

Strong execution in Q2; to remain robust ahead...

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 ₹ 40,020 crore.

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

Q2FY23 Results: NCC's performance was marked by superior execution.

- Standalone revenue improved 36.6% YoY to ₹ 3,003.7 crore backed by its strong order book position and pick-up in execution
- Operating margin was at 9.6% (down 115 bps YoY) with impact of higher raw material prices. Effectively, EBITDA at ₹ 288.2 crore, was up 22.1% YoY
- Reported PAT improved 16.8% YoY to ₹ 121.8 crore. However, adjusted to exceptional item in Q2FY22, PAT improved 66.6% on YoY basis

What should investors do? NCC's share price has de-grown by 30% over the past five years (from ~₹ 103 in November 2017 to ~₹ 72 levels in November 2021)

- Strong execution and management guidance of continued traction along with margins improvement prompt us to raise our earnings estimates and upgrade our rating on the stock from HOLD to **BUY**

Target Price and Valuation: We value NCC at ₹ 90/share (at 10x 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
- Strong order book to ensure topline growth (18.6% CAGR over FY22-24E) with margins stable 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 PSP Projects in infra space.

- Quality play on building segment with strong execution/robust b/s
- BUY with a target price of ₹ 720/share



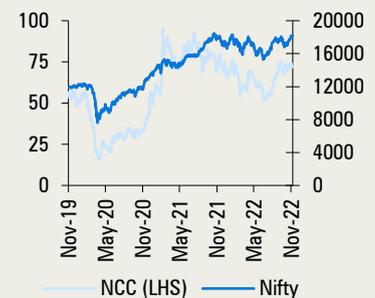
Particulars

Particular	Amount
Market Capitalization (₹ crore)	4,526.8
Total Debt (₹ crore)	1,184.1
Cash (₹ crore)	558.5
EV (₹ crore)	5,152.3
52 week H/L (₹)	84 / 51
Equity capital	125.6
Face value	2.0

Shareholding pattern

	Dec-21	Mar-22	Jul-22	Sep-22
Promoters	19.7	19.7	22.0	22.0
DII	12.1	11.2	11.2	13.0
FII	11.6	9.7	9.7	12.8
Other	56.6	59.5	57.2	52.2

Price Chart



Key Risks

Key Risk: (i) Weaker-than-expected execution; (ii) Stretched working capital and payment delays, if any

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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%	12,552.7	13,956.3	18.6%
EBITDA	1,030.2	855.4	996.1	7.8%	1,225.3	1,390.2	18.1%
EBITDA Margin (%)	12.5	11.8	10.0		9.8	10.0	
Adj. PAT	414.7	261.5	344.5	8.8%	483.3	588.6	30.7%
Adj. EPS (₹)	6.8	4.3	5.6		7.7	9.4	
P/E (x)	11.5	16.8	9.0		9.4	7.7	
EV/EBITDA(x)	5.8	6.7	5.0		4.7	4.2	
RoNW (%)	8.1	4.9	5.9		7.8	8.8	
RoCE (%)	14.7	11.2	13.3		14.9	15.8	

Source: Company, ICICI Direct Research

Key business highlight and outlook

Strong order book to drive revenues ahead

NCC's order book at the end of Q2FY22 on a standalone basis was at an elevated level of ₹ 40,020 crore (3.4x order book to TTM bill ratio), largely aided by ₹ 7,117 crore worth of orders secured in H1FY23. Additionally, the company has secured orders worth ₹ 1,377 crore post September 2022 (spread across a) water division, Gujarat and Odisha state: ₹ 1,056 crore and b) electrical vertical: ₹ 321 crore). Going forward, the management expects the gained momentum in order inflows to continue 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) mining segments. **Overall, the management has guided for ~₹ 16,000 crore of order inflows during FY23. In terms of execution, the company has revised its topline guidance upwards to ~30% YoY growth during FY23 (vs. earlier guidance of 15-20% growth; 45.7% YOY growth reported in H1FY23) to be driven by a) higher executable order book and b) pick-up in execution with 100% operating efficiency. Further, the company intends to attain margins of 10% in FY23, with improvement of ~40 bps from current levels led by benign raw material prices.**

Debt rising with execution pick-up; to hover at current levels

NCC's standalone debt during Q2FY23 inched up by ~₹ 278 crore on a QoQ basis to ₹ 1,985 crore, given the higher working capital draw down on accelerated execution. Going forward, the company expects its debt to reduce to ₹ ~1,500 crore by FY23-end, 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

