

August 12, 2020

Q1FY21 Result Update

■ Change in Estimates | ■ Target | ■ Reco

Change in Estimates

	Current		Previous	
	FY22E	FY23E	FY22E	FY23E
Rating	BUY		BUY	
Target Price	83		83	
Sales (Rs. m)	1,02,801	1,14,565	1,02,801	1,14,565
% Chng.	-	-	-	-
EBITDA (Rs. m)	12,747	14,206	12,747	14,206
% Chng.	-	-	-	-
EPS (Rs.)	7.6	9.1	7.6	9.1
% Chng.	-	-	-	-

Key Financials - Standalone

Y/e Mar	FY20	FY21E	FY22E	FY23E
Sales (Rs. m)	82,188	84,570	1,02,801	1,14,565
EBITDA (Rs. m)	10,302	9,641	12,747	14,206
Margin (%)	12.5	11.4	12.4	12.4
PAT (Rs. m)	4,147	2,839	4,645	5,524
EPS (Rs.)	6.8	4.7	7.6	9.1
Gr. (%)	(34.4)	(31.5)	63.6	18.9
DPS (Rs.)	1.5	1.5	1.5	1.5
Yield (%)	4.8	4.8	4.8	4.8
RoE (%)	8.4	5.5	8.5	9.4
RoCE (%)	12.6	11.0	14.1	14.8
EV/Sales (x)	0.4	0.5	0.4	0.4
EV/EBITDA (x)	3.1	3.9	3.0	2.8
PE (x)	4.6	6.7	4.1	3.4
P/BV (x)	0.4	0.4	0.3	0.3

Key Data

NGCN.BO | NJCC IN

52-W High / Low	Rs.72 / Rs.16
Sensex / Nifty	38,370 / 11,308
Market Cap	Rs.19bn / \$ 254m
Shares Outstanding	610m
3M Avg. Daily Value	Rs.1485.9m

Shareholding Pattern (%)

Promoter's	19.31
Foreign	11.42
Domestic Institution	13.45
Public & Others	55.82
Promoter Pledge (Rs bn)	1.09

Stock Performance (%)

	1M	6M	12M
Absolute	(7.2)	(33.7)	(54.6)
Relative	(11.4)	(28.1)	(55.5)

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Execution ramps up

Quick Pointers:

- Secured orders worth ~Rs26bn in 1Q and targets total order inflows of Rs100bn in FY21, given strong pipeline.
- Order book (OB) stands comfortable at Rs279.2bn (3.9x TTM revenues). AP exposure stands at ~Rs44bn in OB, of which ~Rs30bn are active projects.
- Operations resumed across all project sites with labour at 50-60% pre-covid levels. Expect labour to reach 80-90% levels by end of Sep'20.

NCC posted decent set of numbers in a stressed scenario with revenues falling 46% YoY while EBITDA margins sustained at 9.8%. Company resumed operations in almost all project sites with operational capacity of 50-60% pre-covid levels and expects labour force to bounce-back to 80-90% by end of Sep'20 with a strong execution momentum from H2FY21E. Company's working capital levels have been sustained on the back of a) timely disbursements from State & Central govt authorities (except AP govt), b) availing Covid loan of Rs1.5bn at lower interest rate c) release of Bank Guarantees of Rs1.6bn d) receipt of Income Tax refunds of Rs1.2bn.

We believe that with vast experience and proven execution capabilities, the company can leverage rising opportunities in buildings, transportation, metros, defense and airports once scenario normalizes and awarding momentum returns. We expect revenue/PAT to grow by 12%/10% over FY20-23E. At CMP, the stock trades at a P/E of 6.7x/4.1x on FY21E/FY22E EPS and is trading at an EV of 3.9x/3x FY21E/FY22E EBITDA. We maintain BUY rating on the stock with a TP of Rs83.

Margins sustained by strong cost rationalization: Revenues declined 46% YoY to Rs11.8bn (PLe Rs6.8bn). Execution was higher than estimates as impact of nationwide lockdown on key projects was lower than anticipated. EBITDA declined 57% YoY to Rs1.2bn with EBITDAM surprising positively at 9.8% (above PLe of 0.8%) mainly due to higher revenues and better cost control measures. Adjusted PAT came in at Rs169mn (PLe loss of Rs1,593mn) on the back of higher execution, strong margins and income tax credit of Rs320mn in Q1FY21. Standalone debt increased by ~Rs1.4bn sequentially to Rs20.5bn as at Q1FY21.

