

## Decent performance amid challenging times

NCC reported a decent set of Q2FY21 numbers. Topline declined 11% YoY to ₹ 1,541 crore, largely impacted by slower execution amid disruptions caused by Covid-19 pandemic and heavy monsoon. However, various cost measures initiatives drove operating margin performance (to 13.6%, up 16 bps YoY, 381 bps QoQ. Reported PAT of ₹ 58.4 crore (down 27% YoY) was better than our estimate led by operating profit beat. We highlight that NCC had booked ₹ 44.2 crore in 'other income' as profit against sale of land, and made provisions worth ₹ 16.5 crore for impairment of investment in Q2FY20. Adjusted for the same, PAT decline was merely 5% YoY.

## Order book remains robust; execution pace set to improve

NCC's order book at the end of September 2020 remains elevated at ₹ 29,362 crore (book to TTM bill ratio: 4.2x). In addition, the company secured orders worth ₹ 833 crore in October 2020, which has strengthened its order book further. Going forward, the management expects total order inflows to surpass ₹ 10,000 crore in FY21 with continued momentum being witnessed in the buildings, roads, and water segments. On the execution front, NCC is currently operating at ~80% efficiency and is likely improve further to ~85-90% by Q3 FY21-end, and at normalised level during Q4FY21. For FY21, the company has guided for ₹ 7,700 crore of topline and ~12.5% of operating margin. We largely maintain our FY21 revenue estimates and raise our margins estimate based on strong showing and management guidance. Post a decline of 7.6% in FY21 revenues, they are expected to witness a recovery with 15% growth in FY22.

## Debt reduction key positive; likely to decline further

NCC has managed to reduce its standalone debt by ₹ 47 crore QoQ to ₹ 2,003 crore. The management expects it to come down by another ₹ 200-300 crore by FY21-end - to be backed by better collections. However, its debtor days remains at an uncomfortable level of 170 days mainly due to delays in payment from various state governments. Amid uncertain time of Covid-19 pandemic with state government's tight fiscals, we do not expect drastic decline in working capital/debtor days in the near term.

## Valuation & Outlook

Labour migration and supply chain disruption has largely impacted NCC's performance during H1FY21. Going ahead, we expect a gradual recovery from H2FY21 with key solace being controlled debt levels. We note that NCC is currently trading at 6.2x FY22E P/E. However, we would turn constructive only when we witness an improvement in working capital. We assign HOLD recommendation with a target price of ₹ 40/share (4x FY22E EV/EBITDA).



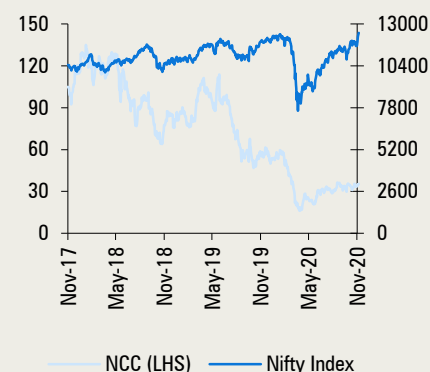
### Particulars

Particular	Amount
Market Capitalization	2,201.6
Total Debt (₹ crore)	2,003.0
Cash (₹ crore)	322.3
EV (₹ crore)	3,882.3
52 week H/L (₹)	70 / 16
Equity capital	122.0
Face value	2.0

### Key Highlights

- Revenues de-grew 11% YoY to ₹ 1,541 crore on account of Covid 19 and extended monsoon but margins expanded by 16 bps YoY and 381 bps QoQ to 13.6%.
- Maintain HOLD with target price of ₹ 40/share

### Share price Chart



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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	907.6	1,052.3	1.1%
EBITDA Margin (%)	11.3	11.8	12.5	12.0	12.0	
PAT	286.8	563.9	382.0	301.4	352.7	-3.9%
EPS (₹)	4.8	9.4	6.3	4.9	5.8	
P/E (x)	7.6	3.8	5.8	7.3	6.2	
EV/EBITDA(x)	4.0	2.7	3.7	4.0	3.7	
RoNW (%)	6.8	11.9	7.5	5.6	6.2	
RoCE (%)	15.9	21.2	14.7	11.6	13.0	