- NCC has received **order inflows of ₹ 7,117 crore during H1FY23** wherein key projects secured are a) HLL Infratech services (building project to be funded by Central government): ₹ 946 crore, b) Water division, Odisha: ₹ 910 crore, c) building project from PWD, Guwahati: ₹ 393 crore
- **Andhra Pradesh contributes ₹ 3,153 crore currently** to the overall order book. Additionally, NCC has **managed to collect ₹ 202 crore during H1FY23 from the state government. Further, the company received ₹ 34 crore during October 2022 and expects most of its pending dues (₹ 150-200 crore from older projects) to get cleared in the near-term**
- Cost of borrowings for NCC during H1FY23 has increased merely by ~10 bps (to 8.7%) despite repo rate hike of 190 bps in the mentioned period. The management, however, **expects 35-40 bps increase in NCC's cost of borrowing with the full impact of repo rate hike coming over the near term**
- NCC has 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, while balance second, third and fourth instalments are likely to get released during December 2022, March 2023 and H1FY24, respectively. Similarly, the company expects the loan amounts (₹ 320 crore) to get released by March 2024. The funds are likely to be used for working capital requirements and reduce the company's outstanding debt**
- The company has incurred a capex of ₹ 56 crore, ₹ 93 crore during Q1FY23, Q2FY23 respectively and **expects to spend another ~₹ 75 crore towards capex during H2FY23**
- Prompt payments from various central government authorities and collection of old dues are aiding improvements in the overall working cycle. **As on Q2FY23-end, total receivables for NCC were at ₹ 2,792 crore (collection period: 95 days; vs. 97 days at FY22-end)**

Exhibit 1: Variance Analysis

Year	Q2FY23	Q2FY23E	Q2FY22	YoY (%)	Q1FY23	QoQ(%)	Comments
Net Sales	3,003.7	2,748.8	2,199.0	36.6	2,958.6	1.5	Topline aided by pick-up in execution
Other Income	32.8	32.7	24.2	35.3	31.1	5.4	
Total Construction Expenses	1,448.3	1,412.9	999.8	44.9	1,542.7	-6.1	
Employee cost	131.4	110.0	106.2	23.7	118.6	10.8	
Other expenditure	1,135.3	956.6	856.4	32.6	1,016.2	11.7	
EBITDA	288.8	269.4	236.6	22.1	281.2	2.7	Rise in input costs impacted margin performance
EBITDA Margin (%)	9.6	9.8	10.8	-115 bps	9.5	11 bps	
Depreciation	49.0	49.9	46.1	6.3	47.6	3.0	
Interest	122.3	110.7	116.3	5.1	108.5	12.7	
Exceptional items	0.0	0.0	31.1	NA	0.0	0.0	
PBT	150.3	141.4	129.6	16.0	156.2	-3.8	
Taxes	28.5	35.6	25.3	12.6	36.2	-21.3	
PAT	121.8	105.8	104.3	16.8	120.0	1.5	

Source: Company, ICICI Direct Research

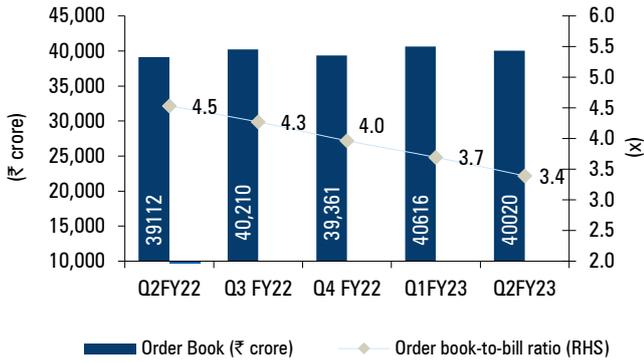
Exhibit 2: Change in estimates

(₹ Crore)	FY22E		FY23E		FY24E			
	Old	New	Old	% Change	Old	New	% Change	
Revenue	9,930.0	11,543.2	12,552.7	8.7	12,696.7	13,956.3	9.9	Raise estimates to account for increase in guidance
EBITDA	996.1	1,157.9	1,225.3	5.8	1,270.0	1,390.2	9.5	
EBITDA Margin (%)	10.0	10.0	9.8	-27 bps	10.0	10.0	-4 bps	
PAT	490.1	443.0	483.3	9.1	511.3	588.6	15.1	
EPS (₹)	8.0	7.1	7.7	9.1	8.1	9.4	15.1	

