

Decent performance amid tough times...

NCC's topline came in at ₹ 1179 crore, down 46% YoY (albeit better than estimated 51% decline), impacted by slower execution amid the lockdown led restrictions and labour unavailability due to Covid-19. The consequent margin, at 9.8% (down 240 bps YoY), was driven by cost rationalisation in employee and admin costs. PAT came in at ₹ 16.9 crore, aided by higher other income and tax credit of ₹ 32 crore for FY19 tax assessment.

Healthy order inflows; no revenue guidance amid uncertainty

NCC received orders worth ₹ 2592 crore (largely water segment) in Q1FY21 and order book was at ₹ 27,916 crore (book to bill ratio of 3.9x). L1 orders are at ₹ 2000 crore wherein letter of award is likely soon. The company expects the ordering activity to remain robust and expects order inflows of ₹ 10,000 crore in FY21. The AP order book is now at ₹ 4,442 crore (~₹ 3000 crore is active order), with one order of ₹ 470 crore likely to be cancelled. Net outstanding from AP order is ~₹ 898 crore. On the execution front, while work has started at almost all the sites, activity levels are at 70-80% of pre-Covid levels. Therefore, they have refrained from giving any topline guidance for FY21 considering the business uncertainties. The company indicated that Q2 revenues would be ₹ 250-300 crore higher than Q1. We bake in ~8% decline in FY21 revenues and expect 150 bps YoY margins decline at 11%, given the weak execution. However, on a depressed base, revenues are expected to witness a recovery with 15% growth in FY22 with 11.5% margins.

Debt increase marginally; arbitration receipt expected soon

NCC's standalone gross debt was up by ~₹ 141 crore as the company availed Covid-19 loans of ₹ 150 crore during the quarter, available at ~7.5% interest rate. Cash flows were also aided by I-T refund of ₹ 120 crore. The company has availed the moratorium for June to August period from banks on debt of ~₹ 1200 crore to maintain liquidity. In terms of arbitration, NCC expects the Sembcorp issue to be resolved by September and expects net receipts of ₹ 600-650 crore from the same. Furthermore, the company is also looking at out of court settlement with TAQA, where the overall liability is likely be within ₹ 100 crore, that it has already provided for.

Valuation & Outlook

Execution is likely to pick up only in H2FY21 gradually while order inflows, cost rationalisation have been a positive surprise. The controlled debt levels also remain a solace. We highlight that execution traction and dues from AP will be key monitorables, going ahead. We also believe receipts from arbitration will be a big boost to liquidity amid the tough times. We note that NCC is currently trading at attractive 6.4x FY22E P/E. However, we would turn constructive only when we see an improvement in execution. We maintain **HOLD** rating with a revised TP of ₹ 35/share (4x FY22E EV/EBITDA).

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	211.4	301.9	-11.1%
EPS (₹)	4.8	9.4	6.3	3.5	5.0	
P/E (x)	6.6	3.4	5.0	9.1	6.4	
EV/EBITDA(x)	3.7	2.5	3.4	4.2	3.7	
RoNW (%)	6.8	11.9	7.5	4.0	5.4	
RoCE (%)	15.9	21.2	14.7	10.7	12.5	

Source: Company, ICICI Direct Research



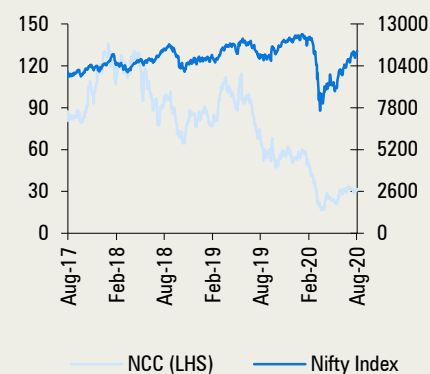
Particulars

Particular	Amount
Market Capitalization	1,927.1
Total Debt (₹ crore)	2,051.0
Cash (₹ crore)	334.0
EV (₹ crore)	3,644.1
52 week H/L (₹)	72 / 16
Equity capital	122.0
Face value	2.0

