NCC Ltd (NAGCON)

CMP: ₹ 26 | Target: ₹ 27 (5%) | Target Period: 12 months | HOLD

June 1, 2020

Result Update

Debt reduction – Solace amid challenging times

NCC's topline declined 35.6% YoY to ₹ 2182 crore, impacted by slower execution and impact of Covid-19. EBITDA came in at ₹ 280.5 crore, down 29.5% YoY. The consequent margin, was higher at 12.9% (up 112 bps YoY) driven by a better segmental mix with contribution from higher margin segments, variation claims and some arbitration awards. The company reported a PAT of ₹ 110.4 crore, down 36.7% given the weak operating performance on a YoY basis.

No revenues/inflows guidance given uncertainty

NCC received orders worth ₹ 3801 crore in Q4FY20 and ₹ 7172 crore in FY20. Consequently, NCC's standalone order book was at ₹ 25,010 crore (book to bill ratio of 3x). We note that the company has removed most orders from Andhra Pradesh (AP). The AP order book is now at ₹ 4,479 crore, which the company is confident on execution. The company expects the ordering activity to pick up from Q2FY21. On the execution front, work is now ongoing in almost ~90% of sites. However, owing to labour unavailability and supply chain issues, activity levels are at 50-70% of pre-Covid levels. Therefore, they have refrained from giving any topline/order inflows guidance for FY21 considering the business uncertainties. We cut our FY20 revenues estimates further by ~15% and expect 150 bps YoY margins decline given the weak execution. However, on a depressed base, revenues are expected to witness a recovery with 15% growth in FY22.

Debt reduction led by better collections in Q4

NCC's standalone debt came down by ₹ 448 crore QoQ to ₹ 1910 crore (D/E of 0.3x) in release of outstanding payments from state governments and promoter infusion of ₹ 87 crore during the quarter by the way of conversion of warrants issued earlier. On a YoY basis, debt reduction is ~₹ 83 crore. The company mentioned that it has not encountered any delays in payments from government authorities. However, we believe some delays in payments are likely in the near term as states grapple with their tight fiscal positions. Nonetheless, the current debt reduction is a key breather amid the challenging times ahead.

Valuation & Outlook

The construction sector is likely to witness a washout FY21 with key issues like labour migration impacting execution and government fiscal space impacting ordering activity in near term. For NCC, it will be a second consecutive year of weakness as FY20 was marred by AP order cancellation, impacting revenues. Going ahead, we expect a gradual recovery from H2FY20 with key solace being controlled debt levels for the company. We note that NCC is currently trading at attractive 5.3x FY22E P/E. However, we would turn constructive only when we see improvement in execution. We have **HOLD** rating with a TP of ₹ 27/share (3.5x FY22E EV/EBITDA).

NCC Limited

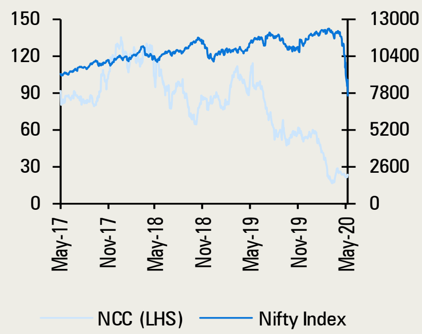
Particulars

Particular	Amount
Market Capitalization	1,570.4
Total Debt (₹ crore)	1,910.0
Cash (₹ crore)	316.9
EV (₹ crore)	3,163.5
52 week H/L (₹)	118 / 16
Equity capital	122.0
Face value	2.0

Key Highlights

- Revenues de-grew 35.6% YoY to ₹ 2,182 crore on account of weak execution but margins expanded 112 bps YoY to 12.9% given the favourable segmental mix
- Key positive takeaway was sharp reduction in debt by ~₹450 crore QoQ to ₹ 1910 crore led by better collections
- Reinstate our ratings from UNDER REVIEW and assign HOLD with target price of ₹ 27

