

Order book provides strong revenue visibility!

NCC's Q3FY21 performance was a mixed bag with strong order inflows but slower execution. Its standalone revenue in Q3FY21 fell 9.4% YoY to ₹ 1,918.4 crore, largely impacted by slower-than-expected execution. However, various cost-cutting initiatives (despite rise in raw material/commodity prices) drove operating margin performance (up 67 bps YoY to 12.5%). At PAT level, muted topline performance coupled with higher tax outgo translated to 47.2% YoY fall in adjusted PAT to ₹ 70.3 crore.

Strong inflows boost order book; execution set to pick up

NCC's order book at the end of Q3FY21 was strong at ₹ 39,182 crore (book to TTM bill ratio: 5.7x) mainly backed by healthy order inflows of ~₹ 20000 crore secured during 9MFY21 (and ₹ 1200 crore, thereafter in January, 2021). Going forward, the management has indicated towards strong momentum in different infrastructure verticals and has guided for ~₹ 2,000 crore of order inflows in the remaining period of FY21. On the execution front, NCC has witnessed QoQ improvement in the topline performance over the past few quarters backed by its elevated order book position and pick-up in construction activities. Going forward, the company has guided for ₹ 2,500-2,800 crore, ₹ 10,000+ crore of topline in Q4FY21E, FY22E, respectively, with ~12.0% operating margin. While we largely maintain our FY21 revenue estimates, we revise our revenue estimate for FY22E, FY23E upwards by ~15%, 16%, respectively, on account of strong order inflows and expected pick-up in execution. We expect topline to grow ~33%, 16% YoY in FY22, FY23, respectively, with stable operating margins at ~12%.

Debt reduction, improvement in debtors - key positives

NCC has reduced its standalone debt to ₹ 1,966.3 crore (from ₹ 2003 crore in Q2), which is likely to further come down to ~₹ 1,750 crore by FY21-end. Also, the management has indicated towards MoM improvement in debtors' days backed by improving disbursements from various state governments (total outstanding from AP reduced to ~₹ 700 crore). Its net working capital days were at 227 days in Q3. We expect a gradual decline in working capital/debtor days over the near-to-medium term with better collections.

Valuation & Outlook

NCC has reported a mixed set of numbers in Q3FY21. However, we now turn constructive on the company given a) the strong order book position, b) expected pick-up in execution, c) stable margins, d) debt reduction, and e) improvement in working capital cycle. Therefore, we upgrade our rating from HOLD to **BUY** with a target price of ₹ 110/share (6x FY22E EV/EBITDA) (vs. earlier target price of ₹ 65/share).



Particulars

Particular	Amount
Market Capitalization	5,497.8
Total Debt (₹ crore)	2,003.0
Cash (₹ crore)	322.3
EV (₹ crore)	7,178.5
52 week H/L (₹)	100 / 16
Equity capital	122.0
Face value	2.0

Key Highlights

- Strong order inflows of ₹ 11, 861 crore in Q3FY21, which has boosted revenue visibility
- Upgrade from HOLD to BUY with revised target price of ₹ 110/share

Key risk to our call

- Weaker than expected execution
- Stretched working capital and payment delays, if any

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Key Financial Summary

₹ crore	FY19	FY20	FY21E	FY22E	FY23E	CAGR FY20-23E
Net Sales	12,079.8	8,218.8	7,577.4	10,057.2	11,632.6	12.3%
EBITDA	1,423.0	1,030.2	882.8	1,210.9	1,400.6	10.8%
EBITDA Margin (%)	11.8	12.5	11.7	12.0	12.0	
PAT	563.9	382.0	282.1	504.7	622.1	17.6%
EPS (₹)	9.4	6.3	4.6	8.3	10.2	
P/E (x)	9.6	14.4	19.5	10.9	8.8	
EV/EBITDA(x)	5.1	6.9	7.9	5.9	5.2	
RoNW (%)	11.9	7.5	5.3	8.7	9.9	
RoCE (%)	21.2	14.7	11.8	15.5	16.9	

