

July 14, 2023

In a sweet spot with accelerated execution & improving balance sheet!

About the stock: NCC is one of the leading construction companies with presence across varied verticals of infrastructure space such as buildings, roads, water, mining and electrical. Consolidated order book stood at ₹ 50,244 crore as of FY23.

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

Key Investment Thesis:

- Strong Order book to drive robust execution ahead:** NCC has a strong order book of ₹ 50,244 crore (3.8x order book to TTM bill ratio), largely aided by ₹ 25,895 crore worth of orders secured in FY23. Furthermore, the company also received orders worth ₹ 7587 crore in Q1FY24. Going ahead, the company believes similar (~₹26,000) crore of order inflows during FY24, is a possibility with its strong emphasis on a) buildings: affordable housing, b) water: higher traction being witnessed in Jal Jeevan mission, c) electricals (RTSS scheme) and d) tunnelling. Given the robust orderbook, we expect strong revenue CAGR of ~18% over FY23-25E to ₹ 18424 crore
- Margins improvement to boost PAT further:** With easing of raw materials, margins are likely to improve ahead. We note that company expects EBITDA and PAT margins to improve by 50 bps, with bottomline growth expectations of ~40% in FY24. With strong execution and stabilised raw material prices, we expect margins to improve to 10.6% and in FY24 and FY25, respectively vs. 10.1% in FY23. Strong topline growth coupled with margins expansion is likely to drive ~25% earnings CAGR over FY23-25E
- Debt to reduce further:** Standalone gross debt stood at ₹ 980 crore, as of FY23 end vs. ₹ 1184 crore in FY22. Going forward, the company expects its gross debt to reduce by 100-200 crore in FY24, partly aided by higher profitability and improved collections. Furthermore, receipt of money from Sembcorp and NCC Urban monetisation receipt, if fructified, could result in further inflows of ₹ 500-700 crore and debt reduction

Rating and Target Price

- NCC is a key beneficiary of the tailwinds in the buildings, roads, water, mining and electrical segments. Given the strong order book visibility, and improving balance sheet strength, it is poised for a strong growth ahead.
- We maintain our **BUY** rating
- We value NCC at ₹ 170 per share (based on 12x FY25 P/E)



Particulars

| Particular | Amount |
|---------------------------------|----------|
| Market Capitalization (₹ crore) | 8,250 |
| Total Debt (₹ crore) | 980 |
| Cash (₹ crore) | 646 |
| EV (₹ crore) | 8,584 |
| 52 week H/L (₹) | 137 / 56 |
| Equity capital | 125.6 |
| Face value | 2.0 |

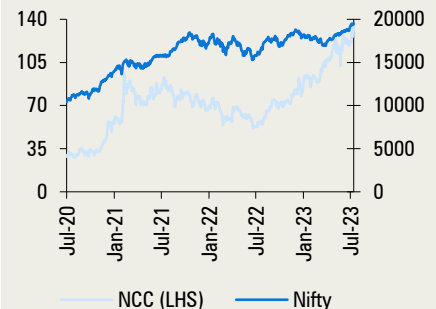
Shareholding Pattern

| | Jul-22 | Sep-22 | Dec-22 | Mar-23 |
|-----------|--------|--------|--------|--------|
| Promoters | 22.0 | 22.0 | 22.0 | 22.0 |
| DII | 11.2 | 13.0 | 12.4 | 12.9 |
| FII | 9.7 | 12.8 | 15.8 | 20.0 |
| Other | 57.2 | 52.2 | 49.9 | 45.2 |

Risks to our call

- Any delay in major projects could impact revenues
- Volatility in Raw material prices could impact margins

