

Retail Equity Research  
**NCC Limited**  
Construction & Engineering

**BUY**

BSE CODE : 500294      NSE CODE: NCC  
BLOOMBERG CODE: NJCC:IN      SENSEX : 59,606

12Months Investment Period      Rating as per Small Cap  
**CMP Rs. 89    TARGET Rs. 107    RETURN 20%** ↑  
(Closing: 23-02-23)

**KEY CHANGES:**      **TARGET** ↑      **RATING** ↔      **EARNINGS** ↑

**Margin recovery on cards...**

NCC Ltd (NCC) is one of the largest, well diversified construction companies in India, with a foothold in every segment of the construction sector.

- NCC's Q3FY23 revenue grew 23% YoY, backed by its strong order book and robust execution of Jal Jeevan Mission projects.
- Order book remains robust at 3.6x TTM revenue (incl L1), providing strong revenue visibility in the coming years.
- EBITDA margin was at 10.5% in Q3FY23 (up 92bps QoQ, down 30bps YoY), supported by easing commodity prices. NCC expects margins to improve by 10 to 20bps in Q4FY23, led by better gross margin.
- With a strong order book, the company has guided for revenue growth of 30% in FY23, with a margin of 10%.
- NCC expects order inflow to increase further and has raised the order inflow target to Rs 20,000cr (earlier Rs 16,000cr) for FY23.
- Given the strong order book, pick up in execution and benign input prices, we increase FY23/FY24/FY25 earnings estimate by 10%/6%/3% respectively.
- We maintain Buy rating and value the stock at a P/E of 9x on FY25E EPS with a TP of Rs.107.

**Execution to pick up...**

NCC's Q3FY23 revenue grew by 23% YoY to Rs 3,313cr, led by strong order book and robust execution in Jal Jeevan Mission projects (JJM). During 9MFY23, the top-line grew by 37% YoY to Rs9,275cr. The company expects top-line growth of 30% YoY for FY23 as execution to pick up pace in the coming quarters. JJM project execution is underway; 25% of the work has been completed as of 9MFY23, and the company expects to complete Rs 800 cr in Q4FY23.

**Benign raw material prices to support margins..**

Sequentially, EBITDA margin improved by 92bps Yoy to 10.5% (down 30bps YoY) supported by benign raw material prices. With the recent contraction in key raw material prices, the management expects the EBITDA margin to be in the range of 9.5% to 10% in FY23. Adj. PAT increased by 35% YoY to Rs150cr in Q3FY23.

**Order book at 3.6x book to sales...**

NCC's order book remains at an elevated level of Rs 44,862cr (incl Rs 3,000cr LI order), which is 3.6x TTM revenue and provides revenue visibility. Order inflow during the quarter increased by 10% YoY to Rs 5,495cr and the management further increased the order inflow target for FY23 to Rs 20,000cr vs earlier Rs 16,000cr. Andhra Pradesh contributes Rs 5,000cr to the overall order book. NCC witnessed improvement in collections from AP projects, in 9MFY23, the company received Rs 325cr. The gross debt during Q3FY23 declined by Rs 39cr to Rs1,946cr, led by pick up in collection. Going forward, NCC expects its debt to be reduce to Rs 1,600cr to Rs 1,700cr by March'23.

**Valuations**

We maintained our FY23 revenue estimate and improved our EBITDA margin estimate by 20bps to 10% to factor in the benign commodity prices. We maintain BUY rating on the stock and value NCC at a P/E of 9x FY25E earnings with a target price of Rs 107.

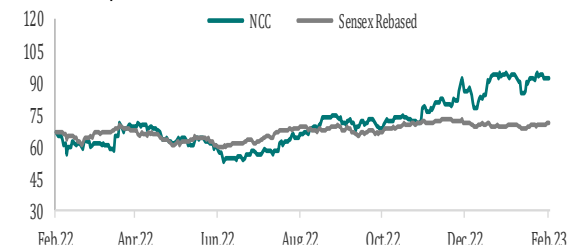
**Company Data**

Market Cap (cr)	₹ 5,361
Enterprise Value (cr)	₹ 6,695
Outstanding Shares (cr)	61.0
Free Float	80.3%
Dividend Yield	2.3%
52 week high	₹ 98
52 week low	₹ 51
6m average volume (cr)	0.6
Beta	1.4
Face value	₹ 2

