904	2,165	(12.0)	2,218	(14.2)	4,122	4,002	3.0
Sub - contractor work bills	5,532	10,194	(45.7)	7,531	(26.5)	13,064	18,659	(30.0)
Employees cost	1,153	1,078	6.9	1,123	2.6	2,276	2,052	10.9
Other expenditure	511	692	(26.2)	699	(26.9)	1,210	1,340	(9.7)
Total expenditure	14,990	27,397	(45.3)	19,211	(22.0)	34,201	48,316	(29.2)
EBITDA	2,330	3,651	(36.2)	2,666	(12.6)	4,996	6,329	(21.1)
Depreciation	449	357	25.6	437	2.7	886	701	26.5
Operating profit	1,881	3,294	(42.9)	2,229	(15.6)	4,110	5,628	(27.0)
Other income	703	331	112.6	250	181.1	953	626	52.3
EBIT	2,585	3,624	(28.7)	2,479	4.3	5,064	6,254	(19.0)
Interest	1,308	1,082	20.9	1,259	3.9	2,566	2,097	22.4
Exceptional items	(165)	(475)	-	-	-	(165)	(475)	-
EBT	1,112	2,068	(46.2)	1,221	(8.9)	2,333	3,682	(36.6)
Provision for taxation	312	811	(61.6)	407	(23.5)	719	1,389	(48.2)
Net income	800	1,257	(36.3)	813	(1.6)	1,614	2,293	(29.6)
Adjustments	(501)	475	-	-	-	(501)	475	-
Adjusted net income	300	1,732	(82.7)	813	(63.1)	1,113	2,768	(59.8)
EPS (₹)	0.5	2.8	(82.7)	1.3	(63.1)	1.8	4.5	(59.8)
			(bps)		(bps)			
EBIDTA Margin (Excl. O.I.)	13.5	11.8	169	12.2	127	12.7	11.6	116
EBIDTA Margin (Incl. O.I.)	17.5	12.8	469	13.3	418	15.2	12.7	245
Core EBITDA Margin	11.7	11.8	(9)	12.2	(52)	12.0	11.6	37
NPM (%)	1.7	5.5	(386)	3.7	(201)	2.8	5.0	(224)
Tax/PBT (%)	28.0	39.2	(1121)	33.4	(535)	30.8	37.7	(689)
Construction/Revenue (%)	76.9	82.5	(560)	79.5	(254)	78.4	82.2	(385)

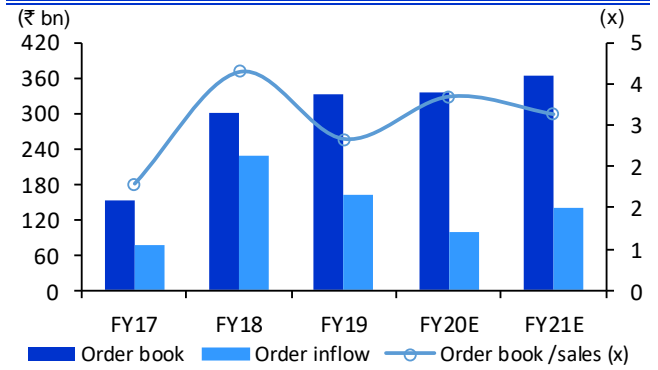
Source: Company, DART

Exhibit 4: ₹315 bn order book break up (Standalone)



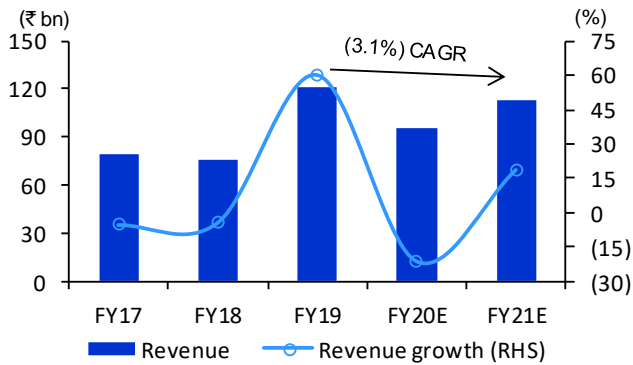
Source: DART, Company

Exhibit 5: Order book trend (Standalone)



