

NCC Ltd

Strong growth momentum to continue

Our view

NCC Ltd (NJCC) reported healthy execution with revenues coming in above our and street estimates by 22%/10% owing to ramp in execution across its project sites. However, margins were marginally impacted on account of high raw material prices. With order inflow (OI) of Rs26.7bn in Q2FY23, the order book (OB) stood at Rs400.2bn (3.4x TTM revenue). The collection period has reduced to 95days on account of improvement in debtor collection. Gross debt has increased by ~Rs8bn sequentially led by pickup in execution of projects, however by end of FY23, management expects to reduce the debt level by Rs4-5bn. Given the robust order book, pick-up in execution, stable balance sheet, management has given revised its revenue guidance for FY23E of 30% growth (earlier 15-20%) with EBITDA margins at 10%.

We believe with vast experience and proven execution capabilities, the company can leverage rising opportunities in buildings, water infra, transportation, metros, defense and airports as the awarding momentum pickup. With robust 1HFY23 execution and revised management guidance, we have tweaked our FY23E revenue estimates upwards by 12% while keeping FY24E estimates largely unchanged. We have introduced our FY25E estimates with revenue / PAT growth of 8% / 7% YoY owing to healthy order book. We maintain a BUY rating with a SoTP-based TP of Rs 100, which includes Rs93 for the standalone construction business (based on 10x FY24E EPS of Rs9.2) and Rs6.8 from real estate/other businesses.

Result Highlights

- For 2QFY23, NCC's revenues came in at Rs30bn (up 36.6% YoY) (above our & street estimates of Rs24.6bn/ Rs27.3bn) due to better than anticipated execution of its order book.
- EBITDA came in at Rs2.9bn (above YSec Rs2.5bn) indicating a growth of 22% YoY with EBITDA margins softening 115bps YoY to 9.6% (below YSec estimate of 10.1%) attributed to higher material costs.
- On bottom-line front, Adj PAT came in at Rs1.2bn (vs YSec Rs1.1bn) which was supported by higher other income at Rs328mn (YSec Rs255mn)
- During the quarter, NCC bagged orders worth Rs23.3bn in Water, electrical and building divisions.
- At the CMP, the stock trades at a P/E of 7.9 and 7.8x its FY23E & FY24E earnings.

Exhibit 1: Actual vs Estimate

Rs mn	Actual	Estimate		% variation		Comments
		YSec	Consensus	YSec	Consensus	
Sales	30,037	24,569	27,340	22.3	9.9	Execution witness pickup; margins remain marginally under pressure
EBITDA	2,886	2,481	2,680	16.3	7.7	
EBITDA margin %	9.6	10.1	9.8	(49 bps)	(19 bps)	
Adj.Pat	1,216	1,036	1,026	17.4	18.5	

Source: Company, YES Sec

Reco	: BUY
CMP	: Rs 72
Target Price	: Rs 100
Potential Return	: +38%

Stock data (as on Nov 09, 2022)

Nifty	18,157
52 Week h/l (Rs)	84 / 52
Market cap (Rs/USD mn)	45268 / 556
Outstanding Shares (mn)	628
6m Avg t/o (Rs mn):	174
Div yield (%):	2.8
Bloomberg code:	NJCC IN
NSE code:	NCC

Stock performance



	1M	3M	1Y
Absolute return	(1.7%)	16.7%	(8.2%)

Shareholding pattern (As of Sept' 22 end)

Promoter	22.0%
FII+DII	21.1%
Others	52.1%

Financial Summary

(Rs mn)	FY23E	FY24E	FY25E
Revenues	118,694	123,936	130,147
Yoy growth (%)	19.5	4.4	5.0
OPM (%)	10.1	10.0	10.0
EPS (Rs)	9.2	9.3	9.5
EPS growth	62.4	1.2	2.2
P/E (x)	7.9	7.8	7.6
EV/EBITDA (x)	5.0	4.5	4.2
Debt/Equity (x)	0.2	0.2	0.2
RoE (%)	11.9	11.4	11.2
RoCE (%)	9.9	9.5	9.3