Share price Chart



Research Analyst

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Key Financial Summary

₹ crore	FY18	FY19	FY20	FY21E	FY22E	CAGR FY20-22E
Net Sales	7,559.3	12,079.8	8,218.8	7,592.3	8,740.3	3.1%
EBITDA	854.9	1,423.0	1,030.2	831.7	1,004.6	-1.2%
EBITDA Margin (%)	11.3	11.8	12.5	11.0	11.5	
PAT	286.8	563.9	382.0	186.7	301.9	-11.1%
EPS (₹)	4.8	9.4	6.3	3.1	5.0	
P/E (x)	5.4	2.8	4.2	8.5	5.3	
EV/EBITDA(x)	3.3	2.3	3.1	3.9	3.4	
RoNW (%)	6.8	11.9	7.5	3.5	5.5	
RoCE (%)	15.9	21.2	14.7	10.7	12.6	

Source: Company, ICICI Direct Research

Exhibit 1: Variance analysis

Year	Q4FY20	Q4FY20E	Q4FY19	YoY (%)	Q3FY20	QoQ(%)	Comments
Net Sales	2,182.0	2,540.4	3,388.9	-35.6	2,117.2	3.1	Topline de-grew primarily on account of weak execution and Covid-19 impact
Other Income	24.1	30.0	36.0	-33.2	31.9	-24.5	
Total Construction Expenses	1,091.0	1,206.7	1,544.8	-29.4	1,017.4	7.2	
Employee cost	97.1	139.7	119.3	-18.6	110.5	-12.1	
Other expenditure	713.3	927.3	1,327.1	-46.3	739.3	-3.5	
EBITDA	280.5	266.7	397.7	-29.5	250.0	12.2	
EBITDA Margin (%)	12.9	10.5	11.7	112 bps	11.8	105 bps	Favourable segmental mix led to superior margins
Depreciation	43.9	45.0	40.4	8.8	45.0	-2.4	
Interest	119.5	141.8	117.0	2.1	141.8	-15.7	
Exceptional items	6.7	0.0	-11.4	NA	-22.9	NA	
PBT	147.9	110.0	264.9	-44.2	72.2	3,034.6	
Taxes	37.5	37.4	90.6	-58.6	-38.1	-198.5	
PAT	110.4	72.6	174.4	-36.7	110.3	0.1	Reported PAT de-grew mainly on account of topline de-growth

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY19	FY20	FY21E			FY22E	
(₹ Crore)			Old	New	% Change	Introduced	
Revenue	12,079.8	8,218.8	8,903.2	7,592.3	-14.7	8,740.3	Reallign numbers post Q4 results
EBITDA	1,423.0	1,030.2	976.2	831.7	-14.8	1,004.6	
EBITDA Margin (%)	11.8	12.5	11.0	11.0	-1 bps	11.5	
PAT	563.9	382.0	294.5	186.7	-36.6	301.9	
EPS (₹)	9.4	6.3	4.9	3.1		5.0	

Source: Company, ICICI Direct Research

Exhibit 3: Assumptions

					FY21		FY22E
₹ crore	FY17	FY18	FY19	FY20	Current	Earlier	Introduced
Domestic Order Inflow	9,226	23,266	25,612	7,203	8,000	10,000	11,000
Domestic Order book	17,126	30,026	39,216	25,010	25,418	25,537	27,678
Execution rate- Average (%)	46.1	25.2	30.8	32.9	29.9	35.0	31.6