Source: Company, ICICI Direct Research

Exhibit 1: Variance analysis

Year	Q3FY21	Q3FY21E	Q3FY20	YoY (%)	Q2FY21	QoQ(%)	Comments
Net Sales	1,918.4	2,201.8	2,117.2	-9.4	1,540.8	24.5	Topline miss owing to slower than expected execution
Other Income	24.5	30.0	31.9	-23.2	37.3	-34.5	
Total Construction Expenses	848.8	1,012.8	1,017.4	-16.6	651.6	30.3	
Employee cost	90.3	90.0	110.5	-18.2	82.6	9.3	
Other expenditure	739.9	834.5	739.3	0.1	596.8	24.0	
EBITDA	239.3	264.5	250.0	-4.3	209.8	14.1	
EBITDA Margin (%)	12.5	12.0	11.8	67 bps	13.6	-114 bps	Cost rationalisations led to better than expected margins
Depreciation	43.9	45.0	45.0	-2.5	43.4	1.1	
Interest	106.5	120.0	141.8	-24.9	117.7	-9.5	
Exceptional items	0.0	0.0	-22.9	NA	0.0	NA	
PBT	113.4	129.5	72.2	57.0	86.0	2,249.1	
Taxes	43.1	35.0	-38.1	-213.2	27.6	56.1	
PAT	70.3	94.5	110.3	-36.3	58.4	20.4	

Source: Company, ICICI Direct Research

Exhibit 2: Change in estimates

(₹ Crore)	FY20		FY22E			FY23E			
	FY20	FY21E	Old	New	% Change	Old	New	% Change	
Revenue	8,218.8	7,577.4	8,740.3	10,057.2	15.1	10,056.2	11,632.6	15.7	Raise revenues estimates on strong order booking
EBITDA	1,030.2	882.8	1,052.3	1,210.9	15.1	1,210.8	1,400.6	15.7	
EBITDA Margin (%)	12.5	11.7	12.0	12.0	0 bps	12.0	12.0	0 bps	
PAT	382.0	282.1	352.7	504.7	43.1	447.8	622.1	38.9	
EPS (₹)	6.3	4.6	3.1	8.3	43.1	7.3	10.2	38.9	