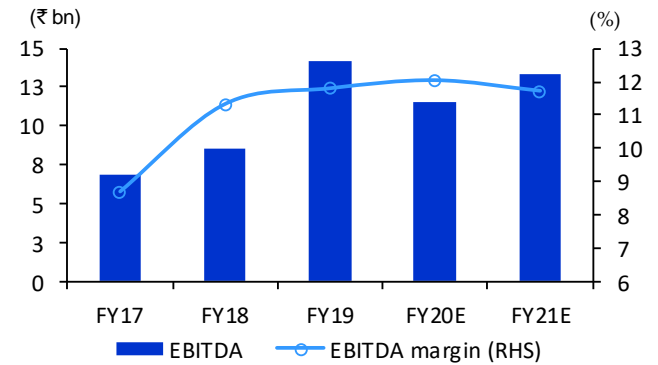
Source: DART, Company

Exhibit 6: Revenue to de-grow 3.1% CAGR over FY19-21E



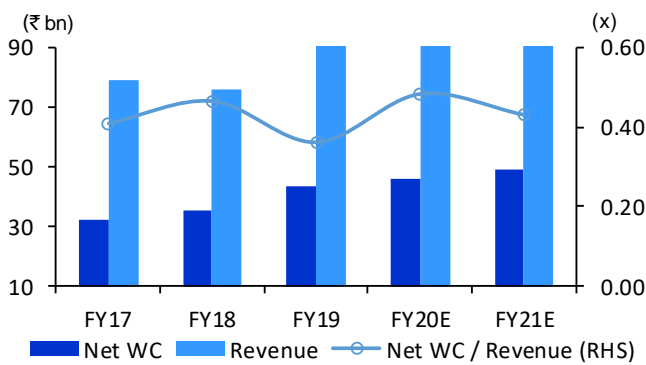
Source: DART, Company

Exhibit 7: EBITDA Margin to stabilize at 11.7% by FY21E



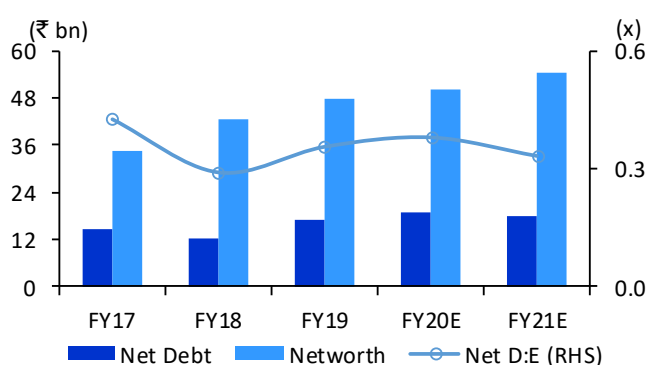
Source: DART, Company

Exhibit 8: Working capital trend



Source: DART, Company

Exhibit 9: Leverage trend



Source: DART, Company

Profit and Loss Account

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Revenue	75,593	1,20,798	95,578	1,13,451
Total Expense	67,045	1,06,568	84,088	1,00,173
COGS	61,311	99,305	76,529	91,714
Employees Cost	3,641	4,393	4,833	5,461
Other expenses	2,093	2,870	2,726	2,999
EBIDTA	8,549	14,230	11,490	13,278
Depreciation	1,175	1,494	1,822	1,992
EBIT	7,374	12,736	9,668	11,286
Interest	3,789	4,513	5,350	5,250
Other Income	1,158	1,183	1,343	800
Exc. / E.O. items	(1,066)	(589)	(165)	0
EBT	3,677	8,817	5,496	6,836
Tax	809	3,178	1,814	1,752
RPAT	2,868	5,639	3,682	5,084
Minority Interest	0	0	0	0
Profit/Loss share of associates	0	0	0	0
APAT	3,934	6,228	3,182	5,084

Balance Sheet

(₹ Mn)	FY18A	FY19A	FY20E	FY21E
Sources of Funds				
Equity Capital	1,201	1,201	1,201	1,201
Minority Interest	0	0	0	0
Reserves & Surplus	41,215	46,367	48,995	53,025
Net Worth	42,417	47,568	50,195	54,226
Total Debt	13,001	19,933	21,003	20,003
Net Deferred Tax Liability	(1,793)	(1,726)	(1,899)	(1,989)
Total Capital Employed	53,625	65,774	69,298	72,239