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RESULT HIGHLIGHTS

Exhibit 2: Result Table (Standalone)

Rs mn	Q2FY22	Q3FY22	Q4FY22	Q1FY23	Q2FY23	YoY (%)	QoQ (%)	FY22	FY21	YoY (%)
Revenue	21,990	27,039	31,343	29,586	30,037	36.6	1.5	99,300	72,560	36.9
Total Revenues	21,990	27,039	31,343	29,586	30,037	36.6	1.5	99,300	72,560	36.9
Expenditure	19,624	24,111	28,674	26,774	27,151	38.4	1.4	89,339	64,007	39.6
as % of sales	89.2	89.2	91.5	90.5	90.4			90.0	88.2	2.0
Consumption of RM	18,023	22,408	26,797	24,938	25,205	39.9	1.1	82,722	58,649	41.0
as % of sales	82.0	82.9	85.5	84.3	83.9			83.3	80.8	3.1
Employee Cost	1,062	1,120	1,156	1,186	1,315	23.8	10.9	4,291	3,496	22.7
as % of sales	4.8	4.1	3.7	4.0	4.4			4.3	4.8	(10.3)
Other expenditure	540	584	720	650	631	16.9	(2.9)	2,326	1,862	24.9
as % of sales	2.5	2.2	2.3	2.2	2.1			2.3	2.6	(8.7)
EBITDA	2,366	2,928	2,669	2,812	2,886	22.0	2.6	9,961	8,554	16.5
Depreciation	461	459	456	476	490	6.3	3.0	1,823	1,741	4.7
EBIT	1,905	2,469	2,213	2,337	2,396	25.8	2.5	8,138	6,813	19.4
Other Income	242	197	450	311	328	35.3	5.4	1,082	1,156	(6.4)
Interest	1,163	1,164	1,231	1,085	1,223	5.1	12.7	4,596	4,578	0.4
PBT	984	1,502	1,432	1,563	1,501	52.5	(3.9)	4,624	3,391	36.4
Total Tax	253	392	345	362	285	12.6	(21.3)	1,179	776	52.0
Adjusted PAT	731	1,110	1,087	1,200	1,216	66.3	1.3	3,445	2,615	31.7
(Profit)/loss from JV's/Ass/MI	0	0	0	0	0	0.0	0.0	0	0	
PAT after MI	731	1,110	1,087	1,200	1,216	66.3	1.3	3,445	2,615	31.7
Extra ordinary items	311	-200	1,345	0	0		0.0	1,456	0	
Reported PAT	1,043	910	2,432	1,200	1,216	16.7	1.3	4,901	2,615	87.4
Adjusted EPS	1.2	1.8	1.8	2.0	2.0	66.3	1.3	5.6	4.3	31.7
Margins (%)										
EBIDTA	10.8	10.8	8.5	9.5	9.6	(115.1)	10.3	10.0	11.8	(175.7)
EBIT	8.7	9.1	7.1	7.9	8.0	(68.7)	7.9	8.2	9.4	(119.4)
EBT	4.5	5.6	4.6	5.3	5.0	52.2	(28.3)	4.7	4.7	(1.7)
PAT	4.7	3.4	7.8	4.1	4.0	(69.2)	(0.8)	4.9	3.6	133.2
Effective Tax rate	25.7	26.1	24.1	23.2	19.0	(673.8)	(419.7)	25.5	22.9	261.8

Source: Company, YES Sec

Exhibit 3: Key Assumptions

Rs mn	FY19	FY20	FY21	FY22	FY23E	FY24E	FY25E
Order inflow	207,458	-64,072	186,120	113,630	136,034	145,635	155,663
Revenues	120,798	82,188	72,560	99,300	99,300	99,300	99,300
Order book	411,980	265,720	379,280	393,460	393,460	393,460	393,460
Execution cycle (%)	33%	24%	22%	26%	25%	25%	25%
Ob to sales (x)	3.41	3.23	5.23	3.96	3.96	3.96	3.96