Shareholding (%)	Q1FY23	Q2FY23	Q3FY23
Promoters	22.0	22.0	22.0
FII's	9.8	12.8	13.9
MFs/Insti	11.3	13.0	12.3
Public	57.0	52.2	51.9
Total	100.0	100.0	100.0
Promoter Pledge	7.7	11.1	5.5

Price Performance	3 month	6 Month	1 Year
Absolute Return	20%	39%	38%
Absolute Sensex	-1%	3%	6%
Relative Return*	21%	36%	32%

\*over or under performance to benchmark index



Standalone (cr)	FY23E	FY24E	FY25E
Sales	12,950	14,418	15,909
Growth (%)	30.4	11.3	10.3
EBITDA	1,295	1,485	1,670
EBITDA Margin(%)	10.0	10.3	10.5
PAT Adj.	567	615	697
Growth (%)	64.6	8.3	13.4
Adj.EPS	9	10	12
Growth (%)	64.6	8.3	13.4
P/E	9	9	8
P/B	0.8	0.7	0.7
EV/EBITDA	5	4	4
ROE (%)	9.4	9.3	9.6
D/E	0.2	0.2	0.2

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Research Analyst

## SOTP Valuation

Particulars	Invested Equity (Rs cr)	Value/Share (Rs)	Rationale
Standalone EPC		104.5	P/E9x FY25E EPS
Real estate	346	2.8	0.5x P/BV
<b>Total Value per share</b>		<b>107</b>	

## Quarterly Financials (Standalone)

### Profit & Loss

Rs (cr)	Q3FY23	Q3FY22	YoY Growth (%)	Q2FY23	QoQ Growth (%)	9MFY23	9MFY22	YoY Growth (%)
<b>Sales</b>	<b>3,313</b>	<b>2,704</b>	22.5	<b>3,004</b>	10.3	<b>9,275</b>	<b>6,796</b>	36.5
<b>EBITDA</b>	<b>349</b>	<b>293</b>	19.1	<b>289</b>	20.9	<b>919</b>	<b>729</b>	26.0
EBITDA margins (%)	10.5	10.8	-30bps	9.6	92bps	9.9	10.7	-82bps
Depreciation	51	46	10.9	49	3.9	147	137	7.8
<b>EBIT</b>	<b>298</b>	<b>247</b>	20.7	<b>240</b>	24.3	<b>771</b>	<b>592</b>	30.2
Interest	138	116	18.4	122	12.7	369	336	9.6
Other Income	57	20	191.3	33	75.1	121	63	91.8
Exceptional Items	-	-20	0	-	-	-	11	-
<b>PBT</b>	<b>218</b>	<b>130</b>	67.1	<b>150</b>	44.9	<b>524</b>	<b>330</b>	58.6
Tax	68	39	72.5	29	137.4	132	83	0.0
<b>Reported PAT</b>	<b>150</b>	<b>91</b>	65	<b>122</b>	23.2	<b>392</b>	<b>247</b>	58.5
Adjustments	0.0	20.0		0		0	-11	
<b>Adj PAT</b>	<b>150</b>	<b>111</b>	35.1	<b>122</b>	23.2	<b>392</b>	<b>236</b>	66.0
No. of Shares	61	61		61		61	61	
<b>EPS (Rs)</b>	<b>3</b>	<b>2</b>	35.1	<b>2</b>	23.2	<b>7</b>	<b>4</b>	66.0

### Change in Estimates

Year / Rs cr	Old estimates			New estimates			Change (%)		
	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E	FY23E	FY24E	FY25E
Revenue	12,826	13,735	14,637	12,950	14,418	15,909	1.0	5.0	8.7
EBITDA	1,257	1,415	1,566	1,295	1,485	1,670	3	5	7
Margins (%)	9.8	10.3	10.7	10.0	10.3	10.5	20bps	0bps	-20bps
Adj. PAT	515	582	674	567	615	697	10	6	3
EPS	8.6	9.7	11.2	9.4	10.2	11.6	9.9	5.5	3.6