Price Performance



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Key Financial Summary

| ₹ crore | FY20 | FY21 | FY22 | FY23 | 5 year CAGR (FY18-23) | FY24E | FY25E | 2 year CAGR (FY23-25E) |
|-------------------|---------|---------|---------|----------|-----------------------|----------|----------|------------------------|
| Net Sales | 8,218.8 | 7,256.0 | 9,930.0 | 13,351.3 | 12.0% | 16,015.6 | 18,424.4 | 17.5% |
| EBITDA | 1,030.2 | 855.4 | 996.1 | 1,342.5 | 9.4% | 1,698.0 | 1,953.4 | 20.6% |
| EBITDA Margin (%) | 12.5 | 11.8 | 10.0 | 10.1 | | 10.6 | 10.6 | |
| Adj. PAT | 414.7 | 261.5 | 344.5 | 569.2 | 14.7% | 754.7 | 893.8 | 25.3% |
| Adj. EPS (₹) | 6.8 | 4.3 | 5.6 | 9.1 | | 12.0 | 14.2 | |
| P/E (x) | 21.0 | 30.6 | 16.3 | 14.5 | | 10.9 | 9.2 | |
| EV/EBITDA(x) | 9.3 | 10.9 | 8.7 | 6.2 | | 5.0 | 4.3 | |
| RoNW (%) | 8.1 | 4.9 | 5.9 | 9.0 | | 10.9 | 11.7 | |
| RoCE (%) | 14.7 | 11.2 | 13.3 | 17.9 | | 20.2 | 21.1 | |

Source: Company, ICICI Direct Research

Company Background

NCC is one of the leading construction companies in India with presence across varied verticals of infrastructure space. Key segment such as buildings, roads, water, railways and electrical form ~88% of the order book. Consolidated order book is robust at ₹ 50,244 crore as of FY23.

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

Investment Rationale

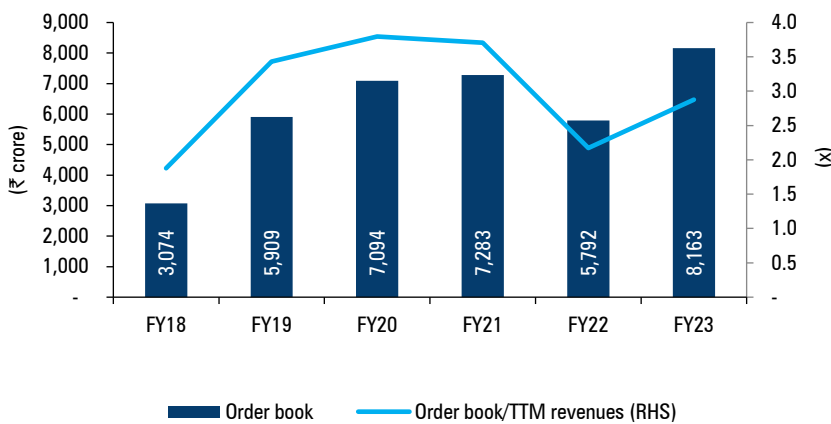
Strong order book and inflows traction provides robust revenues visibility

NCC's order book at the end of FY23 stood at an elevated level of ₹ 50,244 crore (3.8x order book to TTM bill ratio), largely aided by ₹ 25,895 crore worth of orders secured in FY23. Furthermore, the company also received new orders aggregating to ₹ 7587 Crore in Q1FY24.

Going forward, the management expects the momentum in the order inflows to continue with its strong emphasis on a) buildings: affordable housing, b) water: higher traction being witnessed in Jal Jeevan mission, c) electricals (RTSS scheme) and d) tunnelling. **The company believes similar (~₹26,000) crore of order inflows during FY24, is a possibility.**

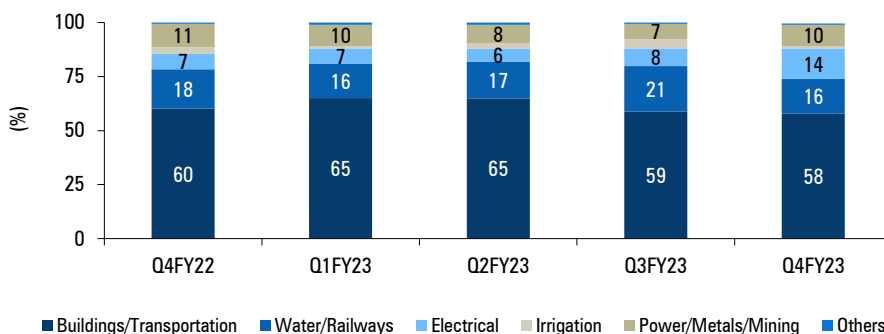
In terms of execution, the company has given topline guidance at ~20% YoY growth during FY24 to be driven by a) higher executable order book and b) pick-up in execution with operating efficiency.

