

Strong execution boosts revenue growth...

About the stock: NCC is one of the leading construction companies in India with a presence across varied verticals of infrastructure space such as buildings, roads, water, mining and electrical. Standalone order book is robust at ₹ 37,838 crore.

- Well-diversified order backlog, robust execution capabilities and strong focus on debt reduction, working capital to characterise NCC over next few years

Q1FY23 Results: NCC's strong performance was led by superior execution.

- Standalone revenue improved 56.3% YoY to ₹ 2,958.6 crore backed by its strong order book position and pick-up in execution
- Operating margin was at 9.5% (down 105 bps YoY) with impact of higher raw material prices. Effectively, EBITDA at ₹ 281.2 crore, was up 40.8% YoY
- PAT, at ₹ 120 crore, was up 132.1% YoY aided by healthy operating performance and benign depreciation & interest expenses

What should investors do? NCC's share price has de-grown by 20% over the past five years (from ~₹ 83 in August 2017 to ~₹ 66 levels in August 2022).

- While strong execution traction is a positive surprise, we await stability in margins and consistency in leverage management. Thus, we maintain **HOLD** rating on the stock

Target Price and Valuation: We value NCC at ₹ 75/share (at 9x FY24 P/E)

Key triggers for future price performance:

- Firmly placed to capitalise on huge infrastructure pipeline; continued momentum in awarding activities to translate into healthy order inflows
- Expect ~13% revenue CAGR over FY22-24E with margins at 10%
- Focus on monetisation of non-core subsidiaries to bring-in cash flows
- Unwinding of receivables to provide liquidity boost; strengthening of balance sheet likely with gradual decline in debt

Alternate Stock Idea: Besides NCC, we like PNC in the infra space.

- Quality play on segment with strong execution/robust balance sheet
- BUY with a target price of ₹ 350/share



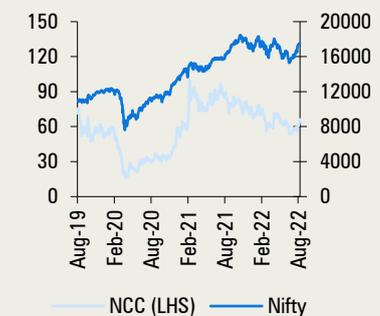
Particulars

Particular	Amount
Market Capitalization (₹ crore)	4,163
Total Debt (₹ crore)	1,707
Cash (₹ crore)	552
EV (₹ crore)	5,318
52 week H/L (₹)	89 / 52
Equity capital	122.0
Face value	2.0

Shareholding pattern

	Sep-21	Dec-21	Mar-22	Jun-22
Promoters	19.7	19.7	19.7	21.1
DII	11.5	12.1	11.2	11.3
FII	13.3	11.6	9.7	9.8
Other	55.6	56.6	59.5	57.8

Price Chart



Key Risks

Key Risk: (i) Better-than-expected execution; (ii) Any further stress on margins

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Key Financial Summary

₹ crore	FY20	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	2 year CAGR (FY22-24E)
Net Sales	8,218.8	7,256.0	9,930.0	4.7%	11,543.2	12,696.7	13.1%
EBITDA	1,030.2	855.4	996.1	7.8%	1,157.9	1,270.0	12.9%
EBITDA Margin (%)	12.5	11.8	10.0		10.0	10.0	
Adj. PAT	414.7	261.5	344.5	8.8%	443.0	511.3	21.8%
Adj. EPS (₹)	6.8	4.3	5.6		7.1	8.1	
P/E (x)	10.6	15.5	8.2		9.4	8.1	
EV/EBITDA(x)	5.6	6.4	4.8		4.7	4.3	
RoNW (%)	8.1	4.9	5.9		7.2	7.8	
RoCE (%)	14.7	11.2	13.3		14.1	14.5	