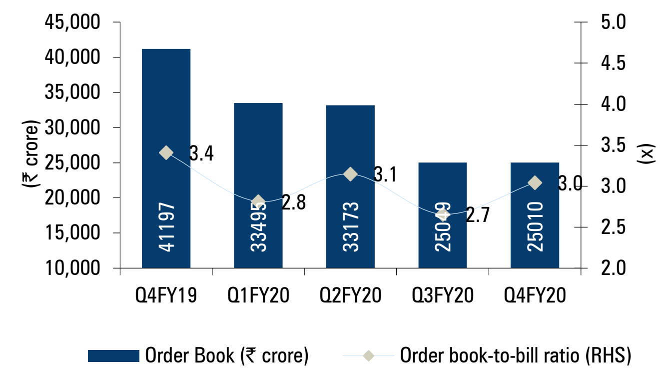
Source: Company, ICICI Direct Research

Conference call Highlights

- **Covid Impact:** As per the management, work is now ongoing on almost ~90% of the sites. However, owing to labour unavailability and supply chain issues, activity levels are at 50-70% of pre-Covid levels. Therefore, they have refrained from giving any topline/order inflows guidance for FY21 considering the business uncertainties
- **Orderbook update:** NCC received orders worth ₹ 3801 crore in Q4FY20 and ₹ 7172 crore in FY20. While consolidated order book was at ₹ 26572 crore, NCC's standalone order book was at ₹ 25,010 crore (book to bill ratio of 3x). Key large projects in execution include 3 AIIMS projects (~₹ 1000 crore each), Mumbai-Nagpur road project (~₹ 1900 crore outstanding), Nauroji Nagar, SCCL mining project, Lucknow Airport etc.
- **AP order book:** We note that the company has removed most of the orders from AP. The AP order book is now at ₹ 4479 crore (~18% of standalone order book) consisting of affordable housing projects (central funded) and some Amravati orders, which the company is confident of executing. The company expects the ordering activity to pick up from Q2FY21
- **Debt:** NCC's standalone debt came down by ₹ 448 crore QoQ to ₹ 1910 crore in release of outstanding payments from state governments. On a YoY basis, debt reduction is ~₹ 83 crore. The company mentioned it has not encountered any delays in payments from government authorities. However, we believe that some delays in payments are likely in the near term as states grapple with their tight fiscal positions. However, the current debt reduction is a key breather amid the challenging times ahead. Furthermore, the company indicated that it has not availed of moratorium permitted by RBI so far but can consider it as the deferred amount can now be converted into FITL. It is also looking to avail Covid loans offered by state owned banks (upto 10% of fund-based WC limits), which carry interest rates ranging from 7-9%, which is lower than NCC's current cost of debt (~10%).
- **Arbitration claims:** The management expects Sembcorp arbitration to be finalised by September, 2020. With regards to the Taqa case, the company is attempting an out-of-court-settlement of the matter with discussions under way.
- **Fund infusion-** Promoter infused ₹ 87 crore during the quarter by the way of conversion of warrants issued earlier.