Exhibit 1: Order Book provides strong visibility



Source: Company, ICICI Direct Research

Exhibit 2: Segment wise order book*



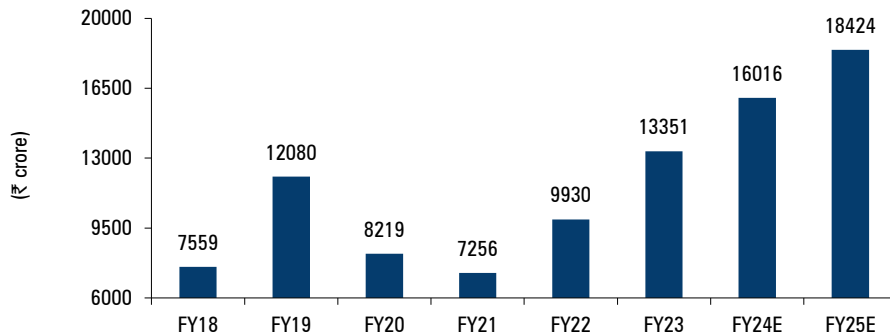
Source: Company, ICICI Direct Research *As of FY23

Revenues to grow at ~18% CAGR over FY23-25E

We highlight that over the last 5 years, revenues have grown at ~12% CAGR for NCC. The company has focussed on execution has gradually refrained from taking incremental exposure in slow moving segment/states.

Going ahead, terms of execution, the company has given topline guidance at ~20% YoY growth during FY24 to be driven by a) higher executable order book and b) pick-up in execution with operating efficiency. We believe that strong order book would ensure healthy topline growth (17.5% CAGR over FY23-25E)

Exhibit 3: Healthy revenue growth ahead



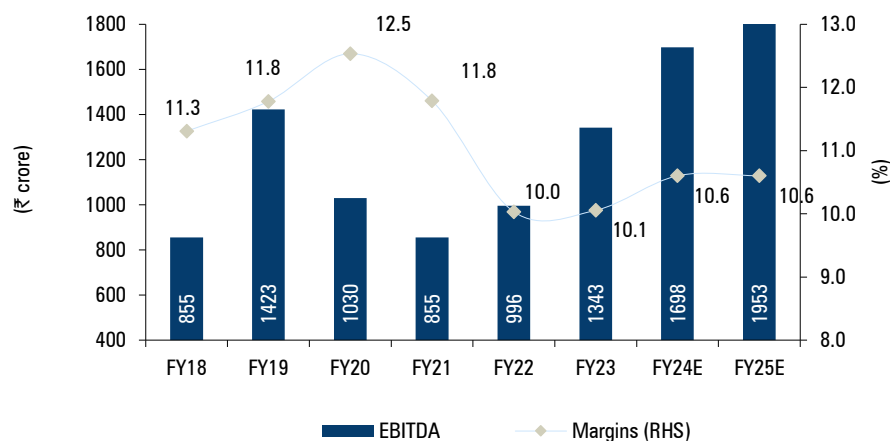
Source: Company, ICICI Direct Research

Margins to improve ahead

We highlight that the EPC companies (including NCC) in FY22 and H1FY23 witnessed an impact on margins owing steep rise in raw material prices including cement and steel. The margins, therefore, had come down to 10%/10.1% in FY22/FY23 vs. 11.8% in FY21.

