

NCC

Positive surprise on margins

With Rs 15.4bn of revenue reported, NCC missed our estimate by 12.8%. However, it surprised on EBITDA margin front, owing to cost rationalisation initiatives. With order wins of Rs 30bn during the quarter, the orderbook now stands at Rs 294bn. Management expects capacity utilisation to reach 90% by November-end. We maintain BUY on NCC with a target price of Rs 60/sh as (1) core EPC valuation is moderate at 8x Sep-22E EPS and (2) there is improved visibility on net executable orderbook after removal/descoping of AP orders (3.6x book to bill ratio on FY20 revenue). Key risks to our estimates: (1) deterioration in NWC days and (2) weak real estate monetisation.

- **Execution picks up post weak 1QFY21:** During 2QFY21, NCC registered revenue of Rs 15.4bn (12.8% miss), as labour has picked up from ~30% in May to ~75-80% in Oct-20, to normalise to 90% in 3QFY21E. EBITDA came in at Rs 2.1bn (20% beat), despite revenue miss. EBITDA margin (13.6%, +16/+381bps YoY/QoQ, vs estimate of 9.9%) is higher QoQ on account of reduction in (1) material expenses by 184bps QoQ and (2) employee expenses by 198bps QoQ. Consequently, RPAT at Rs 584mn was 83% ahead of our estimate. NCC is targeting Rs 50bn topline in 1HFY21 to reach FY21 guidance of Rs 77bn, with an EBITDA margin of ~12-13%.
- **Orderbook (OB) at Rs294bn:** NCC has Rs 294bn of order backlog as of 2QFY21 end. Buildings/Water & Railways accounted for 46/25% of the OB, followed by Roads, Electrical, Irrigation and Mining at 6-8% each. NCC secured new orders of Rs 29.6bn during 2QFY21, mostly across Buildings, Water & Irrigation divisions. Another Rs 8.3bn order was bagged in October-20, taking total order inflows to Rs 63bn during the first seven months. NCC is already L1 in projects worth Rs 20bn. Hence, it is likely to meet guidance of Rs ~100bn orders, as subdued tendering activity in 1HFY21 picks up in 2HFY21. The entire order book is spread between state and central government orders (60:40 mix). Bid pipeline includes Rs 190bn Central Vista buildings ordering.
- **Balance sheet remains stable:** Debt decreased by Rs ~470mn to Rs ~20bn (net D/E at 0.39x) and should come down by another Rs 2bn to Rs ~18bn by FY21 as per NCC's current projections. Liquidity has not been a challenge, and borrowing cost has been coming down. Of the total limits of Rs 132bn, utilisation levels stand at 88% or Rs 84bn for BG limits, and 50% for the Rs 10bn LC limits. NCC has CC limits of Rs 21bn, with utilisation at Rs 15.6bn. Payments from all the state governments have been stable, except AP government. AP outstanding stands at Rs 10.2bn, of which Rs 1.9bn is stuck in capital city-related issue, and rest is in execution/retention stage. Rs 1.6bn was received over 2QFY21 and Oct-20. Sembcorp issue is not yet resolved. Exposure to group entities is expected to come down from Rs 14bn (Rs 25bn in FY15) currently to Rs 10bn in two years.

Quarterly/annual financial summary

YE March (Rs mn)	2Q FY21	2Q FY20	YoY (%)	1Q FY21	QoQ (%)	FY20	FY21E	FY22E	FY22E
Net Sales	15,408	17,320	(11.0)	11,788	30.7	82,188	70,791	89,422	1,10,289
EBITDA	2,098	2,330	(10.0)	1,156	81.4	10,302	7,753	10,194	12,683
APAT	584	520	12.2	169	245.0	4,147	1,434	3,349	4,696
Diluted EPS (Rs)	1.0	0.9	12.2	0.28	245.0	6.8	2.4	5.5	7.7
P/E (x)						5.3	15.3	6.5	4.7
EV / EBITDA (x)						3.7	4.8	3.7	2.8
RoE (%)						8.4	2.8	6.2	8.2

Source: Company, HSIE Research, Standalone financials

BUY

CMP (as on 10 Nov 2020)	Rs 36
Target Price	Rs 60
NIFTY	12,631

KEY CHANGES	OLD	NEW
Rating	BUY	BUY
Price Target	Rs 60	Rs 60
EPS	FY21E	FY22E
change %	-	-

KEY STOCK DATA

Bloomberg code	NJCC IN
No. of Shares (mn)	610
MCap (Rs bn) / (\$ mn)	22/297
6m avg traded value (Rs mn)	571
52 Week high / low	Rs 70/16

STOCK PERFORMANCE (%)

	3M	6M	12M
Absolute (%)	17.8	53.9	(38.2)
Relative (%)	4.4	17.2	(45.6)

SHAREHOLDING PATTERN (%)

	June-20	Sep-20
Promoters	19.31	19.68
FIs & Local MFs	13.41	12.32
FPIs	11.42	9.80
Public & Others	55.86	58.20
Pledged Shares	5.7	5.16

Source : BSE

Pledged shares as % of total shares

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