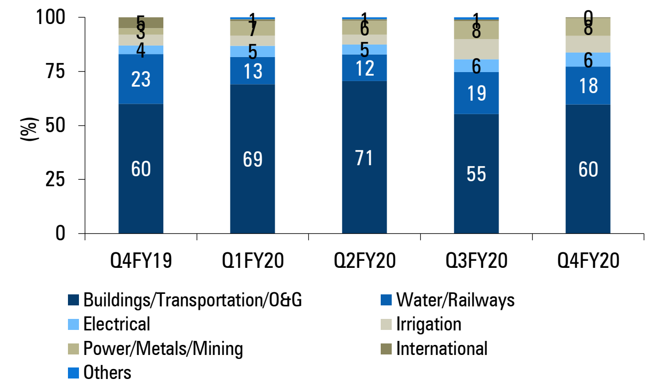
Company Analysis

Exhibit 4: Quarterly orderbook trend



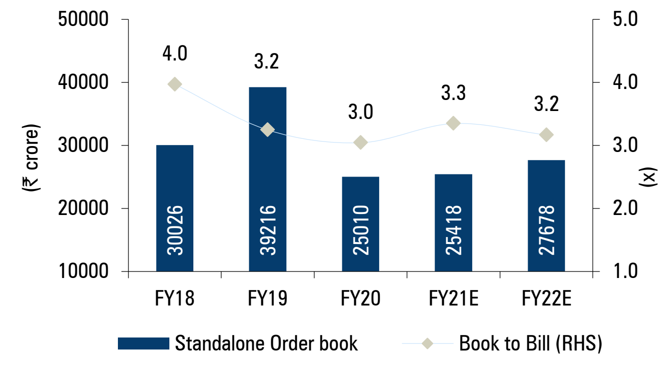
Source: Company, ICICI Direct Research

Exhibit 5: Orderbook composition



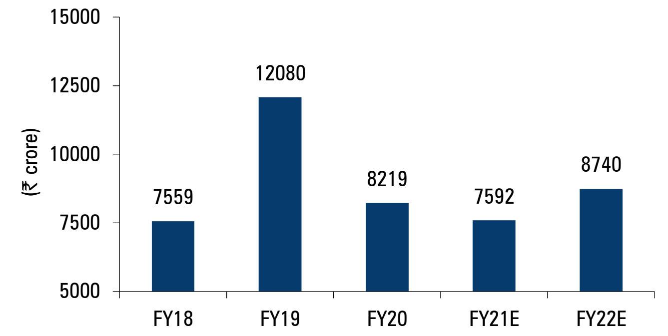
Source: Company, ICICI Direct Research

Exhibit 6: Annual orderbook trend



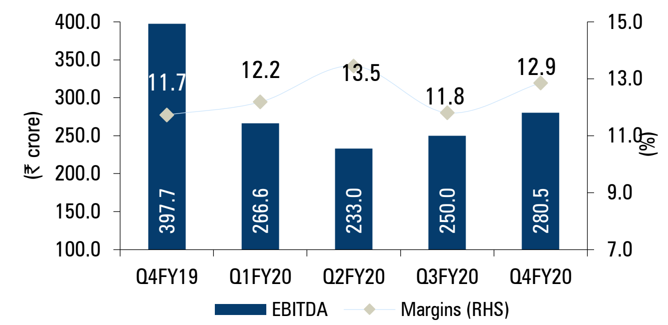
Source: Company, ICICI Direct Research

Exhibit 7: Annual revenue trend



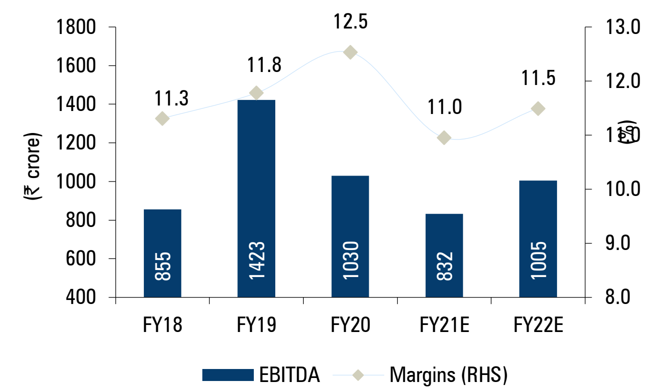
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly EBITDA trend