Comfortable order book; strong inflows: The company secured orders worth ~Rs26bn during the quarter, taking its order book to Rs279.2bn as at 1QFY21. This translates an order book-to-sales ratio of 3.9x giving revenue visibility for next 2-3 years. Order book comprises of Buildings (47%), Water and Railways (24%), Roads (9%), Irrigation (7%), Mining (6%), Electrical division (6%) and others (1%). Govt of Andhra Pradesh projects in the order book stand at ~Rs44bn of which ~Rs30bn are active projects. With strong bid pipeline, the company targets total order inflows of Rs100bn in FY21E.

Exhibit 1: Quarterly Financials (Standalone): Cost control measures and tax reversal boost profitability

Y/e March (Rs mn)	Q1FY20	Q2FY20	Q3FY20	Q4FY20	Q1FY21	YoY gr. (%)	QoQ gr. (%)	FY20	FY19	YoY gr. (%)
Revenue	21,877	17,320	21,172	21,820	11,788	(46.1)	(46.0)	82,188	1,20,798	(32.0)
Total Revenues	21,877	17,320	21,172	21,820	11,788	(46.1)	(46.0)	82,188	1,20,798	(32.0)
Expenditure	19,211	14,990	18,672	19,014	10,631	(44.7)	(44.1)	71,887	1,06,568	(32.5)
as % of sales	87.8	86.5	88.2	87.1	90.2			87.5	88.2	(0.9)
Consumption of RM	17,388	13,326	16,813	17,421	9,445	(45.7)	(45.8)	64,949	99,305	(34.6)
as % of sales	79.5	76.9	79.4	79.8	80.1			79.0	82.2	(3.9)
Employee Cost	1,123	1,153	1,105	971	866	(23.0)	(10.9)	4,352	4,393	(0.9)
as % of sales	5.1	6.7	5.2	4.5	7.3			5.3	3.6	45.6
Other expenditure	699	511	754	622	321	(54.1)	(48.4)	2,586	2,870	(9.9)
as % of sales	3.2	3.0	3.6	2.9	2.7			3.1	2.4	32.4
EBITDA	2,666	2,330	2,500	2,805	1,156	(56.6)	(58.8)	10,302	14,230	(27.6)
Depreciation	437	449	450	439	435	(0.5)	(1.0)	1,775	1,494	18.8
EBIT	2,229	1,881	2,050	2,366	721	(67.6)	(69.5)	8,526	12,736	(33.1)
Other Income	250	703	319	241	326	30.5	35.7	1,513	1,183	27.9
Interest	1,259	1,308	1,418	1,195	1,159	(7.9)	(3.1)	5,179	4,513	14.8
PBT	1,221	1,277	951	1,412	-111	(109.1)	(107.8)	4,860	9,406	(48.3)
Total Tax	407	312	-381	375	-280	(168.8)	(174.7)	713	3,178	(77.6)
Adjusted PAT	813	965	1,332	1,037	169	(79.2)	(83.7)	4,147	6,228	(33.4)
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0.0	0.0	0	0	#DIV/0!
PAT after MI	813	965	1,332	1,037	169	(79.2)	(83.7)	4,147	6,228	(33.4)
Extra ordinary items	0	-165	-229	67	0	NA	0.0	-327	-589	(44.6)
Reported PAT	813	800	1,103	1,104	169	(79.2)	(84.7)	3,820	5,639	(32.3)
Adjusted EPS	1.4	1.6	2.2	1.7	0.3	(79.5)	(83.7)	6.7	10.2	(34.2)
Margins:						bps	bps			bps
EBIDTA	12.2	13.5	11.8	12.9	9.8	(237.7)	(304.7)	12.5	11.8	75.4
EBIT	10.2	10.9	9.7	10.8	6.1	(406.9)	(472.5)	10.4	10.5	(16.9)
EBT	5.6	7.4	4.5	6.5	(0.9)	(651.9)	(740.9)	5.9	7.8	(187.3)
PAT	3.7	4.6	5.2	5.1	1.4	(228.1)	(362.2)	4.6	4.7	(2.0)
Effective Tax rate	33.4	24.4	(40.0)	26.6	252.8	21942.1	22623.2	14.7	33.8	(1911.0)

Source: Company, PL

Exhibit 2: SoTP Valuation

Project/Business	Equity investment (Rs mn)	Valuation (Rs mn)	Rs/share	Valuation methodology
Value of standalone construction business	4,645	46,445	76.2	10x FY22 earnings
Value of international subsidiary				
Investments in real estate	3,458	1,383	2.3	0.5x invested book
Value accretion from Other Investments (Brindavan)	35	35	0.1	Value of Investments
Value accretion from roads, power and housing projects	5,488	2,744	4.5	0.5x invested book
Target Price			83	