Key business highlight and outlook

Strong order book

NCC's order book at the end of Q1FY23 on a standalone basis was robust at ₹ 37838 crore (3.4x order book to TTM bill ratio), largely aided by ₹ 4.456 crore order inflow in Q1FY23. Going forward, the management expects traction in order inflows to improve with its strong emphasis on a) buildings: affordable housing, b) water: higher traction being witnessed in Jal Jeevan mission, c) roads and expressways, d) metro and railways and e) power distribution EPC. While it refrained from order inflow guidance, it expects healthy traction. In terms of execution, while it refrained from firm guidance, it is targeting 15-20% YoY growth (vs. earlier indication of 10-15%) in topline in FY23 to be driven by a) higher executable order book and b) pick-up in execution with 100% operating efficiency. The company intends to attain margins of 10% in FY23, with improvement of 50 bps from current levels led by benign raw material prices.

Debt inches up on higher working capital on execution...

NCC's standalone **debt during Q1FY23 has inched up by ₹ 523 crore QoQ to ₹ 1707 crore, given the higher working capital draw down on accelerated execution.** Going forward, the company expects its debt to reduce, partly to be aided by higher profitability and better cash flows management. Further, receipt of money from NCC Urban monetisation would help in debt reduction, ahead.

Other highlights

- Andhra Pradesh contributes ₹ 3,279 crore currently to the overall order book., NCC has collected ₹ 117 crore during Q1FY23, which aided its net receivables from AP at ₹ 496 crore. Further, the company received ₹ 44 crore in July and **expects to receive ₹ 300 crore from old projects in FY23**
- NCC had entered into a share purchase agreement with GRPL Housing Pvt Ltd to sell its entire shareholding in NCC Vizag Urban Infrastructure Ltd (a subsidiary company; equity investment: ~₹ 50 crore; loans and advances: ₹ 308 crore). The total equity consideration is at ₹ 199.5 crore (to be paid in four instalments). **Out of these, the company has received first payment of ₹ 47.5 crore during Q4FY22 with balance expected by FY23-end. Similarly, the company expects the loan amounts to be release over the next two years. The funds are likely to be used for working capital requirements and reduce the company's outstanding debt**
- The company has allotted equity shares for ~1.1 crore warrants on receipt of 75% balance consideration of ₹ 48.7 crore on June 30, 2022 and for ~70 lakh warrants on July 1, 2022 on receipt of balance consideration of ₹ 31 crore. **Thus, the promoter shareholding as on date has inched up to 21.99% vs. 19.68%, earlier**
- Total order from water segment (largely Jal Jeevan Mission) was at ~₹ 6565 crore. As per the management, the execution has picked-up pace in this segment and company expects robust execution in FY23
- For both Sembcorp and Taqa arbitration, the company expects some clarity only at FY23 end
- Capex was at ₹ 57 crore for the quarter

Exhibit 1: Variance Analysis

Year	Q1FY23	Q1FY23E	Q1FY22	YoY (%)	Q4FY22	QoQ(%)	Comments
Net Sales	2,958.6	2,220.0	1,892.6	56.3	3,134.3	-5.6	Topline aided by pick-up in execution
Other Income	31.1	20.0	19.3	61.2	45.0	-30.8	
Total Construction Expenses	1,542.7	1,032.0	962.9	60.2	1,489.3	3.6	
Employee cost	118.6	116.0	95.3	24.4	115.6	2.5	
Other expenditure	1,016.2	860.0	634.8	60.1	1,262.4	-19.5	
EBITDA	281.2	212.0	199.7	40.8	266.9	5.3	Rise in input costs impacted margin
EBITDA Margin (%)	9.5	9.5	10.6	-105 bps	8.5	99 bps	
Depreciation	47.6	46.0	44.7	6.3	45.6	4.3	
Interest	108.5	120.0	103.7	4.6	123.1	-11.8	
Exceptional items	0.0	0.0	0.0	NA	134.5	NA	
PBT	156.2	66.0	70.5	121.5	277.7	1,290.0	
Taxes	36.2	18.0	18.8	92.4	34.5	4.9	
PAT	120.0	48.0	51.7	132.1	243.2	-50.7	