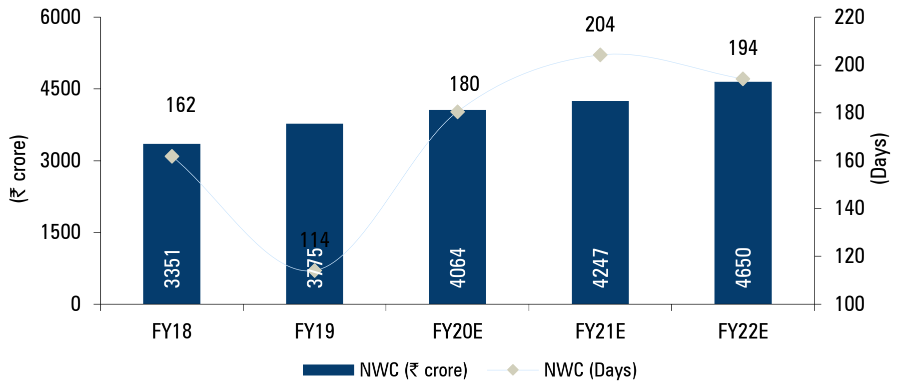
Source: Company, ICICI Direct Research

Exhibit 9: Annual EBITDA trend



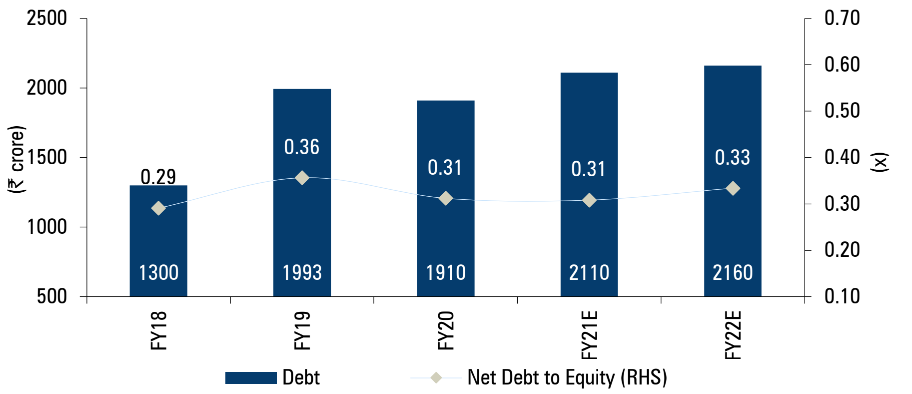
Source: Company, ICICI Direct Research

Exhibit 10: Net working capital (NWC) trend



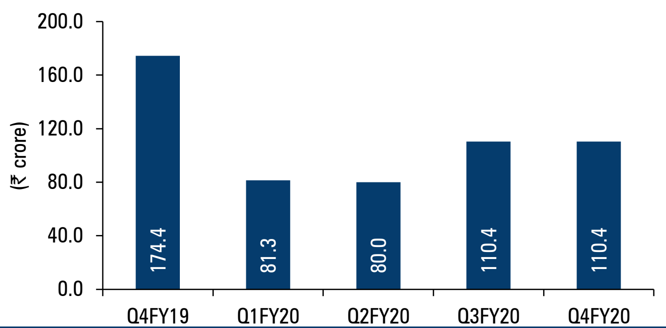
Source: Company, ICICI Direct Research

Exhibit 11: Leverage trend



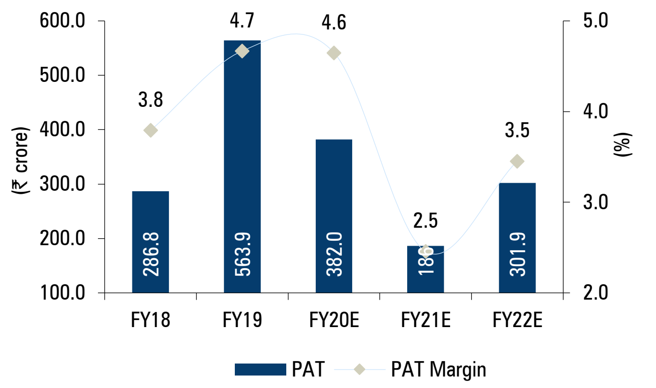
Source: Company, ICICI Direct Research

Exhibit 12: Quarterly PAT trend



Source: Company, ICICI Direct Research

Exhibit 13: Annual PAT trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement ₹ crore

₹ crore	FY19	FY20	FY21E	FY22E
Net Sales	**12,079.8**	**8,218.8**	**7,592.3**	**8,740.3**
Other Income	118.3	151.3	113.5	130.5
Total revenues	12,198.0	8,370.1	7,705.8	8,870.8
Raw Material Expenses	4,763.6	2,944.7	2,740.8	3,099.3
Employee benefit expense	439.3	435.2	417.6	463.2
Construction expenses	5,166.9	3,550.2	3,363.4	3,898.2
Other Expenses	287.0	258.6	238.9	275.0
Total operating expenses	10,656.8	7,188.7	6,760.7	7,735.7
EBITDA	**1,423.0**	**1,030.2**	**831.7**	**1,004.6**
Interest	451.3	517.9	518.5	537.9
Depreciation	149.4	177.5	177.7	194.7
PBT	881.7	453.4	248.9	402.5
Taxes	317.8	71.3	62.2	100.6
PAT	**563.9**	**382.0**	**186.7**	**301.9**
EPS	**4.8**	**9.4**	**6.3**	**3.1**

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement ₹ crore

₹ crore	FY19	FY20	FY21E	FY22E
Profit after Tax	563.9	382.0	186.7	301.9
Depreciation	149.4	177.5	177.7	194.7
Prov for Taxes	317.8	71.3	62.2	100.6
Cash Flow before wc changes	1,031.1	630.9	426.6	597.2
Change in WC	(594.5)	(293.9)	(182.8)	(402.7)
Taxes Paid	(311.2)	(104.2)	(62.2)	(100.6)
Net CF from op. activities	**125.4**	**232.8**	**181.6**	**93.9**
(Purchase)/Sale of Fixed Assets	(499.9)	(117.8)	(200.0)	(250.0)
(Purchase)/Sale of Investments	(37.0)	19.3	-	-
Net CF from inv. activities	**(536.8)**	**(98.5)**	**(200.0)**	**(250.0)**
Proceeds from Secured Borrowin	647.3	(83.3)	200.0	50.0
Proceeds from Unsecured Borrow	46.0	-	-	-
Net CF from fin. activities	**644.5**	**(116.5)**	**185.1**	**(10.4)**
Net Cash flow	233.1	17.9	166.7	(166.5)
Opening Cash	65.9	299.0	316.9	483.5
Closing Cash	**299.0**	**316.9**	**483.5**	**317.0**