Applications of Funds

Net Block	8,081	13,098	13,888	14,896
CWIP	229	132	20	20
Investments	10,237	9,193	9,293	8,587
Current Assets, Loans & Advances	87,666	1,07,071	98,294	1,09,831
Inventories	16,956	5,129	4,709	5,009
Receivables	46,889	31,542	27,909	32,901
Cash and Bank Balances	659	2,990	1,924	1,949
Loans and Advances	6,324	4,965	4,625	4,408
Other Current Assets	16,838	62,445	59,127	65,565
Less: Current Liabilities & Provisions	52,589	64,085	52,196	61,095
Payables	35,125	44,923	35,527	42,205
Other Current Liabilities	17,464	19,162	16,669	18,890
Net Current Assets	35,077	42,986	46,098	48,736
Total Assets	53,625	65,408	69,298	72,239

E – Estimates

Important Ratios

Particulars	FY18A	FY19A	FY20E	FY21E
(A) Margins (%)				
Gross Profit Margin	18.9	17.8	19.9	19.2
EBIDTA Margin	11.3	11.8	12.0	11.7
EBIT Margin	9.8	10.5	10.1	9.9
Tax rate	22.0	36.0	33.0	25.6
Net Profit Margin	5.2	5.2	3.3	4.5
(B) As Percentage of Net Sales (%)				
COGS	81.1	82.2	80.1	80.8
Employee	4.8	3.6	5.1	4.8
Other	2.8	2.4	2.9	2.6
(C) Measure of Financial Status				
Gross Debt / Equity	0.3	0.4	0.4	0.4
Interest Coverage	1.9	2.8	1.8	2.1
Inventory days	82	15	18	16
Debtors days	226	95	107	106
Average Cost of Debt	26.3	27.4	26.1	25.6
Payable days	170	136	136	136
Working Capital days	169	130	176	157
FA T/O	9.4	9.2	6.9	7.6
(D) Measures of Investment				
AEPS (₹)	6.5	10.4	5.3	8.5
CEPS (₹)	8.5	12.9	8.3	11.8
DPS (₹)	0.4	1.2	1.8	1.8
Dividend Payout (%)	6.8	11.6	33.1	20.7
BVPS (₹)	70.6	79.2	83.6	90.3
RoANW (%)	10.0	13.6	6.5	9.8
RoACE (%)	14.8	17.7	13.6	14.7
RoAIC (%)	15.1	18.3	14.1	15.1
(E) Valuation Ratios				
CMP (₹)	58	58	58	58
P/E	8.9	5.6	11.0	6.9
Mcap (₹ Mn)	34,898	34,898	34,898	34,898
MCap/ Sales	0.5	0.3	0.4	0.3
EV	47,239	51,841	53,976	52,951
EV/Sales	0.6	0.4	0.6	0.5
EV/EBITDA	5.5	3.6	4.7	4.0
P/BV	0.8	0.7	0.7	0.6
Dividend Yield (%)	0.8	2.1	3.0	3.0
(F) Growth Rate (%)				
Revenue	(4.2)	59.8	(20.9)	18.7
EBITDA	24.8	66.5	(19.3)	15.6
EBIT	28.7	72.7	(24.1)	16.7
PBT	37.7	139.8	(37.7)	24.4
APAT	42.6	58.3	(48.9)	59.8
EPS	42.6	58.3	(48.9)	59.8
Cash Flow				
(₹ Mn)	FY18A	FY19A	FY20E	FY21E
CFO	4,469	3,453	5,528	8,823
CFI	(3,532)	(3,290)	(1,258)	(1,495)
CFF	(1,372)	2,168	(5,335)	(7,303)
FCFF	1,393	(1,454)	3,027	5,823
Opening Cash	1,095	659	2,990	1,924
Closing Cash	659	2,990	1,924	1,949