Source: Company, ICICI Direct Research

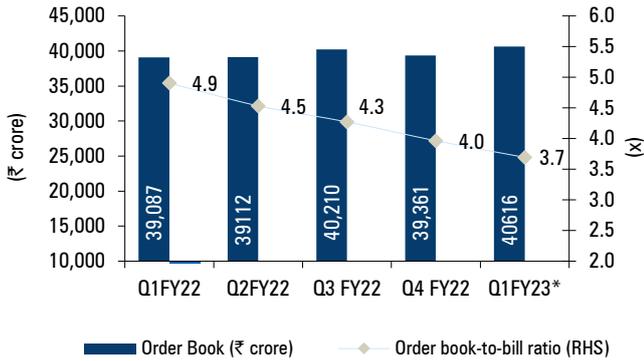
Exhibit 2: Change in estimates

(₹ Crore)	FY22E		FY23E		FY24E			
	New	Old	New	% Change	Old	New	% Change	
Revenue	9,930.0	10,927.5	11,543.2	5.6	12,090.1	12,696.7	5.0	Realign estimates
EBITDA	996.1	1,096.2	1,157.9	5.6	1,212.8	1,270.0	4.7	
EBITDA Margin (%)	10.0	10.0	10.0	0 bps	10.0	10.0	-3 bps	
PAT	490.1	421.2	443.0	5.2	489.1	511.3	4.5	
EPS (₹)	8.0	6.9	7.1		8.0	8.1		

Source: Company, ICICI Direct Research

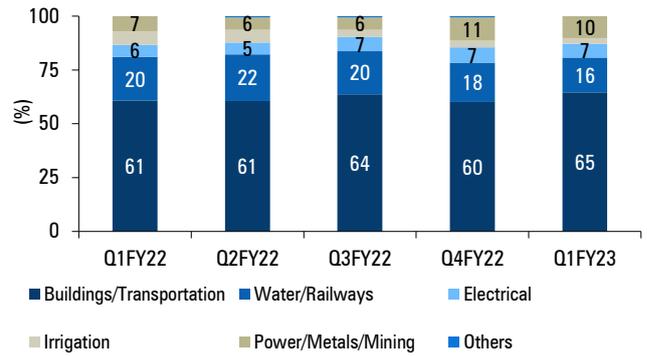
Company Analysis

Exhibit 1: Quarterly order book trend



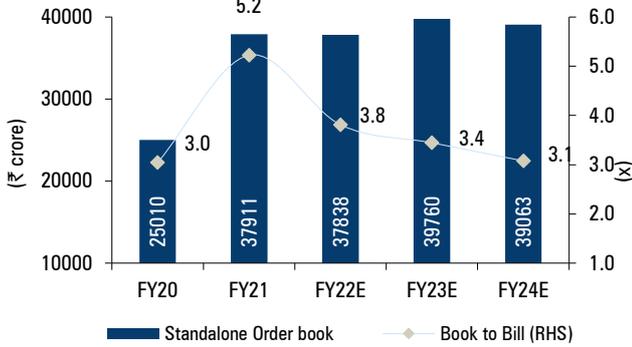
Source: Company, ICICI Direct Research; *includes subsidiaries order book worth ₹ 2778 crore