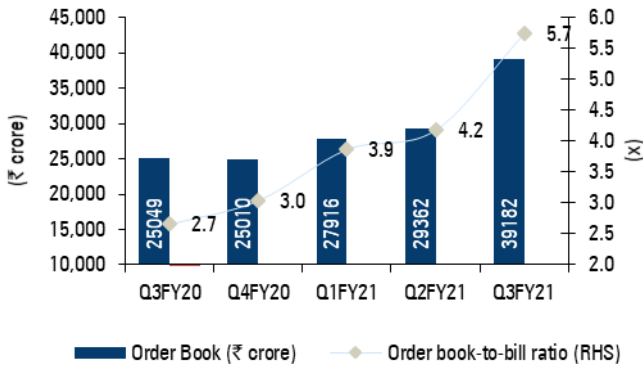
Source: Company, ICICI Direct Research

Conference call Highlights

- Guidance:** With a gradual recovery in construction activities post the lockdown period, NCC has managed to report decent topline growth on a QoQ basis over the past few quarters. The company posted ₹ 4,638 crore of revenue in 9MFY21. Going forward, the management has guided for ₹ 2,500-2,800 crore of topline during Q4FY21E backed by a pick-up in execution on its elevated order book position and normalised level of labour availability. Also, the management expects topline to surpass ₹ 10,000 crore in FY22E
- Reduction in cost, margin guidance:** Despite an increase in raw material/commodity prices during the quarter, NCC has managed to report 67 bps YoY improvement in EBITDA margin (to 12.5%) mainly aided by effective management of employee costs (reduced to ₹ 90 crore in Q3FY21 from ₹ 110 crore reported in Q3FY20; on account of various cost cutting initiatives and reduction in head counts). Going forward, given the current order book mix and factoring increased raw material costs, the management expects operating margin to be at ~12%
- Order book update:** NCC received gross orders worth ~₹ 20,200 crore during 9MFY21, taking total book to a whopping ₹ 39,182 crore (book to TTM bill ratio of 5.7x). Among major business segment, building division contributed ₹ 22,618 crore to the order book, followed by water and railways (₹ 6,786 crore), electrical (₹ 2,765 crore), mining (₹ 2,312 crore), irrigation (₹ 2,289 crore), and roads (₹ 2,159 crore) segments. In addition, the company secured orders worth ₹ 1,200 crore in January 2021 spread across water (607 crore) and building (₹ 593 crore) division. The management has indicated towards strong momentum in different infrastructure verticals and has guided for ~₹ 2,000 crore of order inflows in the remaining period of FY21E
- Debt:** NCC's finance cost has reduced consistently from ₹ 142 crore, ₹ 118 crore reported in Q3FY20, Q2FY21, respectively, to ₹ 107 crore in Q3FY21. This was mainly aided by a) reduction in its debt (to ₹ 1966.3 crore), b) drop in interest rate, and c) decline in bank guarantee costs. Going forward, the company expects its debt to further come down to ₹ 1,750 crore by FY21-end. Also, the management expects cost of finance to come down with expected improvement in its credit rating. This is likely to benefit the company with lower finance costs over the near to medium term
- Working capital:** Delays in payment from various state government such as Andhra Pradesh (AP) in the recent past has kept its debtors at an elevated level. However, the management has indicated towards MoM improvement in debtor days mainly backed by improving disbursements (total outstanding from AP reduced from ₹ 991 crore in Q2FY21-end to ~₹ 700 crore by Q3FY21-end). Net working capital days at the end of December 2020 were at 227 days. Going forward, the management is expecting a gradual decline with better collections
- Monetisation of real estate:** NCC is in the final stages of discussions with a potential buyer for NCC Vizag Urban project. With the expected signing of a contract in a month, the management expects ₹ 150 crore, ₹ 100 crore of inflows during FY22, FY23E, respectively. Similarly, the management expects inflows of ~₹ 100 crore from NCC urban project
- Capex:** The company has incurred ₹ 107 crore of capex during 9MFY21. Going forward, the management has guided for ₹ 20-30 crore, ₹ 120 crore of capex during Q4FY21, FY22, respectively

