

## Retail Equity Research (South India Focus)

# NCC Ltd


### Construction & Engineering

BSE CODE : 500294      NSE CODE: NCC  
BLOOMBERG CODE: NJCC:IN      SENSEX : 38,310

**BUY**

12M Investment Period

Rating as per Small Cap

**CMP Rs. 32    TARGET Rs. 42    RETURN 34%**   
(Closing: 13-08-20)

**KEY CHANGES:**

**TARGET** 

**RATING** 

**EARNINGS** 

#### Comfortable order book, awaiting a pickup in execution...

NCC Limited (NCC) is one of the largest well diversified construction companies in India with a foothold in every segment of construction sector.

- Lockdown impacted execution, Q1FY21 revenue declined by 46% YoY. Monsoon & labour availability to cast cloud over execution in the near term.
- EBITDA margin declined by 238bps YoY to 9.8% due to subdued execution and fixed overhead expenses while sub-contracting & other expenses reduced by more than 50% YoY.
- Order book remain healthy at Rs27,916cr (3.9x TTM revenue) supported by strong inflow of Rs2,592cr and NCC targets an inflow of Rs.10,000cr in FY21.
- Adj. PAT declined by 79% YoY due to lower volume of turnover and weak margins.
- We reduce FY21E/22E revenue estimate by 10%/5% respectively due to slow pace in execution.
- We maintain Buy rating due to strong order book and cheap valuation with a TP of Rs42, based on a P/E of 10x on FY22E earnings.

#### Bottlenecks in execution...

Q1FY21 revenue declined by 46.1% YoY to Rs1,179cr as Covid led lockdown impacted projects execution. Availability of labour and continuing monsoon cast cloud over execution. Currently most of the sites are opened however execution run rate yet to achieve the pre-covid level. The management expected that execution efficiency to achieve 90% only by September end. Affordable housing projects work in AP was stopped due to delay in payments from Government. The state governments projects constitute 60% in order book. Apart from AP projects, the payments from other state governments are stable. Covid led difficulty will have an overall impact on execution in H1FY21. However, projects like Mumbai-Nagpur Expressway project, AIIMS projects, Lucknow airport are likely to be key growth drivers in FY21E.

#### Healthy order book ...

NCC's order book remains healthy at Rs27,916cr (3.9x TTM revenue) supported by strong order inflow of Rs2592cr in Q1FY21. Govt. of Andhra Pradesh orders is at Rs4,400cr of which Rs3,000cr are under execution. The management is expecting that tendering activity to pick up and NCC targets an order inflow of Rs.10,000cr in FY21. Currently, almost all of the projects sites are operational with 50% -60% workforce. NCC availed the benefit of moratorium on its Rs1,200cr loan from June to August 2020. The company's standalone net debt increased by Rs141cr in Q1FY21 to Rs1,800cr.

#### Margins declined...

In Q1FY21, EBITDA margin declined by 238bps YoY at 9.8% due to non-absorption of fixed cost with lower volume of turnover. Additionally, fall in sub-contracting expenses (52.7% YoY) and other expenses (54.1% YoY) add some cushion on margins. The management pointed that Q2FY21 margins will be better than current quarter, however, we expect that challenges to absorb fixed overheads is likely to continue in the near term. Adj.PAT de-grew by 79% YoY to Rs17cr and we reduce FY21E/FY22E earnings by 16%/10% respectively.

#### Valuations

NCC's comfortable order book provides visibility for the coming years. However, continuing monsoon and unavailability of labour may impact near term execution. We expect most of the negatives are factored in current stock price. We value NCC at a P/E of 10x on FY22E earnings and maintain our Buy rating with a target of Rs42.

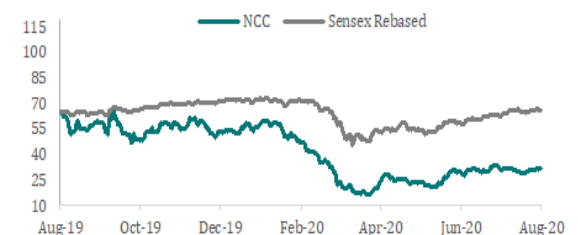
#### Company Data

Market Cap (cr)	₹ 1,898
Enterprise Value (cr)	₹ 3,550
Outstanding Shares (cr)	60.1
Free Float	80.69%
Dividend Yield	2.60%
52 week high	₹ 71
52 week low	₹ 16
6m average volume (cr)	0.6
Beta	1.4
Face value	₹ 2