Source: Company, PL

Exhibit 3: Key Assumptions

Rs mn	FY18	FY19	FY20	FY21E	FY22E	FY23E
Order inflow	2,20,013	2,07,448	-64,062	2,34,246	1,19,956	1,38,506
Revenues	75,593	1,20,798	82,188	84,570	1,02,801	1,14,565
Order book	3,25,320	4,11,970	2,65,720	4,15,395	4,32,550	4,56,490
Execution cycle (%)	30%	33%	24%	25%	24%	26%
Ob to sales (x)	4.30	3.41	3.23	4.91	4.21	3.98

Source: Company, PL

Concall Highlights

- Company resumed operations in almost all project sites which are currently operating at 50-60% pre-covid labour levels. Company expects labour force to reach 90% pre-covid levels by end of Sep'20 and strong execution momentum from H2FY21E.
- Revenues dipped 46% YoY to Rs11.8bn during Q1FY21 with EBITDA margins falling 57bps YoY to 9.8% as negative operating leverage kicked in.
 - Other income came at Rs326mn (up 30.5% YoY) as the company received interest on Income Tax refund of Rs50mn during the quarter.
 - NCC reported PAT of Rs169mn, on the back of Rs320mn Income tax credit received on completion of earlier years' assessment.
- NCC's order book stands at Rs279.2bn as of 1QFY21. This translates into an order book-to-sales ratio of 3.9x trailing revenues.
 - Order book comprises of Buildings (47%), Water and Railways (24%), Roads (9%), Irrigation (7%), Mining (6%), Electrical division (6%) and others (1%).
 - With strong bid pipeline, the company targets total order inflows of Rs100bn in FY21, of which orders worth Rs26bn were already bagged during Q1FY21.
 - Govt of Andhra Pradesh projects in the order book stand at ~Rs44bn of which ~Rs30bn are active projects.
- Standalone debt increased by ~Rs1.4bn sequentially to Rs20.5bn as at Q1FY21. The company availed moratorium on its loans from June-Aug'20 along with a Covid loan of Rs1.5bn at lower interest rate.
 - In the quarter, company had a cash balance of Rs3.3bn backed by receipt of Income tax refund of Rs1.2bn and improvement in collections.
- NCC was able to get Bank Guarantees of ~Rs1.6bn released, as per Government measures to support road contractors.
- Management indicated no delay in payments from State/Central governments authorities, except some delays from Andhra Pradesh Government.
- Groups companies' Loans & advances stands at Rs5.8bn while investment stands at Rs8.9bn, which are at similar levels on sequential basis.

Financials

Income Statement (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Net Revenues	82,188	84,570	1,02,801	1,14,565
YoY gr. (%)	(32.0)	2.9	21.6	11.4
Cost of Goods Sold	29,447	32,982	40,092	44,680
Gross Profit	52,741	51,588	62,709	69,885
Margin (%)	64.2	61.0	61.0	61.0
Employee Cost	4,352	4,229	5,140	5,728
Other Expenses	-	-	-	-
EBITDA	10,302	9,641	12,747	14,206
YoY gr. (%)	(27.6)	(6.4)	32.2	11.4
Margin (%)	12.5	11.4	12.4	12.4
Depreciation and Amortization	1,775	1,902	2,068	2,234
EBIT	8,526	7,739	10,680	11,972
Margin (%)	10.4	9.2	10.4	10.5
Net Interest	5,179	5,129	5,809	6,079
Other Income	1,513	1,184	1,336	1,489
Profit Before Tax	4,534	3,794	6,207	7,382
Margin (%)	5.5	4.5	6.0	6.4
Total Tax	713	955	1,562	1,858
Effective tax rate (%)	15.7	25.2	25.2	25.2
Profit after tax	3,820	2,839	4,645	5,524
Minority interest	-	-	-	-
Share Profit from Associate	-	-	-	-
Adjusted PAT	4,147	2,839	4,645	5,524
YoY gr. (%)	(33.4)	(31.5)	63.6	18.9
Margin (%)	5.0	3.4	4.5	4.8
Extra Ord. Income / (Exp)	(327)	-	-	-
Reported PAT	3,820	2,839	4,645	5,524
YoY gr. (%)	(32.3)	(25.7)	63.6	18.9
Margin (%)	4.6	3.4	4.5	4.8
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	3,820	2,839	4,645	5,524
Equity Shares O/s (m)	610	610	610	610
EPS (Rs)	6.8	4.7	7.6	9.1