Key Highlights

- Revenues de-grew 46% YoY to ₹ 1179 crore on account of weak execution due to Covid-19. Received order inflows worth ₹ 2592 crore during the quarter
- Maintain **HOLD** with revised target price of ₹ 35

Share price chart



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Exhibit 1: Variance analysis

Year	Q1FY21E	Q1FY21E	Q1FY20	YoY (%)	Q4FY20	QoQ (%)	Comments
Net Sales	1,178.8	1,062.9	2,187.7	-46.1	2,182.0	-46.0	Topline de-grew primarily on account of weak execution and Covid-19 impact
Other Income	32.6	15.0	25.0	30.5	24.1	35.7	
Total Construction Expenses	588.0	478.9	985.7	-40.3	1,091.0	-46.1	
Employee cost	86.6	85.0	112.3	-23.0	97.1	-10.9	
Other expenditure	388.6	397.5	823.0	-52.8	713.3	-45.5	
EBITDA	115.6	101.4	266.6	-56.6	280.5	-58.8	
EBITDA Margin (%)	9.8	9.5	12.2	-238 bps	12.9	-305 bps	Cost rationalisations led to better than expected margins
Depreciation	43.5	43.9	43.7	-0.5	43.9	-1.0	
Interest	115.9	120.0	125.9	-7.9	119.5	-3.1	
Exceptional items	0.0	0.0	0.0	NA	6.7	NA	
PBT	-11.1	-47.5	122.1	-109.1	147.9	-5,476.3	
Taxes	-28.0	-12.0	40.7	-168.8	37.5	-174.7	
PAT	16.9	-35.5	81.3	-79.2	110.4	-84.7	Reported PAT was aided by higher other income and tax credit of ₹32 crore for FY 19 tax assessment

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

	FY19	FY20	FY21E			FY22E			
(₹Crore)			Old	New	Change	Old	New	% Change	
Revenue	12,079.8	8,218.8	7,592.3	7,592.3	0.0	8,740.3	8,740.3	0.0	Maintain the estimates
EBITDA	1,423.0	1,030.2	831.7	831.7	0.0	1,004.6	1,004.6	0.0	
EBITDA Margin (%)	11.8	12.5	11.0	11.0	0 bps	11.5	11.5	0 bps	
PAT	563.9	382.0	186.7	211.4	13.2	301.9	301.9	0.0	
EPS (₹)	9.4	6.3	3.1	3.5	13.2	5.0	5.0	0.0	

Source: Company, ICICI Direct Research

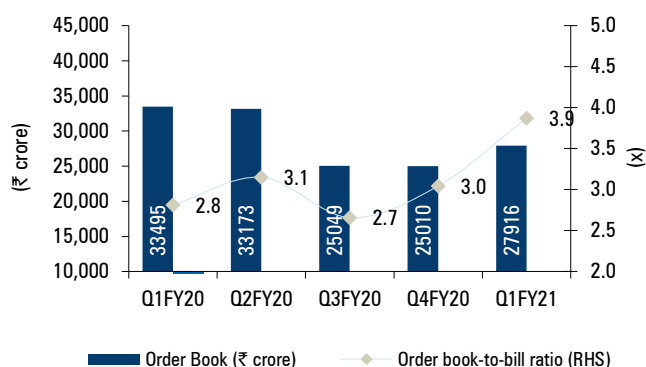
Exhibit 3: Assumptions

	FY21E				FY22E			
₹crore	FY17	FY18	FY19	FY20 Current	Earlier	Current	Earlier	
Domestic Order Inflow	9,226	23,266	25,612	7,203	8,000	8,000	11,000	11,000
Domestic Order book	17,126	30,026	39,216	25,010	25,418	25,418	27,678	27,678
Execution rate- Average	46.1	25.2	30.8	32.9	29.9	29.9	31.6	31.6