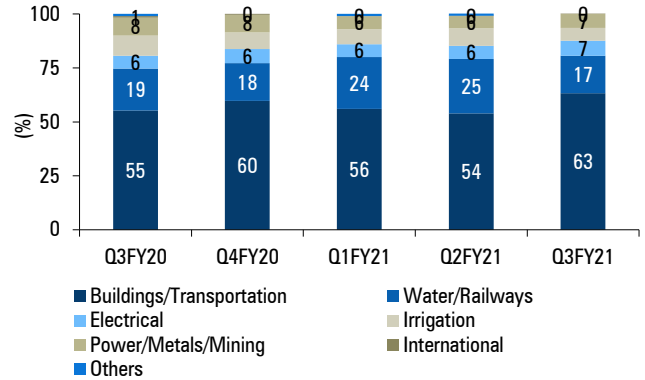
Company Analysis

Exhibit 3: Quarterly orderbook trend



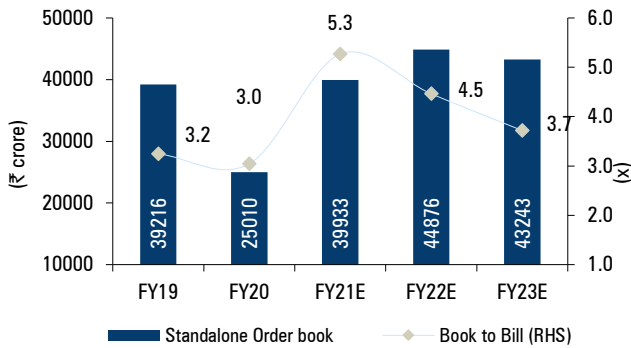
Source: Company, ICICI Direct Research

Exhibit 4: Orderbook composition



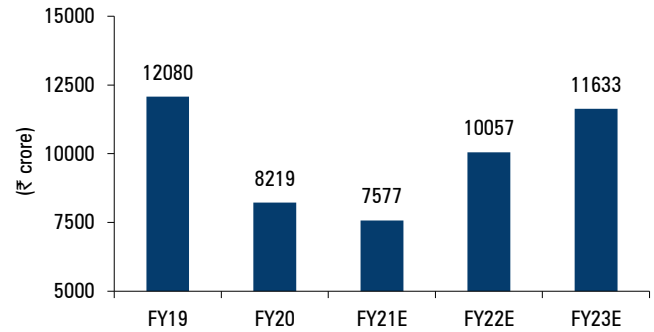
Source: Company, ICICI Direct Research

Exhibit 5: Annual orderbook trend



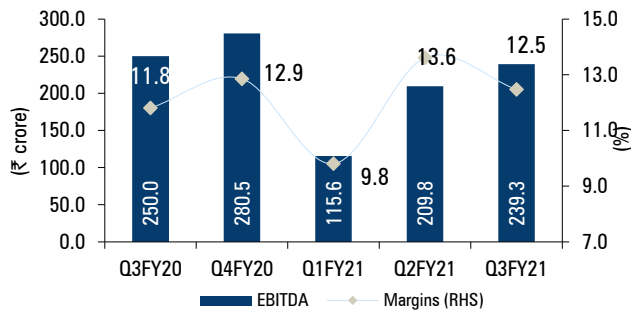
Source: Company, ICICI Direct Research

Exhibit 6: Annual revenue trend



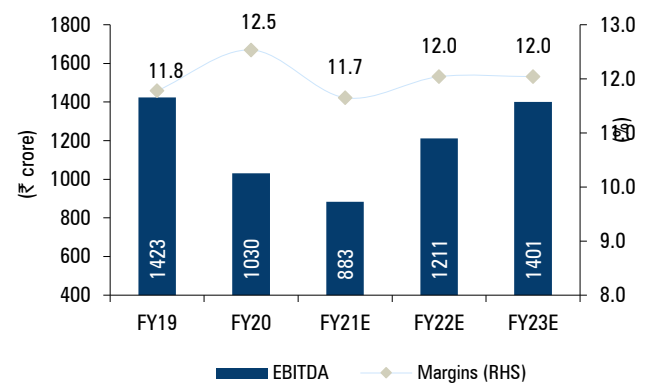
Source: Company, ICICI Direct Research

Exhibit 7: Quarterly EBITDA trend



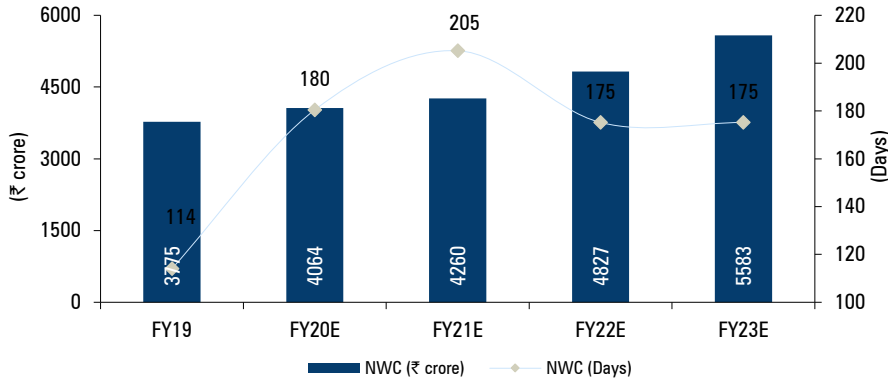
Source: Company, ICICI Direct Research

Exhibit 8: Annual EBITDA trend



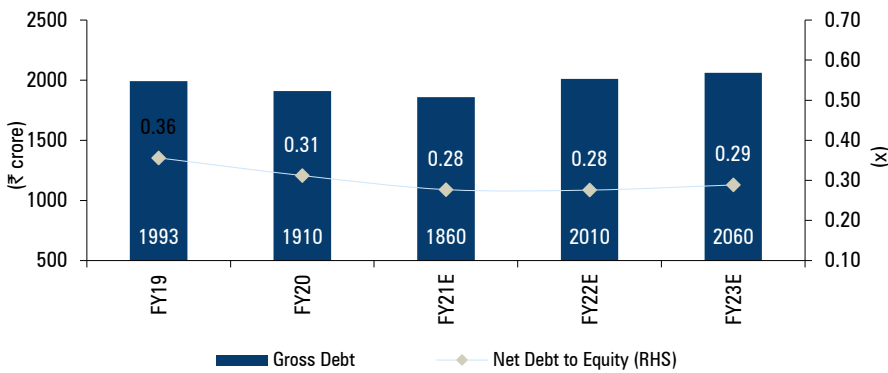
Source: Company, ICICI Direct Research

Exhibit 9: Net working capital (NWC) trend



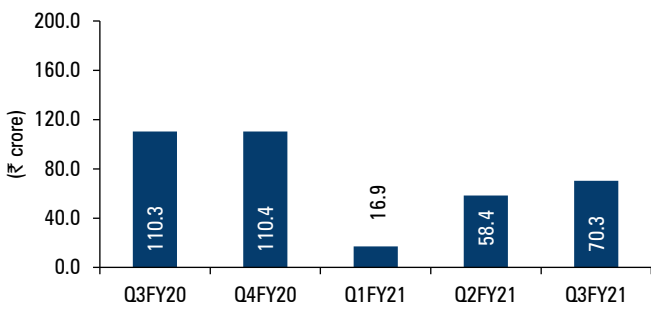
Source: Company, ICICI Direct Research

Exhibit 10: Leverage trend



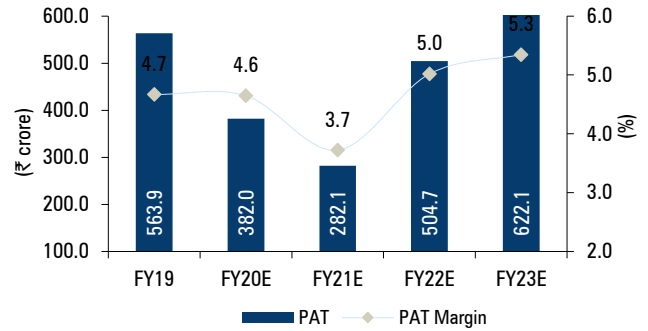