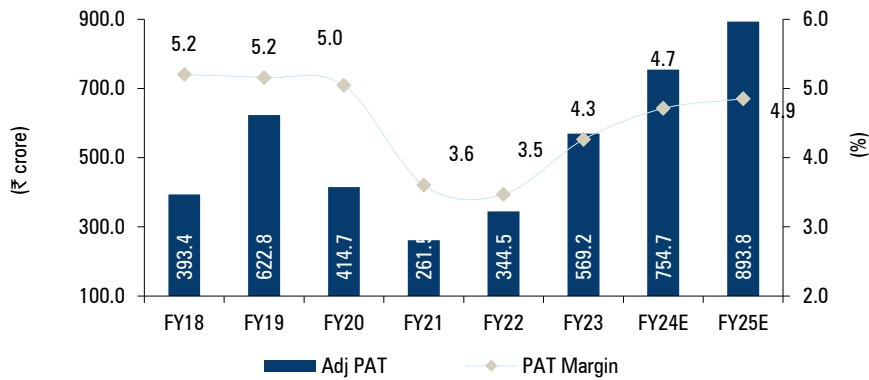
With easing of raw materials, margins are likely to improve ahead. We note that company expects EBITDA and PAT margins to improve by 50 bps, with bottomline growth expectations of ~40% in FY24.

Exhibit 4: EBITDA & EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 5: PAT trend



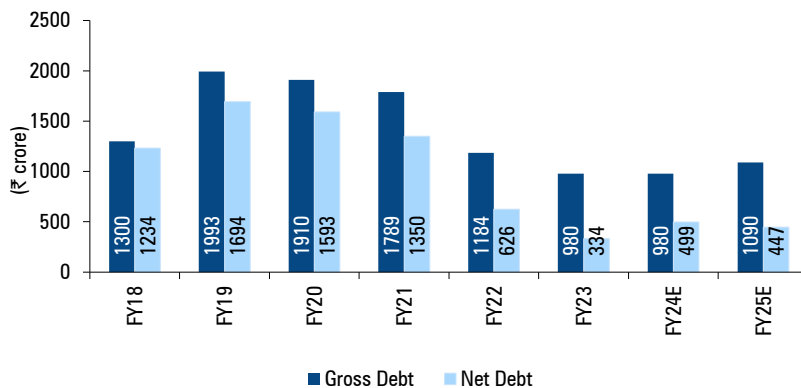
Source: Company, ICICI Direct Research

Balance Sheet improvement clearly visible

NCC's standalone gross debt stood at ₹ 980 crore, as of FY23 end vs. ₹ 1184 crore in FY22. During Q4FY23, it has declined by ~₹ 966 crore on QoQ basis to ₹ 980 crore, given the improved collection momentum and receipt of mobilisation amount of ~₹ 650 crore in Q4.

Going forward, the **company expects its debt to reduce by 100-200 crore in FY24**, partly aided by higher profitability and improved collections. **Furthermore, receipt of money from Sembcorp** (arbitration complete, judgement and amount receipt expectations by June-Sep, 2023) **and NCC Urban monetisation receipt** (expecting receipt of equity portion of ₹ 150 crore in FY24), **if fructified, could result in further inflows of ₹ 500-700 crore and debt reduction**. We have not incorporated the same and thus, could be a positive surprise ahead.

Exhibit 6: Gross Debt/Net Debt Trend



Source: Company, ICICI Direct Research

Key risk and concerns

Slower execution could impact revenues

Slower execution be it from the company front or any delays at client end could impact overall revenue growth potential.

Raw material volatility

The EPC companies in FY22 and H1FY23 witnessed an impact on margins owing steep rise in raw material prices including cement and steel. Nonetheless, the raw material prices have eased over the last 2-3 quarters. However, any steep volatility in raw material prices could impact margins

Increase in competitive environment

While NCC operates in a competitive industry, any competitive bidding led mistake could impact margins for certain projects.