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Revenue</b>	<b>7,256</b>	<b>9,930</b>	<b>12,950</b>	<b>14,418</b>	<b>15,909</b>
% change	-11.7	36.9	30.4	11.3	10.3
<b>EBITDA</b>	<b>854</b>	<b>996</b>	<b>1,295</b>	<b>1,485</b>	<b>1,670</b>
% change	-17.1	16.6	30.0	14.7	12.5
Depreciation	174	182	193	203	211
<b>EBIT</b>	<b>680</b>	<b>814</b>	<b>1,102</b>	<b>1,282</b>	<b>1,460</b>
Interest	458	460	500	587	674
Other Income	115.6	108.2	160.0	130.0	150.0
<b>PBT</b>	<b>338</b>	<b>463</b>	<b>762</b>	<b>825</b>	<b>936</b>
% change	-25.4	36.8	64.6	8.3	13.4
Tax	77	118	194	210	239
Tax Rate (%)	22.8	25.5	25.5	25.5	25.5
<b>Reported PAT</b>	<b>261</b>	<b>345</b>	<b>567</b>	<b>615</b>	<b>697</b>
Adj*	0	0	0	0	0
<b>Adj PAT</b>	<b>261</b>	<b>345</b>	<b>567</b>	<b>615</b>	<b>697</b>
% change	-37.0	32.0	64.6	8.3	13.4
No. of shares (cr)	61	61	63	63	4
<b>Adj EPS (Rs.)</b>	<b>4.3</b>	<b>5.7</b>	<b>9.4</b>	<b>10.2</b>	<b>11.6</b>
% change	-37.0	32.0	64.6	8.3	13.4
DPS (Rs.)	0.2	0.2	0.2	0.2	0.2

### CASH FLOW

Y.E March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Net inc. + Depn.</b>	<b>512</b>	<b>645</b>	<b>955</b>	<b>1,028</b>	<b>1,146</b>
Non-cash adj.	545	329	179	381	440
Changes in W.C	-32	-42	-779	-514	-626
<b>C.F. Operation</b>	<b>1,141</b>	<b>1,040</b>	<b>515</b>	<b>1,024</b>	<b>1,111</b>
Capital exp.	-94	237	-450	-100	-100
Change in inv.	-152	94	35	-56	-59
Other invest.CF	0	0	0	0	0
<b>C.F - Investment</b>	<b>-362</b>	<b>223</b>	<b>-576</b>	<b>-286</b>	<b>-309</b>
Issue of equity	0	0	0	0	0
Issue/repay debt	-125	-342	310	40	-110
Dividends paid	-43	-46	-51	-51	-4
Other finance.CF	-32	-294	284	-2	-2
<b>C.F - Finance</b>	<b>-658</b>	<b>-1,143</b>	<b>42</b>	<b>-600</b>	<b>-790</b>
Chg. in cash	122	120	-19	139	12
Closing cash	439	559	540	678	691