Exhibit 2: Order book composition



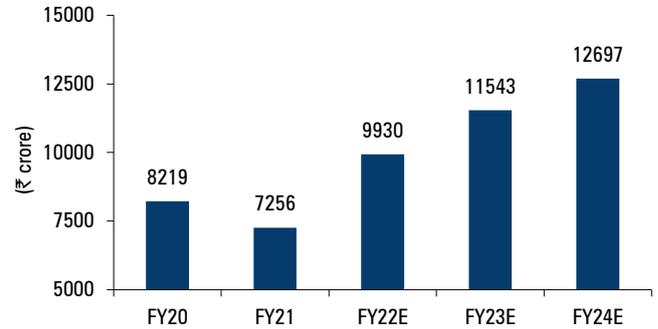
Source: Company, ICICI Direct Research

Exhibit 3: Annual order book trend



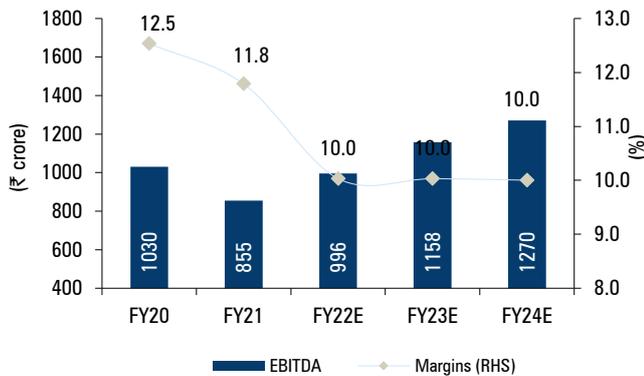
Source: Company, ICICI Direct Research

Exhibit 4: Annual revenue trend



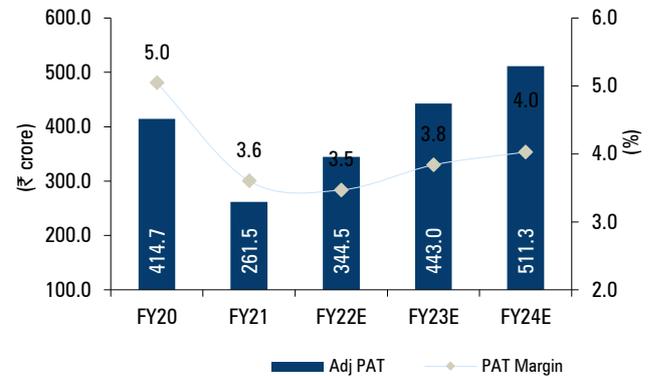
Source: Company, ICICI Direct Research

Exhibit 5: Annual EBITDA trend



Source: Company, ICICI Direct Research

Exhibit 6: Annual PAT trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
₹ crore	FY21	FY22	FY23E	FY24E
Net Sales	7,256.0	9,930.0	11,543.2	12,696.7
Other Income	115.6	108.2	119.0	122.6
Total revenues	7,371.6	10,038.2	11,662.2	12,819.3
Raw Material Expenses	2,383.2	3,393.6	3,944.9	4,339.1
Employee benefit expense	349.6	429.1	498.8	551.0
Construction expenses	3,481.7	4,878.6	5,671.1	6,239.2
Other Expenses	186.2	232.6	270.4	297.4
Total operating expenses	6,400.7	8,933.9	10,385.2	11,426.7
EBITDA	855.4	996.1	1,157.9	1,270.0
Interest	457.8	459.6	485.5	497.8
Depreciation	174.1	182.3	195.2	206.7
PBT	339.1	608.0	596.2	688.2
Taxes	77.6	117.9	153.2	176.9
PAT	261.5	490.1	443.0	511.3
Adjusted PAT	261.5	344.5	443.0	511.3
EPS	4.3	8.0	7.1	8.1