Source: Company Data, PL Research

Balance Sheet Abstract (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
Non-Current Assets				
Gross Block	20,914	22,914	24,914	26,914
Tangibles	20,914	22,914	24,914	26,914
Intangibles	-	-	-	-
Acc: Dep / Amortization	10,431	12,333	14,401	16,635
Tangibles	10,431	12,333	14,401	16,635
Intangibles	-	-	-	-
Net fixed assets	10,483	10,581	10,513	10,279
Tangibles	10,483	10,581	10,513	10,279
Intangibles	-	-	-	-
Capital Work In Progress	148	148	148	148
Goodwill	-	-	-	-
Non-Current Investments	15,886	17,811	18,809	20,433
Net Deferred tax assets	2,055	2,055	2,055	2,055
Other Non-Current Assets	2,655	2,537	3,084	3,437
Current Assets				
Investments	-	-	-	-
Inventories	5,148	5,792	7,041	7,847
Trade receivables	26,180	30,121	33,798	37,665
Cash & Bank Balance	3,169	1,433	2,368	1,302
Other Current Assets	58,535	54,125	59,625	65,302
Total Assets	1,25,649	1,26,354	1,39,497	1,50,996
Equity				
Equity Share Capital	1,220	1,220	1,220	1,220
Other Equity	49,837	51,761	55,491	60,100
Total Network	51,056	52,981	56,711	61,320
Non-Current Liabilities				
Long Term borrowings	1,737	1,737	1,737	1,737
Provisions	-	-	-	-
Other non current liabilities	-	-	-	-
Current Liabilities				
ST Debt / Current of LT Debt	14,779	18,779	19,779	20,779
Trade payables	39,830	31,279	33,798	37,665
Other current liabilities	20,302	23,634	29,529	31,551
Total Equity & Liabilities	1,25,649	1,26,354	1,39,497	1,50,996

Source: Company Data, PL Research

Cash Flow (Rs m)

Y/e Mar	FY20	FY21E	FY22E	FY23E
PBT	4,534	2,610	4,870	5,893
Add. Depreciation	1,775	1,902	2,068	2,234
Add. Interest	5,179	5,129	5,809	6,079
Less Financial Other Income	1,513	1,184	1,336	1,489
Add. Other	(286)	-	-	-
Op. profit before WC changes	11,201	9,641	12,747	14,206
Net Changes-WC	(3,471)	(6,417)	(3,059)	(5,955)
Direct tax	(1,366)	(955)	(1,562)	(1,858)
Net cash from Op. activities	6,364	2,269	8,126	6,393
Capital expenditures	(879)	(2,000)	(2,000)	(2,000)
Interest / Dividend Income	826	-	-	-
Others	(1,590)	39	532	536
Net Cash from Inv. activities	(1,642)	(1,961)	(1,468)	(1,464)
Issue of share cap. / premium	-	-	-	-
Debt changes	(8)	4,000	1,000	1,000
Dividend paid	(1,086)	(915)	(915)	(915)
Interest paid	(4,728)	(5,129)	(5,809)	(6,079)
Others	(7)	-	-	-
Net cash from Fin. activities	(5,830)	(2,044)	(5,724)	(5,994)
Net change in cash	(1,107)	(1,736)	935	(1,065)
Free Cash Flow	4,924	269	6,126	4,393

Source: Company Data, PL Research

Key Financial Metrics

Y/e Mar	FY20	FY21E	FY22E	FY23E
Per Share(Rs)				
EPS	6.8	4.7	7.6	9.1
CEPS	9.7	7.8	11.0	12.7
BVPS	83.7	86.9	93.0	100.5
FCF	8.1	0.4	10.0	7.2
DPS	1.5	1.5	1.5	1.5
Return Ratio(%)				
RoCE	12.6	11.0	14.1	14.8
ROIC	11.2	8.4	10.9	11.2
RoE	8.4	5.5	8.5	9.4
Balance Sheet				
Net Debt : Equity (x)	0.3	0.4	0.3	0.3
Net Working Capital (Days)	151	170	148	149
Valuation(x)				
PER	4.6	6.7	4.1	3.4
P/B	0.4	0.4	0.3	0.3
P/CEPS	3.2	4.0	2.8	2.4
EV/EBITDA	3.1	3.9	3.0	2.8
EV/Sales	0.4	0.5	0.4	0.4
Dividend Yield (%)	4.8	4.8	4.8	4.8