Source: Company, ICICI Direct Research

Exhibit 11: Quarterly PAT trend



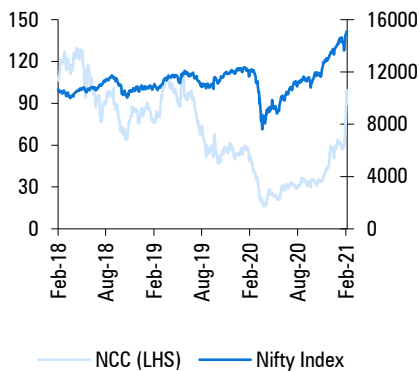
Source: Company, ICICI Direct Research

Exhibit 12: Annual PAT trend



Source: Company, ICICI Direct Research

Exhibit 13: Price Performance



Source: Company, ICICI Direct Research

Financial summary

Exhibit 14: Profit and loss statement ₹ crore

₹ crore	FY20	FY21E	FY22E	FY23E
Net Sales	8,218.8	7,577.4	10,057.2	11,632.6
Other Income	151.3	121.0	145.2	159.7
Total revenues	8,370.1	7,698.5	10,202.4	11,792.4
Raw Material Expenses	2,944.7	2,735.5	3,566.3	4,124.9
Employee benefit expense:	435.2	341.0	452.6	523.5
Construction expenses	3,550.2	3,356.8	4,475.5	5,176.5
Other Expenses	258.6	261.4	352.0	407.1
Total operating expenses	7,188.7	6,694.7	8,846.3	10,232.0
EBITDA	1,030.2	882.8	1,210.9	1,400.6
Interest	517.9	450.3	503.9	540.0
Depreciation	177.5	172.3	179.3	190.8
PBT	453.4	381.2	672.9	829.5
Taxes	71.3	99.1	168.2	207.4
PAT	382.0	282.1	504.7	622.1
EPS	9.4	6.3	4.6	8.3