Shareholding (%)	Q3FY20	Q4FY20	Q1FY21
Promoters	18.11	19.57	19.31
FII's	17.73	14.67	11.42
MFs/Insti	24.08	18.51	13.45
Public	40.08	47.25	55.82
Total	100.0	100.0	100.0
Promoter pledge%	37.18	41.61	42.15

Price Performance	3 month	6 Month	1 Year
Absolute Return	32%	-33%	-51%
Absolute Sensex	23%	-7%	3%
Relative Return*	9%	-26%	-54%

over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	8,219	6,808	8,668
Growth (%)	-32.0	-17.2	27.3
EBITDA	1,030	756	979
EBITDA Margin(%)	12.5	11.1	11.3
PAT Adj.	415	165	254
Growth (%)	-33.4	-60.1	53.5
Adj.EPS	6.9	2.8	4.2
Growth (%)	-33.4	-60.1	53.5
P/E	4.1	11.5	7.5
P/B	0.3	0.3	0.3
EV/EBITDA	3.2	4.9	3.9
ROE (%)	8.4	3.2	4.8
D/E	0.3	0.3	0.4

Antu Eapen Thomas  
Research Analyst

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q1FY21	Q1FY20	YoY Growth %	Q4FY20	QoQ Growth %
Sales	1,179	2,188	-46.1	2,182	-46.0
EBITDA	116	267	-56.6	281	-58.8
EBITDA margins %	9.8	12.2	-238bps	12.9	-305bps
Depreciation	44	44	-0.5	44	-1.0
EBIT	72	223	-67.6	237	-69.5
Interest	116	126	-7.9	120	-3.1
Other Income	33	25	30.5	24	35.7
Exceptional Items					
PBT	-11	122	-109.1	148	-107.5
Tax	-28	41	-168.8	38	-174.7
Share of profit from Associate					
Minority Interest					
Reported PAT	17	81	-79.2	110	-84.7
Adjustments	-	-		-7	
Adj PAT	17	81	-79.2	104	-83.7
No. of Shares	60.1	60.1		60.1	
EPS (Rs)	0.3	1.5	-79.2	1.9	-83.7

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY21E	FY22E	FY21E	FY22E	FY21E	FY22E
Revenue	7,581	9,098	6,808	8,668	(10.2)	(4.7)
EBITDA	849	1,046	756	979	(11.0)	(6.4)
Margins (%)	11.2	11.5	11.1	11.3	(10)bps	(20)bps
Adj. PAT	196	282	165	254	(15.7)	(10.0)
EPS	3.3	4.7	2.8	4.2	(15.7)	(10.0)

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales	7,559	12,080	8,219	6,808	8,668
% change	(4)	60	(32)	(17)	27
EBITDA	855	1,423	1,030	756	979
% change	25	66	(28)	(27)	30
Depreciation	117	149	178	200	229
EBIT	737	1,274	853	555	750
Interest	379	451	518	483	540
Other Income	116	118	151	150	130
PBT	368	882	453	222	341
% change	38	140	(49)	(51)	54
Tax	81	318	71	57	87
Tax Rate (%)	22	36	16	26	26
Reported PAT	287	564	382	165	254
Adj.*	(107)	(59)	(33)	0	0
Adj. PAT	393	623	415	165	254
% change	125	58	(33.4)	(60.1)	53.5
No. of shares (cr)	60	60	61	61	61
Adj EPS (Rs)	7	10	7	3	4
% change	125	58	(33.4)	(60.1)	53.5
DPS (Rs)	0.2	0.2	0.2	0.2	0.2

BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	59	299	317	409	475
Accounts Receivable	4,689	3,154	2,618	2,425	2,707
Inventories	1696	513	515	519	570
Other Cur. Assets	2,382	6,741	6,952	6,305	7,195
Investments	1,024	1,119	1,100	1,111	1,144
Gross Fixed Assets	1,550	2,060	2,410	2,510	2,610
Net Fixed Assets	748	1,109	1,047	1,186	1,059
CWIP	23	14	15	10	10
Intangible Assets	2	1	1	1	1
Def. Tax (Net)	179	173	206	184	182
Other Assets	0	37	0	0	0
Total Assets	10,801	13,159	12,770	12,150	13,344
Current Liabilities	5,202	6,314	5,591	4,745	5,604
Provisions	44	62	86	75	83
Debt Funds	1,164	1,736	1,652	1,802	1,922
Other Liabilities	149	290	337	300	300
Equity Capital	120	120	122	122	122
Reserves & Surplus	4,122	4,637	4,984	5,106	5,314
Shareholder's Fund	4,242	4,757	5,106	5,228	5,436
Total Liabilities	10,801	13,159	12,770	12,150	13,344
BVPS	76	86	92	94	98