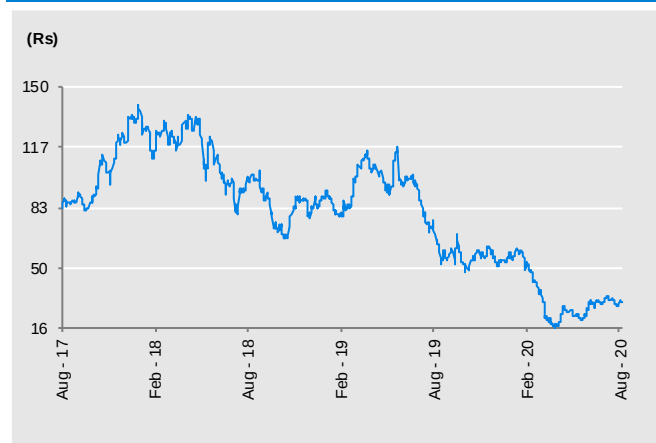
Source: Company Data, PL Research

Quarterly Financials (Rs m)

Y/e Mar	Q2FY20	Q3FY20	Q4FY20	Q1FY21
Net Revenue	17,320	21,172	21,820	11,788
YoY gr. (%)	(44.2)	(34.4)	(35.6)	(46.1)
Raw Material Expenses	5,890	8,079	7,839	4,077
Gross Profit	11,430	13,092	13,981	7,711
Margin (%)	66.0	61.8	64.1	65.4
EBITDA	2,330	2,500	2,805	1,156
YoY gr. (%)	(36.2)	(36.3)	(29.5)	(56.6)
Margin (%)	13.5	11.8	12.9	9.8
Depreciation / Depletion	449	450	439	435
EBIT	1,881	2,050	2,366	721
Margin (%)	10.9	9.7	10.8	6.1
Net Interest	1,308	1,418	1,195	1,159
Other Income	703	319	241	326
Profit before Tax	1,112	722	1,479	(111)
Margin (%)	6.4	3.4	6.8	(0.9)
Total Tax	312	(381)	375	(280)
Effective tax rate (%)	28.0	(52.7)	25.4	252.8
Profit after Tax	800	1,103	1,104	169
Minority interest	-	-	-	-
Share Profit from Associates	-	-	-	-
Adjusted PAT	965	1,332	1,037	169
YoY gr. (%)	(44.2)	(16.9)	(44.2)	(79.2)
Margin (%)	5.6	6.3	4.8	1.4
Extra Ord. Income / (Exp)	(165)	(229)	67	-
Reported PAT	800	1,103	1,104	169
YoY gr. (%)	(36.3)	(31.1)	(36.7)	(79.2)
Margin (%)	4.6	5.2	5.1	1.4
Other Comprehensive Income	-	-	-	-
Total Comprehensive Income	800	1,103	1,104	169
Avg. Shares O/s (m)	601	601	610	610
EPS (Rs)	1.6	2.2	1.7	0.3

Source: Company Data, PL Research

Price Chart



Recommendation History

No.	Date	Rating	TP (Rs.)	Share Price (Rs.)
1	07-Jul-20	BUY	83	33
2	30-May-20	BUY	83	23
3	07-Apr-20	BUY	83	17
4	07-Feb-20	BUY	98	51
5	03-Jan-20	BUY	108	58

Analyst Coverage Universe

Sr. No.	Company Name	Rating	TP (Rs)	Share Price (Rs)
1	ABB	Hold	874	913
2	Ahluwalia Contracts (India)	BUY	264	215
3	Ashoka Buildcon	BUY	147	64
4	Bharat Electronics	Hold	99	97
5	BHEL	Hold	34	41
6	Capacite's Infraprojects	BUY	162	111
7	Container Corporation of India	BUY	468	386
8	Cummins India	BUY	472	411
9	Engineers India	BUY	104	73
10	GE T&D India	Hold	71	82
11	H.G. Infra Engineering	BUY	259	200
12	IRB Infrastructure Developers	BUY	139	114
13	ITD Cementation India	BUY	67	52
14	J.Kumar Infraprojects	BUY	176	102
15	Kalpataru Power Transmission	BUY	261	258
16	KEC International	BUY	333	294
17	KNR Constructions	BUY	305	215
18	Larsen & Toubro	BUY	1,192	917
19	NCC	BUY	83	33
20	PNC Infratech	BUY	205	151
21	Power Grid Corporation of India	BUY	205	170
22	Sadbhav Engineering	BUY	87	49
23	Siemens	BUY	1,402	1,159
24	Thermax	Accumulate	798	760
25	Triveni Turbine	BUY	83	64
26	Voltamp Transformers	BUY	1,244	1,132

PL's Recommendation Nomenclature (Absolute Performance)

Buy	: > 15%
Accumulate	: 5% to 15%
Hold	: +5% to -5%
Reduce	: -5% to -15%
Sell	: < -15%
Not Rated (NR)	: No specific call on the stock
Under Review (UR)	: Rating likely to change shortly

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