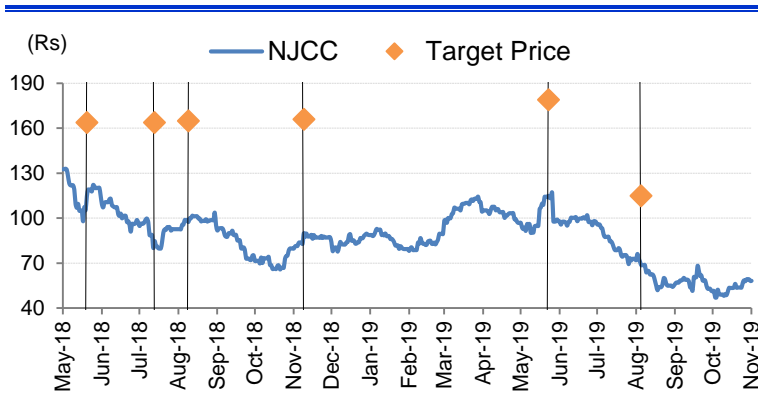
E – Estimates

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 (₹)
May-18	Buy	164	114
Jul-18	Buy	164	85
Aug-18	Buy	165	97
Nov-18	Buy	166	90
May-19	Buy	179	115
Aug-19	Buy	115	69

*Price as on recommendation date

DART Team

Purvag Shah	Managing Director	purvag@dolatcapital.com	+9122 4096 9747
Amit Khurana, CFA	Head of Equities	amit@dolatcapital.com	+9122 4096 9745

CONTACT DETAILS

Equity Sales	Designation	E-mail	Direct Lines
Dinesh Bajaj	VP - Equity Sales	dineshb@dolatcapital.com	+9122 4096 9709
Kartik Sadagopan	VP - Equity Sales	kartiks@dolatcapital.com	+9122 4096 9762
Kapil Yadav	VP - Equity Sales	kapil@dolatcapital.com	+9122 4096 9735
Yomika Agarwal	VP - Equity Sales	yomika@dolatcapital.com	+9122 4096 9772
Ashwani Kandoi	AVP - Equity Sales	ashwanik@dolatcapital.com	+9122 4096 9725
Lekha Nahar	Manager - Equity Sales	lekhan@dolatcapital.com	+9122 4096 9740
Equity Trading	Designation	E-mail	
P. Sridhar	SVP and Head of Sales Trading	sridhar@dolatcapital.com	+9122 4096 9728
Chandrakant Ware	VP - Sales Trading	chandrakant@dolatcapital.com	+9122 4096 9707
Shirish Thakkar	VP - Head Domestic Derivatives Sales Trading	shirisht@dolatcapital.com	+9122 4096 9702
Kartik Mehta	Asia Head Derivatives	kartikm@dolatcapital.com	+9122 4096 9715
Dinesh Mehta	Co- Head Asia Derivatives	dinesh.mehta@dolatcapital.com	+9122 4096 9765
Bhavin Mehta	VP - Derivatives Strategist	bhavinm@dolatcapital.com	+9122 4096 9705

Dolat Capital Market Private Limited.

Sunshine Tower, 28th Floor, Senapati Bapat Marg, Dadar (West), Mumbai 400013

Analyst(s) Certification

The research analyst(s), with respect to each issuer and its securities covered by them in this research report, certify that: All of the views expressed in this research report accurately reflect his or her or their personal views about all of the issuers and their securities; and No part of his or her or their compensation was, is, or will be directly or indirectly related to the specific recommendations or views expressed in this research report.