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet ₹ crore

₹ crore	FY19	FY20	FY21E	FY22E
Equity Capital	120.1	122.0	122.0	122.0
Reserve and Surplus	4,636.7	4,983.7	5,155.4	5,396.9
Total Shareholders funds	4,756.8	5,105.6	5,277.4	5,518.9
Total Debt	1,993.3	1,910.0	2,110.0	2,160.0
Other Non-current Liabilities	-	-	-	-
Deferred Tax Liability	(172.6)	(205.5)	(205.5)	(205.5)
Source of Funds	6,577.4	6,810.1	7,181.9	7,473.4
Gross Block	1,962.2	2,078.6	2,278.6	2,528.6
Less: Accumulated Dep	853.6	1,031.1	1,208.8	1,403.5
Net Block	1,108.6	1,047.5	1,069.7	1,125.0
Capital WIP	13.2	14.8	14.8	14.8
Total Fixed Assets	1,121.8	1,062.3	1,084.6	1,139.9
Investments	1,119.4	1,100.0	1,100.0	1,100.0
Inventory	512.9	514.8	520.0	598.6
Sundry Debtors	3,154.2	2,618.0	2,704.1	2,993.2
Loans & Advances	496.5	594.7	624.0	718.4
Cash & Bank Balances	299.0	316.9	483.5	317.0
Other Current Assets	6,020.2	6,091.9	5,366.6	6,178.1
Total Current Assets	10,482.8	10,136.3	9,698.4	10,805.4
Trade Payable	4,492.3	3,983.0	3,328.2	3,951.1
Provisions	61.7	85.7	79.1	91.1
Other Current Liabilities	1,854.5	1,686.0	1,560.1	1,795.9
Total Current Liabilities	6,408.5	5,754.8	4,967.4	5,838.2
Net Current Assets	4,074.3	4,381.5	4,731.0	4,967.2

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios

₹ crore	FY19	FY20	FY21E	FY22E
Per Share Data				
Reported EPS	9.4	6.3	3.1	5.0
Cash EPS	11.9	9.2	6.0	8.1
BVPS	79.2	83.7	86.5	90.5
Operating Ratios				
EBITDA / Net Sales	11.8	12.5	11.0	11.5
PAT / Net Sales	4.7	4.6	2.5	3.5
Return Ratios				
RoE	11.9	7.5	3.5	5.5
RoCE	21.2	14.7	10.7	12.6
RoIC	20.3	13.2	9.8	11.3
Valuation Ratios				
EV / EBITDA	2.3	3.1	3.9	3.4
P/E	2.8	4.2	8.5	5.3
EV / Net Sales	0.3	0.4	0.4	0.4
Market Cap / Sales	0.1	0.2	0.2	0.2
Price to Book Value	0.3	0.3	0.3	0.3
Turnover Ratios				
Asset turnover	1.8	1.2	1.1	1.2
Debtors Turnover Ratio	1.6	3.8	3.1	2.8
Creditors Turnover Ratio	2.2	2.7	2.1	2.3
Solvency Ratios				
Net Debt / Equity	0.4	0.3	0.3	0.3
Current Ratio	1.6	1.7	1.9	1.8
Quick Ratio	**1.5**	**1.6**	**1.8**	**1.7**

Source: Company, ICICI Direct Research

Exhibit 18: ICICI Direct coverage universe (Roads & Construction)

Sector / Company	CMP (₹)	TP(₹)	Rating	M Cap (₹ Cr)	EPS (₹)			P/E (x)			/EBITDA (x)			P/B (x)			RoE (%)	
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E
KNR Constructions (KNRCON)	203	240	Buy	2,615	18.7	14.6	15.0	9.9	12.7	12.4	6.7	6.1	5.3	1.8	1.6	1.4	18.6	12.7
PNC Infratech (PNCINF)	110	125	Buy	2,868	11.9	15.9	12.7	9.3	6.9	8.7	6.4	4.4	5.0	1.4	1.2	1.0	14.4	16.4
Ashoka Buildcon (ASHBUI)	52	UR	UR	1,628	-1.4	-1.5	0.0	NA	NA	NA	5.0	5.0	4.3	5.7	6.6	6.6	6.9	-17.1
NCC (NAGCON)	26	27	Hold	1,573	9.4	6.3	3.1	2.7	4.1	8.3	2.3	3.1	3.8	0.1	0.2	0.2	11.9	7.5

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%

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