Source: Company, ICICI Direct Research

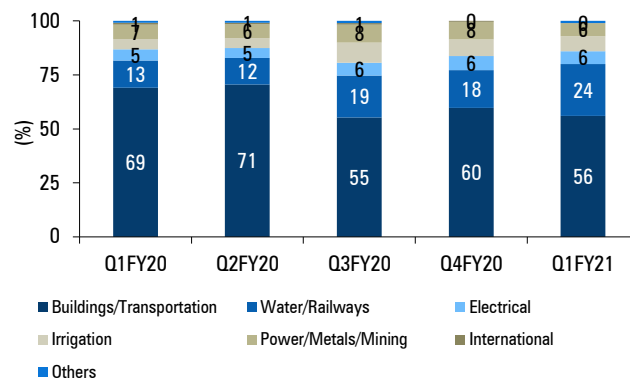
Company Analysis

Exhibit 4: Quarterly orderbook trend



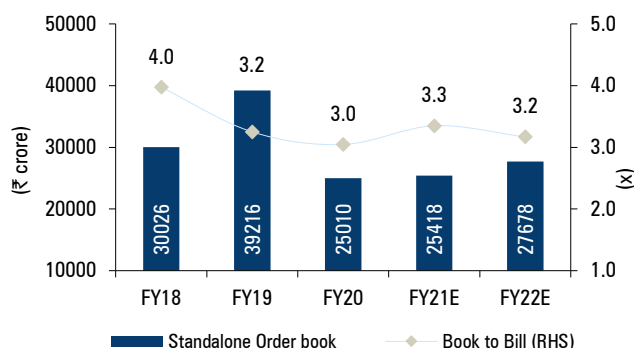
Source: Company, ICICI Direct Research

Exhibit 5: Orderbook composition



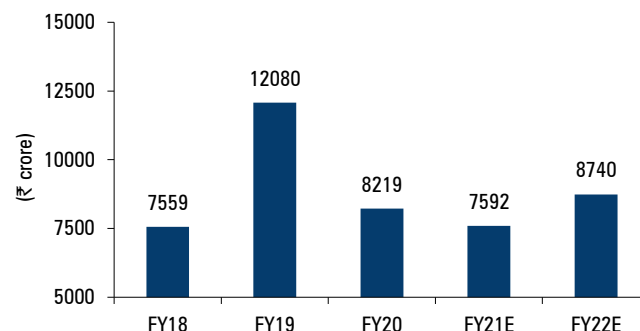
Source: Company, ICICI Direct Research

Exhibit 6: Annual orderbook trend



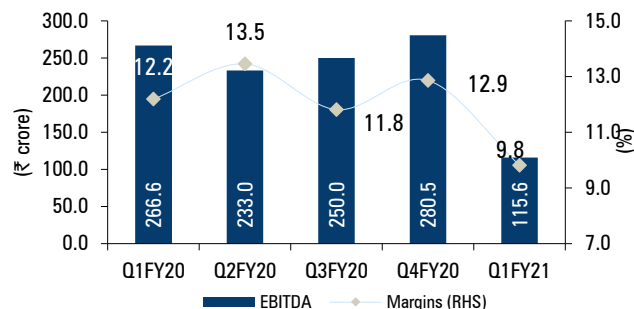
Source: Company, ICICI Direct Research

Exhibit 7: Annual revenue trend



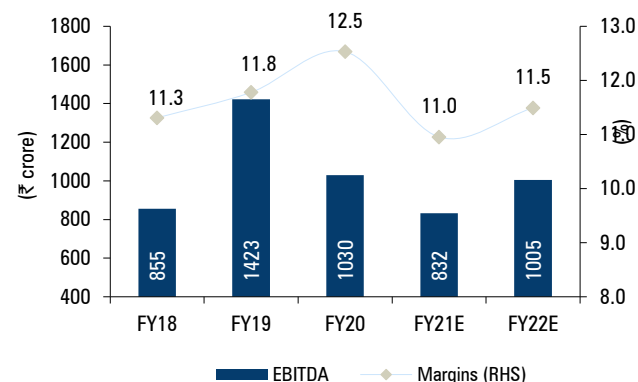
Source: Company, ICICI Direct Research

Exhibit 8: Quarterly EBITDA trend



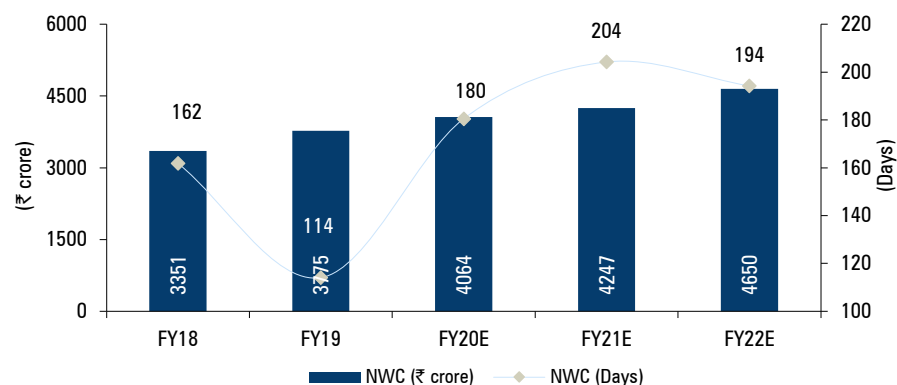
Source: Company, ICICI Direct Research

Exhibit 9: Annual EBITDA trend



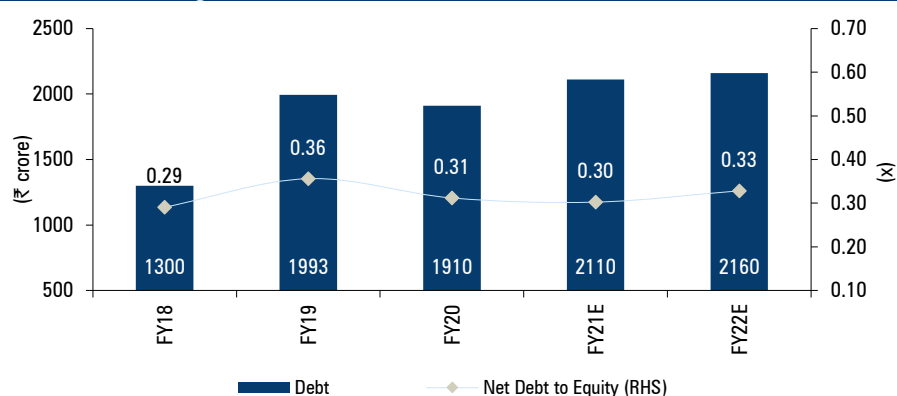
Source: Company, ICICI Direct Research

Exhibit 10: Net working capital (NWC) trend



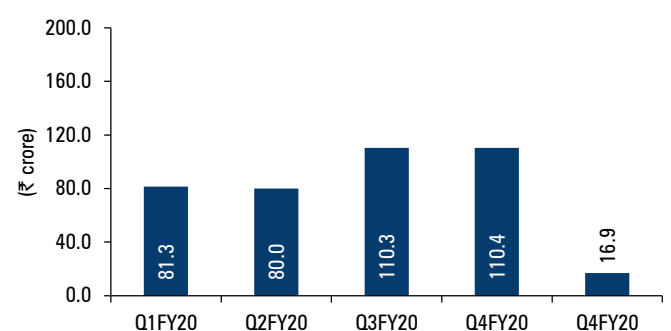
Source: Company, ICICI Direct Research

Exhibit 11: Leverage trend



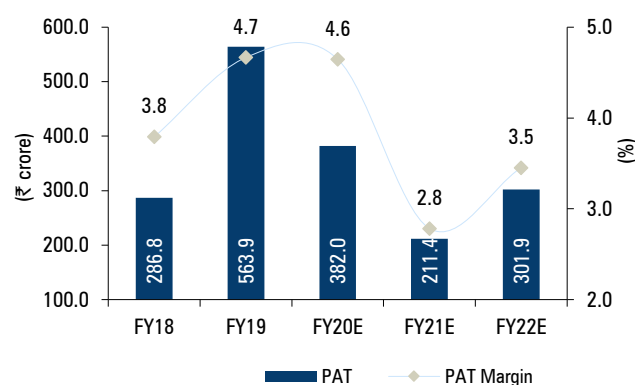
Source: Company, ICICI Direct Research

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 Expense	4,763.6	2,944.7	2,740.8	3,099.3