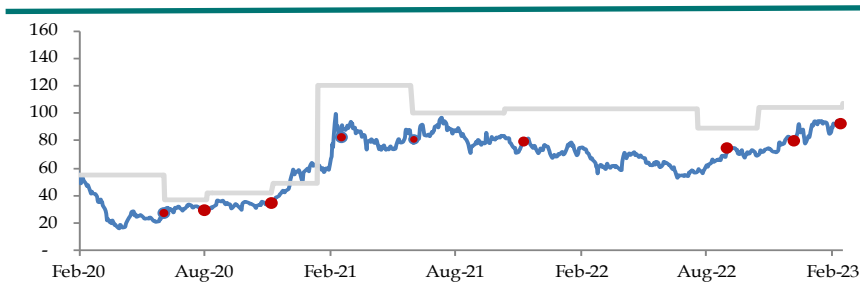
### BALANCE SHEET

Y.E March (Rs. cr)	FY21A	FY22A	FY23E	FY24E	FY25E
Cash	439	559	540	678	691
Accounts Receivable	2,660	2,492	3,193	3,634	3,923
Inventories	527	788	948	1,148	1,330
Other Cur. Assets	6,723	7,705	9,331	10,863	11,986
Investments	1,252	1,158	1,123	1,179	1,238
Gross Fixed Assets	2,510	2,260	2,710	2,810	2,910
Net Fixed Assets	1,039	1,064	1,040	939	830
CWIP	22	7	7	7	7
Intangible Assets	1	1	1	1	1
Def. Tax (Net)	41	54	181	177	172
Other Assets	-	-	-	-	-
<b>Total Assets</b>	<b>12,703</b>	<b>13,827</b>	<b>16,364</b>	<b>18,626</b>	<b>20,179</b>
Current Liabilities	5,368	6,635	8,295	9,836	10,788
Provisions	102	117	153	170	187
Debt Funds	1,527	1,184	1,494	1,534	1,424
Other Liabilities	336	88	100	200	200
Equity Capital	122	122	126	126	126
Reserves & Surplus	5,247	5,681	6,197	6,761	7,454
Shareholder's Fund	5,369	5,803	6,323	6,886	7,580
<b>Total Liabilities</b>	<b>12,703</b>	<b>13,827</b>	<b>16,364</b>	<b>18,626</b>	<b>20,179</b>
<b>BVPS (Rs.)</b>	<b>97</b>	<b>104</b>	<b>114</b>	<b>124</b>	<b>136</b>

### RATIOS

Y.E March	FY21A	FY22A	FY23E	FY24E	FY25E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	11.8	10.0	10.0	10.3	10.5
EBIT margin (%)	9.4	8.2	8.5	8.9	9.2
Net profit mgn.(%)	3.6	3.5	4.4	4.3	4.4
ROE (%)	5.0	6.2	9.4	9.3	9.6
ROCE (%)	10.3	8.3	10.7	11.0	11.6
<b>W.C &amp; Liquidity</b>					
Receivables (days)	132.8	94.7	80.1	86.4	86.7
Inventory (days)	32.4	29.0	29.3	32.0	34.5
Payables (days)	235.5	173.6	252.0	276.5	286.8
Current ratio (x)	1.9	1.7	1.7	1.6	1.6
Quick ratio (x)	0.6	0.5	0.4	0.4	0.4
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	2.9	4.2	5.2	5.2	5.6
Total asset T.O (x)	0.6	0.7	0.9	0.8	0.8
Int. coverage ratio (x)	1.5	1.8	2.2	2.2	2.2
Adj. debt/equity (x)	0.3	0.2	0.2	0.2	0.2
<b>Valuation</b>					
EV/Sales (x)	0.9	0.6	0.5	0.4	0.4
EV/EBITDA (x)	7.5	6.0	4.9	4.2	3.6
P/E (x)	20.5	15.5	9.4	8.7	7.7
P/BV (x)	0.9	0.9	0.8	0.7	0.7

## Recommendation Summary ( Last 3 years)



Source: Bloomberg, Geojit Research.

Dates	Rating	Target
21-Aug-2019	Reduce	55
4-Jun-2020	BUY	37
14-Aug-2020	Buy	42
11-Nov-2020	BUY	49
19-Feb-2021	Buy	120
08-Jun-2021	BUY	100
10-Nov-2021	BUY	103
07-Sep-2022	BUY	89
13-Dec-2022	BUY	104
24-Feb-2023	BUY	107

## Investment Criteria

Ratings	Large caps	Midcaps	Small Caps
<b>Buy</b>	<b>Upside is above 10%</b>	<b>Upside is above 15%</b>	<b>Upside is above 20%</b>
<b>Accumulate</b>	-	<b>Upside is between 10%-15%</b>	<b>Upside is between 10%-20%</b>
<b>Hold</b>	<b>Upside is between 0% - 10%</b>	<b>Upside is between 0%-10%</b>	<b>Upside is between 0%-10%</b>
<b>Reduce/sell</b>	<b>Downside is more than 0%</b>	<b>Downside is more than 0%</b>	<b>Downside is more than 0%</b>

### Not rated/Neutral

#### Definition:

**Buy:** Acquire at Current Market Price (CMP), with the target mentioned in the research note.

**Accumulate:** Partial buying or to accumulate as CMP dips in the future.

**Hold:** Hold the stock with the expected target mentioned in the note.

**Reduce:** Reduce your exposure to the stock due to limited upside.

**Sell:** Exit from the stock.

**Not rated/Neutral:** The analyst has no investment opinion on the stock.

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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