Financial summary

| Exhibit 7: Profit and loss statement | | | | |
|--------------------------------------|----------------|-----------------|-----------------|-----------------|
| ₹ crore | | | | |
| ₹ crore | FY22 | FY23 | FY24E | FY25E |
| Net Sales | 9,930.0 | 13,351.3 | 16,015.6 | 18,424.4 |
| Other Income | 108.2 | 152.3 | 115.0 | 121.9 |
| Total revenues | 10,038.2 | 13,503.6 | 16,130.6 | 18,546.3 |
| Raw Material Expenses | 3,393.6 | 4,751.0 | 5,653.5 | 6,503.8 |
| Employee benefit expense | 429.1 | 520.4 | 624.3 | 718.2 |
| Construction expenses | 4,878.6 | 6,430.6 | 7,687.5 | 8,843.7 |
| Other Expenses | 232.6 | 306.8 | 352.3 | 405.3 |
| Total operating expenses | 8,933.9 | 12,008.8 | 14,317.6 | 16,471.0 |
| EBITDA | 996.1 | 1,342.5 | 1,698.0 | 1,953.4 |
| Interest | 459.6 | 510.0 | 538.0 | 587.1 |
| Depreciation | 182.3 | 199.8 | 226.8 | 246.8 |
| PBT | 608.0 | 785.0 | 1,048.2 | 1,241.4 |
| Taxes | 117.9 | 215.8 | 293.5 | 347.6 |
| PAT | 490.1 | 569.2 | 754.7 | 893.8 |
| Adjusted PAT | 344.5 | 569.2 | 754.7 | 893.8 |
| EPS | 8.0 | 9.1 | 12.0 | 14.2 |

Source: Company, ICICI Direct Research

| Exhibit 8: Cash flow statement | | | | |
|------------------------------------|----------------|----------------|----------------|----------------|
| ₹ crore | | | | |
| ₹ crore | FY22 | FY23 | FY24E | FY25E |
| Profit after Tax | 490.1 | 569.2 | 754.7 | 893.8 |
| Depreciation | 182.3 | 199.8 | 226.8 | 246.8 |
| Prov for Taxes | 317.8 | 71.3 | 77.6 | 117.9 |
| Cash Flow before wc changes | 798.7 | 976.9 | 1,355.2 | 1,615.7 |
| Change in WC | (47.1) | 230.9 | (181.0) | (714.3) |
| Taxes Paid | 86.8 | (130.9) | (209.1) | (293.5) |
| Net CF from op. activities | 890.4 | 594.6 | 267.2 | 490.1 |
| (Purchase)/Sale of Fixed Assets | (187.8) | (314.1) | (275.0) | (250.0) |
| (Purchase)/Sale of Investments | 73.8 | 61.5 | - | - |
| Net CF from inv. activities | (114.0) | (252.6) | (275.0) | (250.0) |
| Proceeds from Secured Borrowing | (604.8) | (204.5) | - | 110.0 |
| Proceeds from Unsecured Borrowing | - | - | - | - |
| Net CF from fin. activities | (656.5) | (255.0) | (157.0) | (78.4) |
| Net Cash flow | 119.9 | 87.1 | (164.8) | 161.7 |
| Opening Cash | 438.6 | 558.5 | 645.6 | 480.8 |
| Closing Cash | 558.5 | 645.6 | 480.8 | 642.6 |