Employee benefit expe	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 expens	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	37.5	100.6
PAT	563.9	382.0	211.4	301.9
EPS	9.4	6.3	3.5	5.0

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement ₹ crore

₹crore	FY19	FY20	FY21E	FY22E
Profit after Tax	563.9	382.0	211.4	301.9
Depreciation	149.4	177.5	177.7	194.7
Prov for Taxes	317.8	71.3	37.5	100.6
Cash Flow before wc chang	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)	(37.5)	(100.6)
Net CF from op. activities	125.4	232.8	206.4	93.9
(Purchase)/Sale of Fixed As:	(499.9)	(117.8)	(200.0)	(250.0)
(Purchase)/Sale of Investme	(37.0)	19.3	-	-
Net CF from inv. activities	(536.8)	(98.5)	(200.0)	(250.0)
Proceeds from Secured Borr	647.3	(83.3)	200.0	50.0
Proceeds from Unsecured B	46.0	-	-	-
Net CF from fin. activities	644.5	(116.5)	183.1	(10.4)
Net Cash flow	233.1	17.9	189.5	(166.5)
Opening Cash	65.9	299.0	316.9	506.3
Closing Cash	299.0	316.9	506.3	339.8

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	5,178.2	5,419.7
Total Shareholders fund	4,756.8	5,105.6	5,300.1	5,541.7
Total Debt	1,993.3	1,910.0	2,110.0	2,160.0
Other Non-current Liabili	-	-	-	-