Source: Company, ICICI Direct Research

**Exhibit 1: Variance analysis**

Year	Q2FY21	Q2FY21E	Q2FY20	YoY (%)	Q1FY21	QoQ(%)	Comments
Net Sales	1,540.8	1,645.3	1,732.0	-11.0	1,178.8	30.7	
Other Income	37.3	33.0	70.3	-46.9	32.6	14.4	
Total Construction Expenses	651.6	756.8	779.4	-16.4	588.0	10.8	
Employee cost	82.6	90.5	115.3	-28.3	86.6	-4.5	
Other expenditure	596.8	600.5	604.3	-1.3	388.6	53.6	
EBITDA	209.8	197.4	233.0	-10.0	115.6	81.4	
EBITDA Margin (%)	13.6	12.0	13.5	16 bps	9.8	381 bps	Cost rationalisations led to better than expected margins
Depreciation	43.4	43.5	44.9	-3.3	43.5	-0.2	
Interest	117.7	120.0	130.8	-10.0	115.9	1.6	
Exceptional items	0.0	0.0	-16.5	NA	0.0	NA	
PBT	86.0	66.9	111.2	-22.7	-11.1	8,005.7	
Taxes	27.6	20.1	31.2	-11.4	-28.0	-198.6	
PAT	58.4	46.9	80.0	-27.0	16.9	245.0	Reported PAT was aided by higher EBITDA and lower interest costs

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	907.6	9.1	1,004.6	1,052.3	-4.5	
EBITDA Margin (%)	11.8	12.5	11.0	12.0	100 bps	11.5	12.0	55 bps	Realign post management commentary
PAT	563.9	382.0	211.4	301.4	42.6	301.9	352.7	16.8	
EPS (₹)	9.4	6.3	3.1	4.9	42.6	5.0	5.8	16.8	

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	10,000	8,000	11,000	11,000
Domestic Order book	17,126	30,026	39,216	25,010	27,418	25,418	29,678	27,678
Execution rate- Average (%)	46.1	25.2	30.8	32.9	29.9	29.9	31.6	31.6