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
₹ crore	FY21	FY22	FY23E	FY24E
Profit after Tax	261.5	490.1	443.0	511.3
Depreciation	174.1	182.3	195.2	206.7
Prov for Taxes	317.8	71.3	77.6	117.9
Cash Flow before wc changes	519.7	732.1	819.2	933.0
Change in WC	(47.1)	230.9	(1,044.6)	(466.5)
Taxes Paid	86.8	(130.9)	(153.2)	(176.9)
Net CF from op. activities	552.9	890.4	(406.4)	251.5
(Purchase)/Sale of Fixed Assets	(177.0)	(187.8)	(197.7)	(150.0)
(Purchase)/Sale of Investments	(130.5)	73.8	-	-
Net CF from inv. activities	(307.5)	(114.0)	(197.7)	(150.0)
Proceeds from Secured Borrowing	(108.3)	(604.8)	400.0	100.0
Proceeds from Unsecured Borrowing	(12.9)	-	-	-
Net CF from fin. activities	(123.6)	(656.5)	315.0	(2.3)
Net Cash flow	121.8	119.9	(289.0)	99.3
Opening Cash	316.9	438.6	558.5	269.5
Closing Cash	438.6	558.5	269.5	368.8

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
₹ crore	FY21	FY22	FY23E	FY24E
Equity Capital	122.0	122.0	125.6	125.6
Reserve and Surplus	5,242.7	5,681.2	6,035.6	6,444.6
Total Shareholders funds	5,364.7	5,803.2	6,161.2	6,570.2
Total Debt	1,788.9	1,184.1	1,584.1	1,684.1
Other Non-current Liabilities	-	-	-	-
Deferred Tax Liability	(41.1)	(54.1)	(54.1)	(54.1)
Source of Funds	7,112.4	6,933.1	7,691.1	8,200.2
Gross Block	2,151.6	2,354.0	2,551.6	2,701.6
Less: Accumulated Dep	1,107.9	1,290.3	1,485.5	1,692.1
Net Block	1,043.7	1,063.7	1,066.2	1,009.5
Capital WIP	21.5	7.0	7.0	7.0
Total Fixed Assets	1,065.3	1,070.7	1,073.2	1,016.5
Investments	1,230.6	1,156.7	1,156.7	1,156.7
Inventory	526.8	787.8	917.1	1,008.8
Sundry Debtors	2,660.3	2,492.2	3,004.4	3,304.6
Loans & Advances	330.0	407.8	474.4	521.8
Cash & Bank Balances	438.6	558.5	269.5	368.8
Other Current Assets	5,949.5	6,775.0	8,222.5	9,044.2
Total Current Assets	9,905.2	11,021.4	12,887.9	14,248.1
Trade Payable	3,714.2	4,280.6	4,976.0	5,473.2
Provisions	102.2	116.9	135.8	149.4
Other Current Liabilities	1,728.7	2,441.9	2,838.6	3,122.3
Total Current Liabilities	5,545.1	6,839.4	7,950.4	8,744.9
Net Current Assets	4,360.1	4,182.0	4,937.5	5,503.2
Application of Funds	7,112.4	6,933.1	7,691.1	8,200.2

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	FY21	FY22	FY23E	FY24E
Per Share Data				
Reported EPS	4.3	8.0	7.1	8.1
Cash EPS	7.1	11.0	10.2	11.4
BVPS	88.0	95.2	98.1	104.6
Operating Ratios				
EBITDA / Net Sales	11.8	10.0	10.0	10.0
PAT / Net Sales	3.6	3.5	3.8	4.0
Return Ratios				
RoE	4.9	5.9	7.2	7.8
RoCE	11.2	13.3	14.1	14.5
RoIC	10.2	12.8	13.0	13.6
Valuation Ratios				
EV / EBITDA	6.4	4.8	4.7	4.3
P/E	15.5	8.2	9.4	8.1
EV / Net Sales	0.8	0.5	0.5	0.4
Market Cap / Sales	0.6	0.4	0.4	0.3
Price to Book Value	0.8	0.7	0.7	0.6
Turnover Ratios				
Asset turnover	1.0	1.4	1.5	1.5
Debtors Turnover Ratio	1.6	3.8	3.1	2.7
Creditors Turnover Ratio	2.2	2.7	2.1	2.0
Solvency Ratios				
Net Debt / Equity	0.3	0.1	0.2	0.2
Current Ratio	1.7	1.5	1.6	1.6
Quick Ratio	1.6	1.4	1.5	1.5

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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