Deferred Tax Liability	(172.6)	(205.5)	(205.5)	(205.5)
Source of Funds	6,577.4	6,810.1	7,204.6	7,496.2
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	506.3	339.8
Other Current Assets	6,020.2	6,091.9	5,366.6	6,178.1
Total Current Assets	10,482.8	10,136.3	9,721.1	10,828.1
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	4,753.8	4,990.0
Application of Funds	6,577.4	6,810.1	7,204.6	7,496.2

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios

₹crore	FY19	FY20	FY21E	FY22E
Per Share Data				
Reported EPS	9.4	6.3	3.5	5.0
Cash EPS	11.9	9.2	6.4	8.1
BVPS	79.2	83.7	86.9	90.9
Operating Ratios				
EBITDA / Net Sales	11.8	12.5	11.0	11.5
PAT / Net Sales	4.7	4.6	2.8	3.5
Return Ratios				
RoE	11.9	7.5	4.0	5.4
RoCE	21.2	14.7	10.7	12.5
RoIC	20.3	13.2	9.8	11.3
Valuation Ratios				
EV / EBITDA	2.5	3.4	4.2	3.7
P/E	3.4	5.0	9.1	6.4
EV / Net Sales	0.3	0.4	0.5	0.4
Market Cap / Sales	0.2	0.2	0.3	0.2
Price to Book Value	0.4	0.4	0.4	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

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Reduce: -15% to -5%;

Sell: <-15%



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