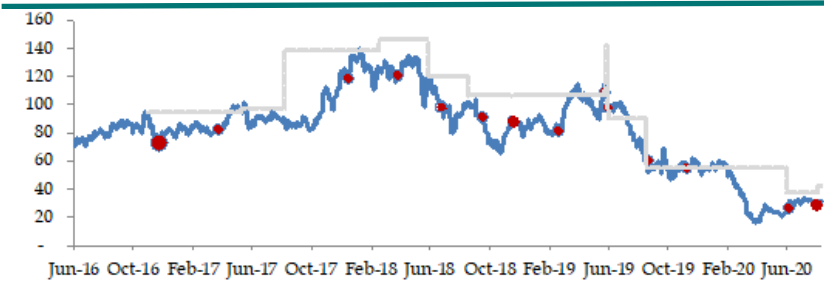
CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Net inc. + Depn.	485	1,031	631	422	570
Non-cash adj.	250	140	414	448	455
Changes in W.C	(331)	(430)	(329)	(57)	(356)
C.F. Operation	447	859	867	964	798
Capital exp.	(316)	(518)	(349)	(104)	(100)
Change in inv.	(76)	(37)	19	(11)	(33)
Other invest.CF	3	(37)	37	0	0
C.F - Investment	(359)	(710)	(445)	(265)	(263)
Issue of equity	0	0	0	0	0
Issue/repay debt	(538)	573	(85)	150	120
Dividends paid	(27)	(49)	(50)	(43)	(46)
Other finance.CF	0	19	248	(231)	(2)
C.F - Finance	(137)	91	(404)	(607)	(468)
Chg. in cash	(50)	240	18	92	67
Closing cash	59	299	317	409	475

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab & Return					
EBITDA margin (%)	11.3	11.8	12.5	11.1	11.3
EBIT margin (%)	9.8	10.5	10.4	8.2	8.7
Net profit mgn.(%)	5.2	5.2	5.0	2.4	2.9
ROE (%)	10.2	13.8	8.4	3.2	4.8
ROCE (%)	8.1	11.7	11.0	7.0	8.2
W.C & Liquidity					
Receivables (days)	202.6	118.5	128.2	135.2	108.1
Inventory (days)	95.9	40.6	28.9	34.9	28.7
Payables (days)	270.3	211.6	334.5	348.5	272.4
Current ratio (x)	1.7	1.7	1.8	2.0	1.9
Quick ratio (x)	0.9	0.5	0.5	0.5	0.5
Turnover &Leverage					
Gross asset T.O (x)	5.3	6.7	3.7	2.8	3.4
Total asset T.O (x)	0.8	1.0	0.6	0.5	0.7
Int. covge. ratio (x)	1.9	2.8	1.6	1.1	1.4
Adj. debt/equity (x)	0.3	0.4	0.3	0.3	0.4
Valuation					
EV/Sales (x)	0.4	0.3	0.4	0.5	0.4
EV/EBITDA (x)	3.6	2.6	3.4	4.9	3.9
P/E (x)	4.8	3.0	4.6	11.5	7.5
P/BV (x)	0.4	0.4	0.3	0.3	0.3

Recommendation Summary (Last 3 years)



Source: Bloomberg, Geojit Research.

Investment Criteria

Ratings	Large caps	Midcaps	Small caps
Buy	Upside is above 10%	Upside is above 15%	Upside is above 20%
Accumulate	-	Upside is between 10% - 15%	Upside is between 10% - 20%
Hold	Upside is between 0% - 10%	Upside is between 0% - 10%	Upside is between 0% - 10%
Reduce/sell	Downside is more than 0%	Downside is more than 0%	Downside is more than 0%
Not rated	-		
<b>Definition:</b>			
<b>Buy:</b> Acquire at Current Market Price (CMP), with the target mentioned in the research note.			
<b>Accumulate:</b> Partial buying or to accumulate as CMP dips in the future.			
<b>Hold:</b> Hold the stock with the expected target mentioned in the note.			
<b>Reduce:</b> Reduce your exposure to the stock due to limited upside.			
<b>Sell:</b> Exit from the stock.			
To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.			
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