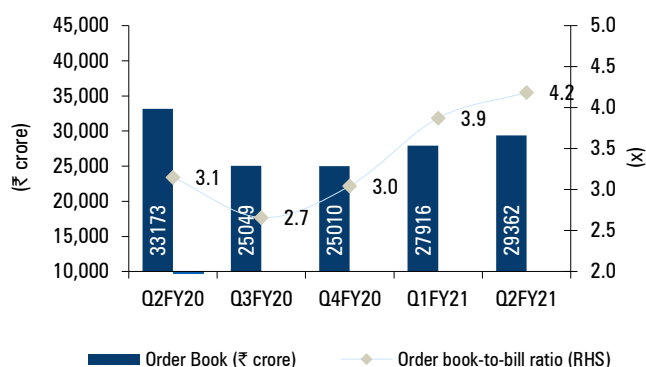
Source: Company, ICICI Direct Research

## Conference call Highlights

- Covid Impact and revenue guidance:** NCC's operating efficiency has improved drastically to ~80% (vis-à-vis ~30% efficiency reported during May 2020) – largely backed by better labour availability and smoothening of raw material supply chain. The company expects construction activity to pick up further to ~85-90% by Q3 FY21-end and at normalised pre-Covid level during Q4FY21. Overall, the management has guided for ₹ 7,700 crore of topline for FY21E (~₹ 2,300 crore during Q3 FY21 and ~₹ 2,700 crore during Q4FY21)
- Reduction in cost and margin guidance:** Employee cost during Q2FY21 has reduced to ₹ 83 crore (from ₹ 115 crore reported during Q2FY20) on account of various cost cutting initiative undertaken by the company. This, along with other proactive measures has effectively translated into 16 bps YoY, 381 bps QoQ improvement in EBITDA margin. Going forward, the management expects operating margin at ~12.5%
- Order book update:** NCC received orders worth ₹ 2,962 crore during Q2FY21, taking total book to a whopping ₹ 29,362 crore (book to TTM bill ratio of 4.2x). Among major business segment, building division contributed ₹ 13,625 crore to the order book, followed by water and railways (₹ 7,373 crore), irrigation (₹ 2,402 crore), roads (₹ 2,220 crore), electrical (₹ 1,818 crore) and mining (₹ 1,666 crore) segments. In addition, the company has secured orders worth ₹ 833 crore in the mining division during October 2020. The management has indicated towards strong momentum in buildings, roads and water segments and expects total order inflow to surpass initial guidance of ₹ 10,000 crore for FY21E
- Debt:** NCC's standalone debt came down by ₹ 47 crore and was at ₹ 2,003 crore at the end of September 2020. Additionally, its average interest cost has come down to 9.3%. These have resulted into effectively lower outgo towards finance cost during Q2FY21. Going forward, the company expects its debt to come down by ₹ 200-300 crore by FY21-end to be backed by better collections and cash flows
- Update on loans and advances & investments:** Loans and advances/investments at the end of Q2FY21 were at ₹ 559 crore, ₹ 889 crore, respectively. The management expects its exposure to group companies, collectively, to come down to <₹ 1,000 crore in the next two years
- Working capital:** Debtors remains elevated at ~170 days (at the end of September 2020) mainly impacted by delays in payment witnessed from various state government such as Andhra Pradesh (current outstanding: ₹ 991 crore – includes ₹ 303 crore of retention money; came down by ~₹ 100 crore on QoQ basis) and Telangana. However, disbursements from central government and its agencies are on-time. Going forward, the management is expecting gradual decline with better collections
- Arbitration claims:** Arbitration proceedings in Sembcorp have been delayed due to Covid-19 pandemic and the management expects finalisation by June 2021. With regard to the Taqa case, the company is trying for out-of-court-settlement of the matter and discussions are under way
- Capex:** The company has incurred a capex of ~ ₹ 17 crore during H1FY21