Source: Company, ICICI Direct Research

| Exhibit 9: Balance sheet | | | | |
|-------------------------------|----------------|----------------|----------------|----------------|
| ₹ crore | | | | |
| ₹ crore | FY22 | FY23 | FY24E | FY25E |
| Equity Capital | 122.0 | 125.6 | 125.6 | 125.6 |
| Reserve and Surplus | 5,681.2 | 6,196.3 | 6,794.1 | 7,499.5 |
| Total Shareholders funds | 5,803.2 | 6,321.9 | 6,919.6 | 7,625.1 |
| Total Debt | 1,184.1 | 979.6 | 979.6 | 1,089.6 |
| Other Non-current Liabilities | - | - | - | - |
| Deferred Tax Liability | (54.1) | (47.5) | (47.5) | (47.5) |
| Source of Funds | 6,933.1 | 7,253.9 | 7,851.7 | 8,667.1 |
| Gross Block | 2,260.0 | 2,559.4 | 2,834.4 | 3,084.4 |
| Less: Accumulated Dep | 1,196.2 | 1,396.1 | 1,622.8 | 1,869.6 |
| Net Block | 1,063.7 | 1,163.4 | 1,211.6 | 1,214.8 |
| Capital WIP | 7.0 | 21.7 | 21.7 | 21.7 |
| Total Fixed Assets | 1,070.7 | 1,185.0 | 1,233.2 | 1,236.5 |
| Investments | 1,156.7 | 1,095.2 | 1,095.2 | 1,095.2 |
| Inventory | 787.8 | 1,077.8 | 1,272.5 | 1,463.9 |
| Sundry Debtors | 2,492.2 | 2,945.1 | 3,554.2 | 4,088.7 |
| Loans & Advances | 407.8 | 371.7 | 438.8 | 504.8 |
| Cash & Bank Balances | 558.5 | 645.6 | 480.8 | 642.6 |
| Other Current Assets | 6,775.0 | 7,514.1 | 9,013.6 | 10,369.2 |
| Total Current Assets | 11,021.4 | 12,554.4 | 14,759.8 | 17,069.1 |
| Trade Payable | 4,280.6 | 4,822.7 | 5,785.1 | 6,655.2 |
| Provisions | 116.9 | 129.0 | 154.7 | 178.0 |
| Other Current Liabilities | 2,441.9 | 3,346.5 | 4,014.3 | 4,618.0 |
| Total Current Liabilities | 6,839.4 | 8,298.2 | 9,954.1 | 11,451.3 |
| Net Current Assets | 4,182.0 | 4,256.2 | 4,805.7 | 5,617.9 |
| Application of Funds | 6,933.1 | 7,253.9 | 7,851.7 | 8,667.1 |

Source: Company, ICICI Direct Research

| Exhibit 10: Key ratios | | | | |
|--------------------------|------------|------------|------------|------------|
| ₹ crore | FY22 | FY23 | FY24E | FY25E |
| Per Share Data | | | | |
| Reported EPS | 8.0 | 9.1 | 12.0 | 14.2 |
| Cash EPS | 11.0 | 12.2 | 15.6 | 18.2 |
| BVPS | 95.2 | 100.7 | 110.2 | 121.4 |
| Operating Ratios | | | | |
| EBITDA / Net Sales | 10.0 | 10.1 | 10.6 | 10.6 |
| PAT / Net Sales | 3.5 | 4.3 | 4.7 | 4.9 |
| Return Ratios | | | | |
| RoE | 5.9 | 9.0 | 10.9 | 11.7 |
| RoCE | 13.3 | 17.9 | 20.2 | 21.1 |
| RoIC | 12.8 | 17.3 | 20.0 | 21.3 |
| Valuation Ratios | | | | |
| EV / EBITDA | 8.7 | 6.2 | 5.0 | 4.3 |
| P/E | 16.3 | 14.5 | 10.9 | 9.2 |
| EV / Net Sales | 0.9 | 0.6 | 0.5 | 0.5 |
| Market Cap / Sales | 0.8 | 0.6 | 0.5 | 0.4 |
| Price to Book Value | 1.4 | 1.3 | 1.2 | 1.1 |
| Turnover Ratios | | | | |
| Asset turnover | 1.4 | 1.8 | 2.0 | 2.1 |
| 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 | 0.1 | 0.1 | 0.1 | 0.1 |
| Current Ratio | 1.5 | 1.4 | 1.4 | 1.4 |
| Quick Ratio | 1.4 | 1.3 | 1.3 | 1.3 |

Source: Company, ICICI Direct Research

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Buy: >15%

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Reduce: -15% to -5%;

Sell: <-15%



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