Source: Company, ICICI Direct Research

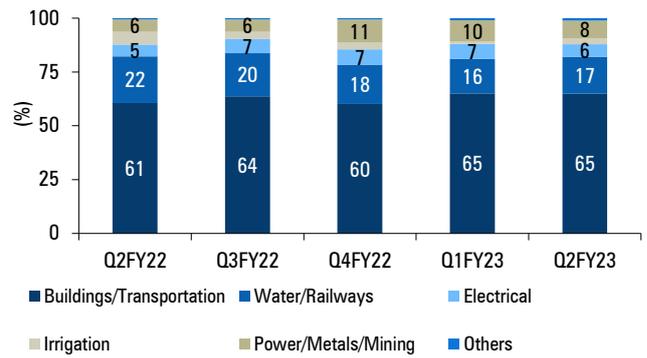
Company Analysis

Exhibit 1: Quarterly order book trend



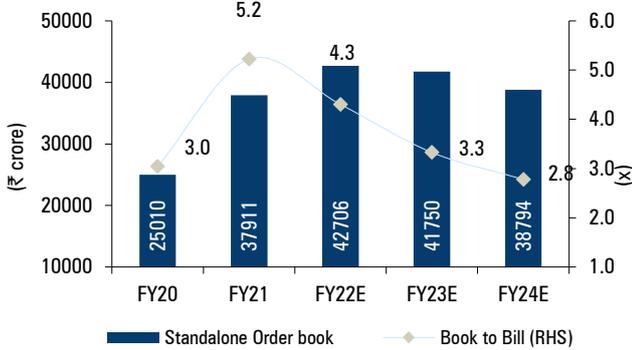
Source: Company, ICICI Direct Research

Exhibit 2: Order book composition



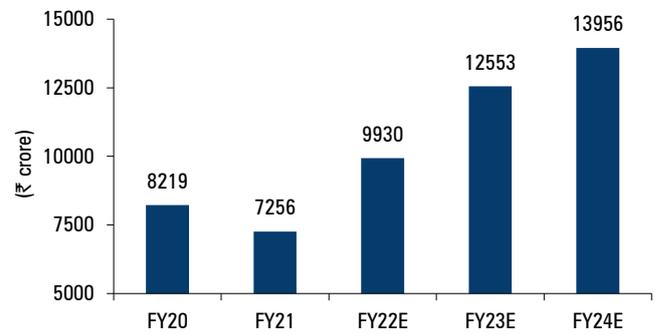
Source: Company, ICICI Direct Research

Exhibit 3: Annual order book trend



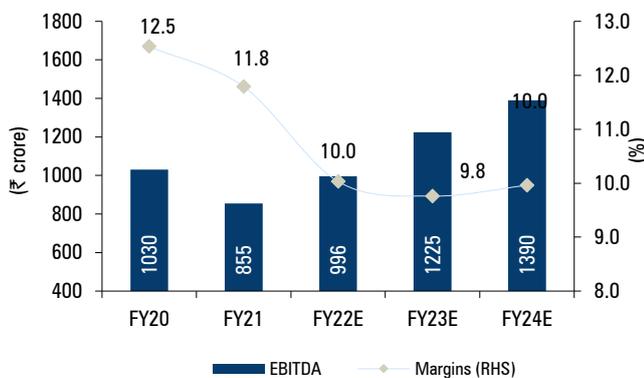
Source: Company, ICICI Direct Research

Exhibit 4: Annual revenue trend



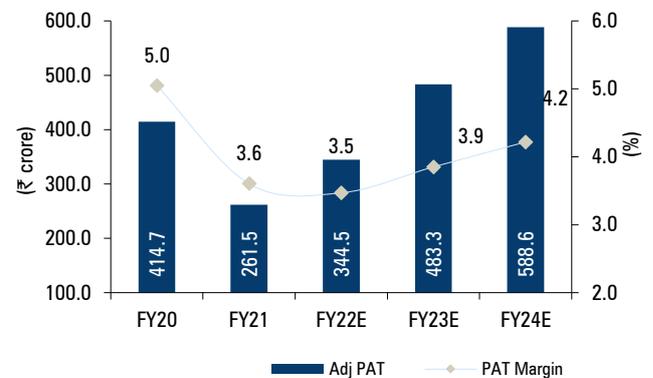
Source: Company, ICICI Direct Research

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	12,552.7	13,956.3
Other Income	115.6	108.2	113.6	121.6
Total revenues	7,371.6	10,038.2	12,666.3	14,077.9
Raw Material Expenses	2,383.2	3,393.6	4,289.9	4,769.6
Employee benefit expense	349.6	429.1	542.5	603.1
Construction expenses	3,481.7	4,878.6	6,201.0	6,866.5
Other Expenses	186.2	232.6	294.0	326.9
Total operating expenses	6,400.7	8,933.9	11,327.4	12,566.1
EBITDA	855.4	996.1	1,225.3	1,390.2
Interest	457.8	459.6	497.5	519.9
Depreciation	174.1	182.3	191.7	200.7
PBT	339.1	608.0	649.6	791.2
Taxes	77.6	117.9	166.3	202.5
PAT	261.5	490.1	483.3	588.6
Adjusted PAT	261.5	344.5	483.3	588.6
EPS	4.3	8.0	7.7	9.4