Source: Company, YES Sec

KEY CONCALL HIGHLIGHTS

- NCC's revenues in 2QFY23 rose 37% YoY to Rs30bn while the EBITDA margins dipped marginally by 115bps YoY to 9.6% due to impact of rise in material costs.
 - Management expects margin to improve in 2HFY23 with softening of input prices.
- NCC's order book stands strong at Rs400.2bn as of 2QFY23. This translates into an order book-to-sales ratio of 3.4x its trailing revenues.
 - Order book comprises of Buildings (63%), Water (17%), Roads (2%), Irrigation (3%), Mining (9%), Electrical division (6%).
 - Company secured orders worth Rs26.7bn (excluding of Rs16bn of O&M order) in 2QFY23.
- NCC executed Rs14.6bn worth of JJM orders in 1HFY23 and the JJM OB as on 2QFY23 stands at Rs78.6bn.
- With respect to NCC Vizag Urban Infrastructure Ltd, installments have been postponed by 3 months. 2 installments are now expected in FY23E and the last installment will be received in FY24E.
- On the debt front, the company has increased its debt by ~Rs8bn sequentially led by pickup in execution of projects, however by end of FY23, management expects to reduce the debt level by Rs4-5bn.
- Receivables as on 2QFY23 stood at Rs28bn with debtor days stood at 95days (vs 97day in FY22) resulting into improvement of debtor collection.
- Outstanding net receivable from old AP Govt project stands at Rs1.5-2bn. Further the management expects speedy recovery of these old projects.
- Group companies' exposure is expected to come down by Rs2bn from FY22.
- With regard to the arbitration against Semcorp, proceedings are over and management expects final order by FY23 end with claim inflow of Rs6.5-7bn. For Tata case, settlement is expected in next 6 months where an outflow of Rs1-2bn is expected for which provision has already been done.
- The company has incurred capex of Rs1.5bn in 1HFY23 and expects to incur further Rs770mn in 2HFY23E.
- Management has upgraded its revenue guidance of 30% growth with EBITDA margins at 10% in FY23E.

Exhibit 4: SOTP Valuation

Project/Business	Equity investment (Rs mn)	Valuation (Rs mn)	Rs/ share	Valuation methodology
Value of standalone construction business	5,661	56,613	92.8	10x FY24 earnings
Value of international subsidiary				
Investments in real estate	3,458	1,383	2.3	0.5x invested book
Value accretion from Other Investments (Brindavan)	35	35	0.1	Value of Investments
Value accretion from roads, power and housing projects	5,488	2,744	4.5	0.5x invested book
Target Price			100	

FINANCIALS

Exhibit 5: Balance Sheet (Standalone)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Sources of Funds					
Equity capital	1,220	1,220	1,220	1,220	1,220
Reserves	52,427	56,812	61,188	65,629	70,194
Non Minority Controlling Int.	0	0	0	0	0
Net worth	53,647	58,032	62,407	66,849	71,414
Debt	17,889	11,841	12,841	13,841	14,841
Deferred tax liab (net)	(411)	(541)	(541)	(541)	(541)
Total liabilities	71,124	69,331	74,707	80,148	85,714
Application of Funds					
Gross Block	21,648	22,731	24,731	26,731	28,731
Depreciation	11,204	12,087	14,189	16,381	18,737
Fixed Asset	10,444	10,644	10,542	10,350	9,994
CWIP	215	70	70	70	70
Investments	12,456	11,578	12,700	13,625	14,571
Net Working Capital	48,009	47,039	51,394	56,103	61,078
Inventories	5,268	7,878	9,756	10,186	10,697
Sundry debtors	26,603	24,922	29,267	30,559	32,091
Cash & equivalents	4,386	5,585	-3,070	1,944	4,361
Loans & Advances	6,295	8,336	10,208	10,658	11,193
Other Current Asset	60,908	68,711	72,404	69,404	72,883
Sundry creditors	37,142	42,806	47,153	45,839	48,137
Provisions	1,022	1,169	953	995	1,045
Other current liabilities	17,287	24,419	19,065	19,815	20,966
Total Assets	71,124	69,331	74,707	80,148	85,714