Source: Company, ICICI Direct Research

Exhibit 15: Cash flow statement ₹ crore

₹ crore	FY20	FY21E	FY22E	FY23E
Profit after Tax	382.0	282.1	504.7	0.1
Depreciation	177.5	172.3	179.3	0.0
Prov for Taxes	317.8	71.3	99.1	168.2
Cash Flow before wc changes	697.5	485.9	905.8	(503.2)
Change in WC	(594.5)	(293.9)	(195.2)	(567.5)
Taxes Paid	(311.2)	(104.2)	(99.1)	(168.2)
Net CF from op. activities	232.8	259.2	116.5	(756.0)
(Purchase)/Sale of Fixed Assets	(117.8)	(130.0)	(120.0)	40.8
(Purchase)/Sale of Investments	19.3	-	-	-
Net CF from inv. activities	(98.5)	(130.0)	(120.0)	40.8
Proceeds from Secured Borrowing	(83.3)	(50.0)	150.0	50.0
Proceeds from Unsecured Borrowing	-	-	-	-
Net CF from fin. activities	(116.5)	(72.6)	49.1	547.5
Net Cash flow	17.9	56.6	45.6	(167.6)
Opening Cash	299.0	316.9	373.5	419.1
Closing Cash	316.9	373.5	419.1	251.4

Source: Company, ICICI Direct Research

Exhibit 16: Balance sheet ₹ crore

₹ crore	FY20	FY21E	FY22E	FY23E
Equity Capital	122.0	122.0	122.0	122.0
Reserve and Surplus	4,983.7	5,243.2	5,646.9	6,144.6
Total Shareholders funds	5,105.6	5,365.2	5,768.9	6,266.6
Total Debt	1,910.0	1,860.0	2,010.0	2,060.0
Other Non-current Liabilities	-	-	-	-
Deferred Tax Liability	(205.5)	(205.5)	(205.5)	(205.5)
Source of Funds	6,810.1	7,019.7	7,573.4	8,121.1
Gross Block	2,078.6	2,208.6	2,328.6	2,478.6
Less: Accumulated Dep	1,031.1	1,203.4	1,382.7	1,573.5
Net Block	1,047.5	1,005.2	945.9	905.1
Capital WIP	14.8	14.8	14.8	14.8
Total Fixed Assets	1,062.3	1,020.0	960.7	919.9
Investments	1,100.0	1,100.0	1,100.0	1,100.0
Inventory	514.8	519.0	688.9	796.8
Sundry Debtors	2,618.0	2,698.8	3,306.5	3,824.4
Loans & Advances	594.7	622.8	688.9	796.8
Cash & Bank Balances	316.9	373.5	419.1	251.4
Other Current Assets	6,091.9	5,376.9	6,998.7	8,095.0
Total Current Assets	10,136.3	9,591.0	12,102.0	13,764.4
Trade Payable	3,983.0	3,321.6	4,684.2	5,417.9
Provisions	85.7	79.0	104.8	121.3
Other Current Liabilities	1,686.0	1,557.0	2,066.6	2,390.3
Total Current Liabilities	5,754.8	4,957.6	6,855.6	7,929.5
Net Current Assets	4,381.5	4,633.3	5,246.4	5,834.9
Application of Funds	6,810.1	7,019.7	7,573.4	8,121.1

Source: Company, ICICI Direct Research

Exhibit 17: Key ratios

₹ crore	FY20	FY21E	FY22E	FY23E
Per Share Data				
Reported EPS	6.3	4.6	8.3	10.2
Cash EPS	9.2	7.5	11.2	13.3
BVPS	83.7	88.0	94.6	102.8
Operating Ratios				
EBITDA / Net Sales	12.5	11.7	12.0	12.0
PAT / Net Sales	4.6	3.7	5.0	5.3
Return Ratios				
RoE	7.5	5.3	8.7	9.9
RoCE	14.7	11.8	15.5	16.9
RoIC	13.2	10.7	14.4	15.4
Valuation Ratios				
EV / EBITDA	6.9	7.9	5.9	5.2
P/E	14.4	19.5	10.9	8.8
EV / Net Sales	0.9	0.9	0.7	0.6
Market Cap / Sales	0.7	0.7	0.5	0.5
Price to Book Value	1.1	1.0	1.0	0.9
Turnover Ratios				
Asset turnover	1.2	1.1	1.3	1.4
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	0.3	0.3	0.3	0.3
Current Ratio	1.7	1.9	1.7	1.7
Quick Ratio	1.6	1.8	1.6	1.6

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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