I. Analyst(s) and Associate (S) holding in the Stock(s): (Nil)**II. Disclaimer:**

This research report has been prepared by Dolat Capital Market Private Limited. to provide information about the company(ies) and sector(s), if any, covered in the report and may be distributed by it and/or its affiliated company(ies) solely for the purpose of information of the select recipient of this report. This report and/or any part thereof, may not be duplicated in any form and/or reproduced or redistributed without the prior written consent of Dolat Capital Market Private Limited. This report has been prepared independent of the companies covered herein. Dolat Capital Market Private Limited. and its affiliated companies are part of a multi-service, integrated investment banking, brokerage and financing group. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have provided or may provide services in respect of managing offerings of securities, corporate finance, investment banking, mergers & acquisitions, financing or any other advisory services to the company(ies) covered herein. Dolat Capital Market Private Limited. and/or its affiliated company(ies) might have received or may receive compensation from the company(ies) mentioned in this report for rendering any of the above services. Research analysts and sales persons of Dolat Capital Market Private Limited. may provide important inputs to its affiliated company(ies) associated with it. While reasonable care has been taken in the preparation of this report, it does not purport to be a complete description of the securities, markets or developments referred to herein, and Dolat Capital Market Private Limited. does not warrant its accuracy or completeness. Dolat Capital Market Private Limited. may not be in any way responsible for any loss or damage that may arise to any person from any inadvertent error in the information contained in this report. This report is provided for information only and is not an investment advice and must not alone be taken as the basis for an investment decision. The investment discussed or views expressed herein may not be suitable for all investors. The user assumes the entire risk of any use made of this information. The information contained herein may be changed without notice and Dolat Capital Market Private Limited. reserves the right to make modifications and alterations to this statement as they may deem fit from time to time. Dolat Capital Market Private Limited. and its affiliated company(ies), their directors and employees may; (a) from time to time, have a long or short position in, and buy or sell the securities of the company(ies) mentioned herein or (b) be engaged in any other transaction involving such securities and earn brokerage or other compensation or act as a market maker in the financial instruments of the company(ies) discussed herein or act as an advisor or lender/borrower to such company(ies) or may have any other potential conflict of interests with respect to any recommendation and other related information and opinions. This report is neither an offer nor solicitation of an offer to buy and/or sell any securities mentioned herein and/or not an official confirmation of any transaction. This report is not directed or intended for distribution to, or use by any person or entity who is a citizen or resident of or located in any locality, state, country or other jurisdiction, where such distribution, publication, availability or use would be contrary to law, regulation or which would subject Dolat Capital Market Private Limited. and/or its affiliated company(ies) to any registration or licensing requirement within such jurisdiction. The securities described herein may or may not be eligible for sale in all jurisdictions or to a certain category of investors. Persons in whose possession this report may come, are required to inform themselves of and to observe such restrictions.

For U.S. Entity/ persons only: This research report is a product of Dolat Capital Market Private Limited., which is the employer of the research analyst(s) who has prepared the research report. The research analyst(s) preparing the research report is/are resident outside the United States (U.S.) and are not associated persons of any U.S. regulated broker-dealer and therefore the analyst(s) is/are not subject to supervision by a U.S. broker-dealer, and is/are not required to satisfy the regulatory licensing requirements of FINRA or required to otherwise comply with U.S. rules or regulations regarding, among other things, communications with a subject company, public appearances and trading securities held by a research analyst account.

This report is intended for distribution by Dolat Capital Market Private Limited. only to "Major Institutional Investors" as defined by Rule 15a-6(b)(4) of the U.S. Securities and Exchange Act, 1934 (the Exchange Act) and interpretations thereof by U.S. Securities and Exchange Commission (SEC) in reliance on Rule 15a 6(a)(2). If the recipient of this report is not a Major Institutional Investor as specified above, then it should not act upon this report and return the same to the sender. Further, this report may not be copied, duplicated and/or transmitted onward to any U.S. person or entity.

In reliance on the exemption from registration provided by Rule 15a-6 of the Exchange Act and interpretations thereof by the SEC in order to conduct certain business with Major Institutional Investors, Dolat Capital Market Private Limited. has entered into an agreement with a U.S. registered broker-dealer Ltd Marco Polo Securities Inc. ("Marco Polo"). Transactions in securities discussed in this research report should be effected through Marco Polo or another U.S. registered broker dealer/Entity as informed by Dolat Capital Market Private Limited. from time to time.

Dolat Capital Market Private Limited.

Corporate Identity Number: U65990DD1993PTC009797

Member: BSE Limited and National Stock Exchange of India Limited.

SEBI Registration No: BSE - INB010710052 & INF010710052, NSE - INB230710031& INF230710031, Research: INH000000685

Registered office: Office No. 141, Centre Point, Somnath, Daman – 396 210, Daman & Diu

Board: +9122 40969700 | Fax: +9122 22651278 | Email: research@dolatcapital.com | www.dolatresearch.com