Source: Company, YES Sec

Exhibit 6: Income statement (Standalone)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Revenue	72,560	99,300	118,694	123,936	130,147
% Change YoY	(11.7)	36.9	19.5	4.4	5.0
Operating profit	8,554	9,961	11,988	12,394	13,015
EBITDA margins	11.8	10.0	10.1	10.0	10.0
% Change YoY	(17.0)	16.5	20.3	3.4	5.0
Depreciation	1,741	1,823	2,102	2,192	2,356
EBIT	6,813	8,138	9,886	10,202	10,659
EBIT margins	9.4	8.2	8.3	8.2	8.2
Interest expense	4,578	4,596	3,595	3,875	4,230
Other income	1,156	1,082	1,187	1,239	1,301
Profit before tax	3,391	4,624	7,478	7,566	7,731
Taxes	776	1,179	1,882	1,904	1,946
Effective tax rate (%)	22.9	25.5	25.2	25.2	25.2
Net profit	2,615	3,445	5,595	5,661	5,785
Minorities and other					
Net profit after minorities	2,615	3,445	5,595	5,661	5,785
Exceptional items	0	1,456	0	0	0
Net profit	2,615	1,988	5,595	5,661	5,785
% Change YoY	(36.9)	31.7	62.4	1.2	2.2
EPS (Rs)	4.3	5.6	9.2	9.3	9.5

Source: Company, YES Sec

Exhibit 7: Cash Flow Statement (Standalone)

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Profit before Tax	3,382	4,624	6,291	6,326	6,429
Interest	4,578	4,596	3,595	3,875	4,230
Depreciation	1,741	1,823	2,102	2,192	2,356
Other Items	(686)	(310)	-	-	-
(Inc)/Dec in WC	(1,934)	3,959	(13,011)	305	(2,557)
Direct Taxes Paid	188	1,733	1,882	1,904	1,946
CF from Oper.Activity	6,893	12,960	(2,905)	10,794	8,512
(Inc)/Dec in FA	(1,915)	(2,153)	(2,000)	(2,000)	(2,000)
Free Cash Flow	4,978	10,807	(4,905)	8,794	6,512
(Pur)/Sale of Invest.	2,757	843	54	314	355
CF from Inv. Activity	842	(1,311)	(1,946)	(1,686)	(1,645)
Change in Network	-	-	-	-	-
Inc/(Dec) in Debt	(1,212)	(6,048)	1,000	1,000	1,000
Interest Paid	(4,619)	(4,456)	(3,595)	(3,875)	(4,230)
Dividends Paid	(122)	(488)	(1,220)	(1,220)	(1,220)
Others	(940)	-	-	-	-
CF from Fin. Activity	(6,893)	(10,992)	(3,815)	(4,095)	(4,449)
Inc/(Dec) in Cash	842	657	(8,666)	5,013	2,418
Opening cash Balance	853	1,696	2,353	(6,313)	(1,300)
Others	2,690	3,232	3,232	3,232	3,232
Closing cash Balance	4,385	5,584	(3,082)	1,932	4,350

Source: Company, YES Sec

Exhibit 8: Du-pont Analysis

Y/e 31 Mar (Rs mn)	FY21	FY22	FY23E	FY24E	FY25E
Tax burden (x)	6.8	5.1	3.9	4.0	4.1
Interest burden (x)	0.1	0.1	0.2	0.2	0.2
EBIT margin (x)	0.1	0.1	0.1	0.1	0.1
Asset turnover (x)	1.0	1.4	1.6	1.5	1.5
Financial leverage (x)	1.3	1.2	1.2	1.2	1.2
RoE (%)	9.8%	10.4%	11.9%	11.4%	11.2%