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
₹ crore	FY21	FY22	FY23E	FY24E
Profit after Tax	261.5	490.1	483.3	588.6
Depreciation	174.1	182.3	191.7	200.7
Prov for Taxes	317.8	71.3	77.6	117.9
Cash Flow before wc changes	519.7	732.1	881.1	1,052.2
Change in WC	(47.1)	230.9	(1,075.5)	(525.4)
Taxes Paid	86.8	(130.9)	(166.3)	(202.5)
Net CF from op. activities	552.9	890.4	(400.5)	263.9
(Purchase)/Sale of Fixed Assets	(177.0)	(187.8)	(274.9)	(200.0)
(Purchase)/Sale of Investments	(130.5)	73.8	-	-
Net CF from inv. activities	(307.5)	(114.0)	(274.9)	(200.0)
Proceeds from Secured Borrowing	(108.3)	(604.8)	400.0	110.0
Proceeds from Unsecured Borrowing	(12.9)	-	-	-
Net CF from fin. activities	(123.6)	(656.5)	306.9	(7.7)
Net Cash flow	121.8	119.9	(368.4)	56.2
Opening Cash	316.9	438.6	558.5	190.1
Closing Cash	438.6	558.5	190.1	246.3

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	6,067.9	6,538.8
Total Shareholders funds	5,364.7	5,803.2	6,193.4	6,664.3
Total Debt	1,788.9	1,184.1	1,584.1	1,694.1
Other Non-current Liabilities	-	-	-	-
Deferred Tax Liability	(41.1)	(54.1)	(54.1)	(54.1)
Source of Funds	7,112.4	6,933.1	7,723.4	8,304.3
Gross Block	2,151.6	2,354.0	2,626.6	2,826.6
Less: Accumulated Dep	1,107.9	1,290.3	1,479.8	1,680.5
Net Block	1,043.7	1,063.7	1,146.9	1,146.2
Capital WIP	21.5	7.0	7.0	7.0
Total Fixed Assets	1,065.3	1,070.7	1,153.9	1,153.2
Investments	1,230.6	1,156.7	1,156.7	1,156.7
Inventory	526.8	787.8	997.3	1,108.9
Sundry Debtors	2,660.3	2,492.2	3,267.1	3,632.5
Loans & Advances	330.0	407.8	515.9	573.5
Cash & Bank Balances	438.6	558.5	190.1	246.3
Other Current Assets	5,949.5	6,775.0	8,564.4	9,522.0
Total Current Assets	9,905.2	11,021.4	13,534.9	15,083.2
Trade Payable	3,714.2	4,280.6	5,411.1	6,016.2
Provisions	102.2	116.9	147.7	164.2
Other Current Liabilities	1,728.7	2,441.9	3,086.9	3,432.1
Total Current Liabilities	5,545.1	6,839.4	8,645.8	9,612.5
Net Current Assets	4,360.1	4,182.0	4,889.1	5,470.7
Application of Funds	7,112.4	6,933.1	7,723.4	8,304.3

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	FY21	FY22	FY23E	FY24E
Per Share Data				
Reported EPS	4.3	8.0	7.7	9.4
Cash EPS	7.1	11.0	10.8	12.6
BVPS	88.0	95.2	98.6	106.1
Operating Ratios				
EBITDA / Net Sales	11.8	10.0	9.8	10.0
PAT / Net Sales	3.6	3.5	3.9	4.2
Return Ratios				
RoE	4.9	5.9	7.8	8.8
RoCE	11.2	13.3	14.9	15.8
RoIC	10.2	12.8	13.7	14.8
Valuation Ratios				
EV / EBITDA	6.7	5.0	4.7	4.2
P/E	16.8	9.0	9.4	7.7
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	0.8	0.7	0.7
Turnover Ratios				
Asset turnover	1.0	1.4	1.6	1.7
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	1.5	1.5
Quick Ratio	1.6	1.4	1.4	1.4

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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