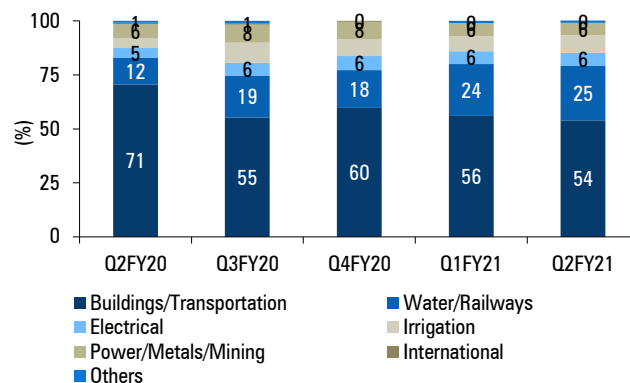
## Company Analysis

**Exhibit 4: Quarterly orderbook trend**



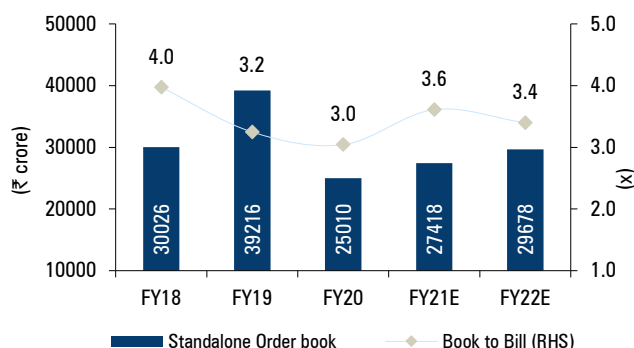
Source: Company, ICICI Direct Research

**Exhibit 5: Orderbook composition**



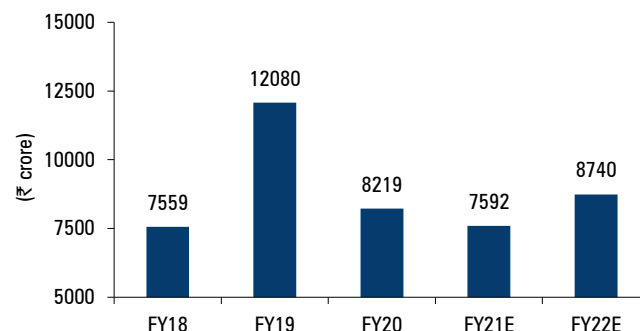
Source: Company, ICICI Direct Research

**Exhibit 6: Annual orderbook trend**



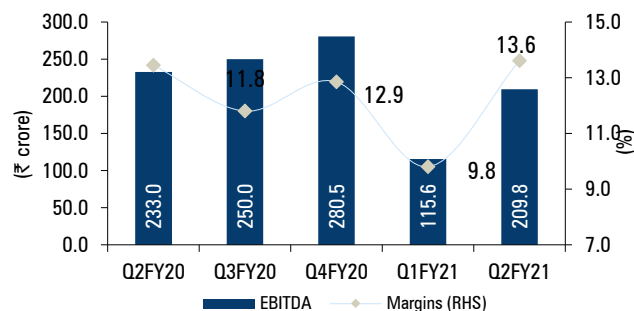
Source: Company, ICICI Direct Research

**Exhibit 7: Annual revenue trend**



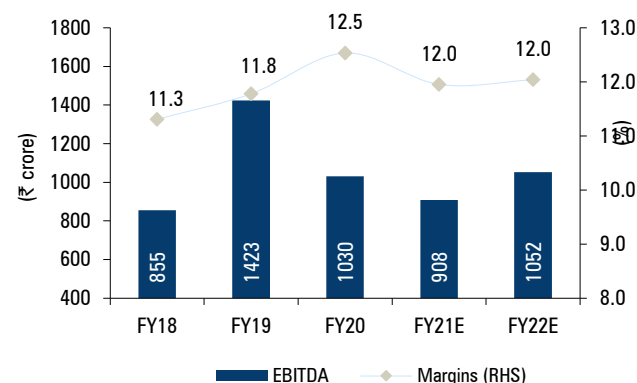
Source: Company, ICICI Direct Research

**Exhibit 8: Quarterly EBITDA trend**



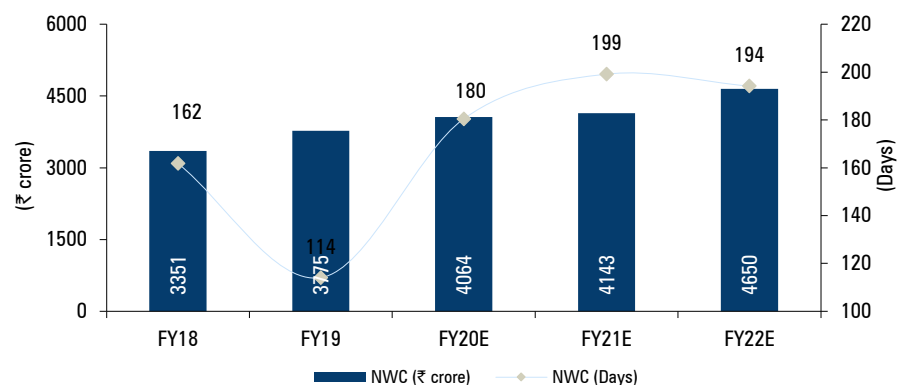
Source: Company, ICICI Direct Research

**Exhibit 9: Annual EBITDA trend**



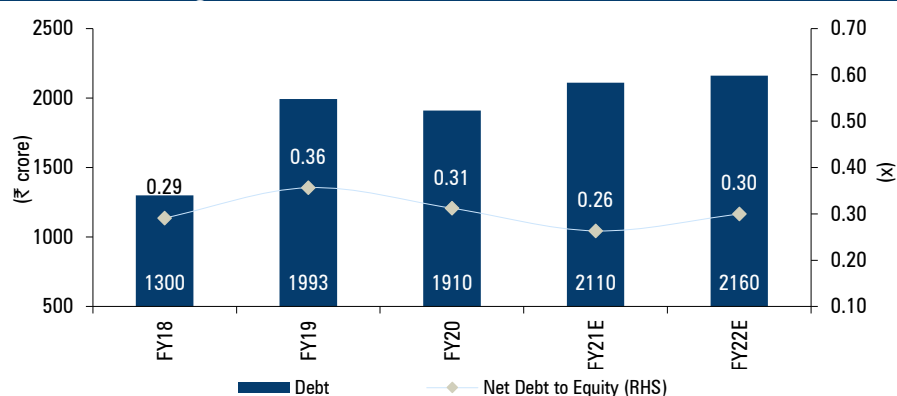
Source: Company, ICICI Direct Research

Exhibit 10: Net working capital (NWC) trend