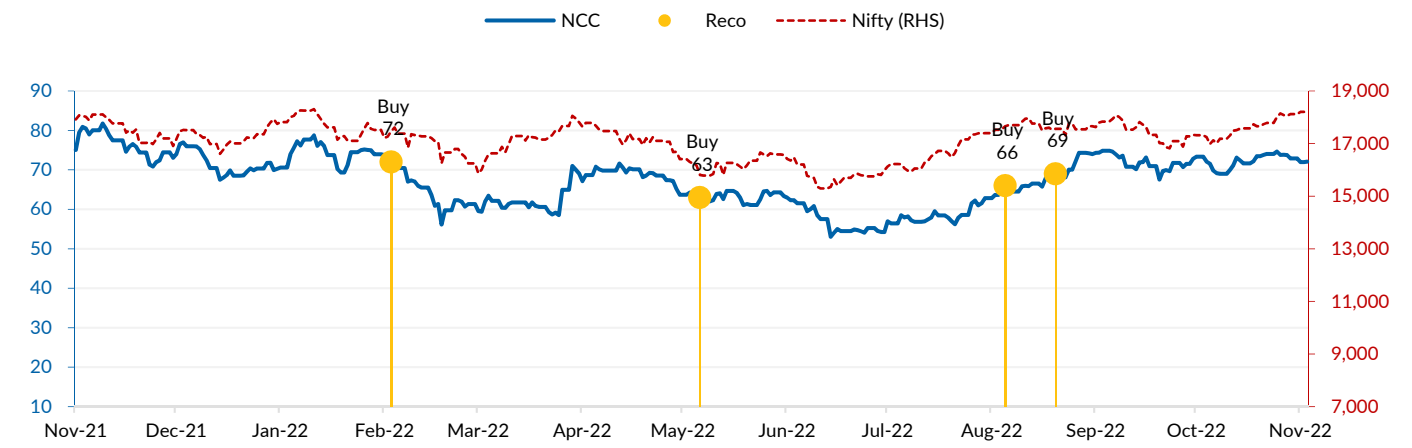
Source: Company, YES Sec

Exhibit 9: Ratio Analysis

Y/e 31 Mar	FY21	FY22	FY23E	FY24E	FY25E
Basic (Rs)					
EPS	4.3	5.6	9.2	9.3	9.5
Dividend per share	0.8	2.0	2.0	2.0	2.0
Cash EPS	7.1	8.6	12.6	12.9	13.3
Book value per share	88	95	102	110	117
Div. payout (%)	19%	25%	22%	22%	21%
Valuation ratios (x)					
P/E	16.8	12.8	7.9	7.8	7.6
P/CEPS	10.1	8.3	5.7	5.6	5.4
P/B	0.8	0.8	0.7	0.7	0.6
EV/EBIDTA	6.7	5.0	5.0	4.5	4.2
Dividend yield (%)	1.1	2.8	2.8	2.8	2.8
Profitability Ratios (%)					
RoC	7.6	9.4	11.5	11.0	10.7
RoE	9.8	10.4	11.9	11.4	11.2
RoCE	7.4	8.7	9.9	9.5	9.3
Liquidity ratios					
Debtor (days)	134	92	90	90	90
Inventory (days)	26	29	30	30	30
Creditor (days)	187	157	145	135	135
Net working Capital (days)	219	152	167	160	159
Asset Turnover (x)	1.0	1.4	1.6	1.6	1.6

Source: Company, YES Sec

Recommendation Tracker



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Analysts assign ratings to the stocks according to the expected upside/downside relative to the current market price and the estimated target price. Depending on the expected returns, the recommendations are categorized as mentioned below. The performance horizon is 12 to 18 months unless specified and the target price is defined as the analysts' valuation for a stock. No benchmark is applicable to the ratings mentioned in this report.

BUY: Upside greater than 20% over 12 months

ADD: Upside between 10% to 20% over 12 months

NEUTRAL: Upside between 0% to 10% over 12 months

REDUCE: Downside between 0% to -10% over 12 months

SELL: Downside greater than -10% over 12 months

NOT RATED / UNDER REVIEW

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