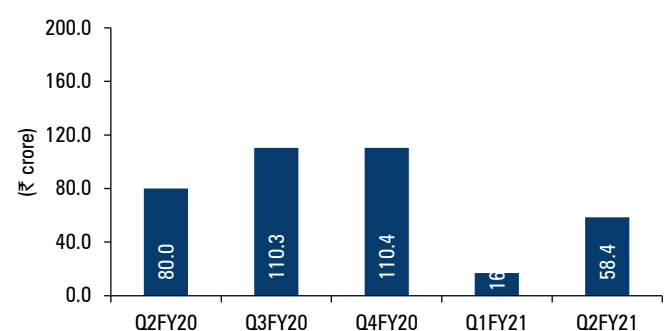
Source: Company, ICICI Direct Research

Exhibit 11: Leverage trend



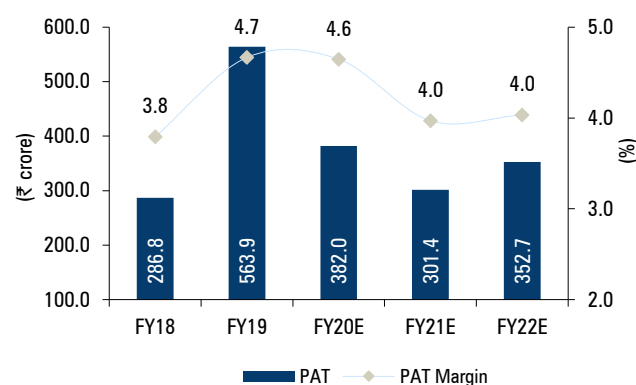
Source: Company, ICICI Direct Research

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
<b>Net Sales</b>	<b>12,079.8</b>	<b>8,218.8</b>	<b>7,592.3</b>	<b>8,740.3</b>
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	341.7	437.0
Construction expenses	5,166.9	3,550.2	3,363.4	3,889.4
Other Expenses	287.0	258.6	238.9	262.2
Total operating expenses	10,656.8	7,188.7	6,684.8	7,688.0
<b>EBITDA</b>	<b>1,423.0</b>	<b>1,030.2</b>	<b>907.6</b>	<b>1,052.3</b>
Interest	451.3	517.9	488.5	517.9
Depreciation	149.4	177.5	177.7	194.7
PBT	881.7	453.4	354.8	470.2
Taxes	317.8	71.3	53.4	117.6
<b>PAT</b>	<b>563.9</b>	<b>382.0</b>	<b>301.4</b>	<b>352.7</b>
<b>EPS</b>	<b>9.4</b>	<b>6.3</b>	<b>4.9</b>	<b>5.8</b>

Source: Company, ICICI Direct Research

**Exhibit 15: Cash flow statement** ₹ crore

₹ crore	FY19	FY20	FY21E	FY22E
Profit after Tax	563.9	382.0	301.4	352.7
Depreciation	149.4	177.5	177.7	194.7
Prov for Taxes	317.8	71.3	53.4	117.6
Cash Flow before wc changes	1,031.1	630.9	532.5	664.9
Change in WC	(594.5)	(293.9)	(78.8)	(506.7)
Taxes Paid	(311.2)	(104.2)	(53.4)	(117.6)
<b>Net CF from op. activities</b>	<b>125.4</b>	<b>232.8</b>	<b>400.4</b>	<b>40.6</b>
(Purchase)/Sale of Fixed Assets	(499.9)	(117.8)	(200.0)	(250.0)
(Purchase)/Sale of Investments	(37.0)	19.3	-	-
<b>Net CF from inv. activities</b>	<b>(536.8)</b>	<b>(98.5)</b>	<b>(200.0)</b>	<b>(250.0)</b>
Proceeds from Secured Borrowing	647.3	(83.3)	200.0	50.0
Proceeds from Unsecured Borrowing	46.0	-	-	-
<b>Net CF from fin. activities</b>	<b>644.5</b>	<b>(116.5)</b>	<b>175.9</b>	<b>(20.5)</b>
Net Cash flow	233.1	17.9	376.2	(229.9)
Opening Cash	65.9	299.0	316.9	693.1
<b>Closing Cash</b>	<b>299.0</b>	<b>316.9</b>	<b>693.1</b>	<b>463.2</b>

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	5,261.0	5,543.1
Total Shareholders funds	4,756.8	5,105.6	5,382.9	5,665.1
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)
<b>Source of Funds</b>	<b>6,577.4</b>	<b>6,810.1</b>	<b>7,287.4</b>	<b>7,619.6</b>
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	2,600.1	2,993.2
Loans & Advances	496.5	594.7	624.0	718.4
Cash & Bank Balances	299.0	316.9	693.1	463.2
Other Current Assets	6,020.2	6,091.9	5,366.6	6,178.1
Total Current Assets	10,482.8	10,136.3	9,803.9	10,951.6
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	4,836.6	5,113.4
<b>Application of Funds</b>	<b>6,577.4</b>	<b>6,810.1</b>	<b>7,287.4</b>	<b>7,619.6</b>

Source: Company, ICICI Direct Research

**Exhibit 17: Key ratios**

₹ crore	FY19	FY20	FY21E	FY22E
<b>Per Share Data</b>				
Reported EPS	9.4	6.3	4.9	5.8
Cash EPS	11.9	9.2	7.9	9.0
BVPS	79.2	83.7	88.3	92.9
<b>Operating Ratios</b>				
EBITDA / Net Sales	11.8	12.5	12.0	12.0
PAT / Net Sales	4.7	4.6	4.0	4.0
<b>Return Ratios</b>				
RoE	11.9	7.5	5.6	6.2
RoCE	21.2	14.7	11.6	13.0
RoIC	20.3	13.2	11.1	12.0
<b>Valuation Ratios</b>				
EV / EBITDA	2.7	3.7	4.0	3.7
P/E	3.8	5.8	7.3	6.2
EV / Net Sales	0.3	0.5	0.5	0.4
Market Cap / Sales	0.2	0.3	0.3	0.3
Price to Book Value	0.5	0.4	0.4	0.4
<b>Turnover Ratios</b>				
Asset turnover	1.8	1.2	1.0	1.1
Debtors Turnover Ratio	1.6	3.8	3.1	2.9
Creditors Turnover Ratio	2.2	2.7	2.1	2.3
<b>Solvency Ratios</b>				
Net Debt / Equity	0.4	0.3	0.3	0.3
Current Ratio	1.6	1.7	1.8	1.8
<b>Quick Ratio</b>	<b>1.5</b>	<b>1.6</b>	<b>1.7</b>	<b>1.7</b>

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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