

Retail Equity Research (South India Focus)

**NCC Ltd**

Construction & Engineering

BSE CODE : 500294 NSE CODE: NCC  
BLOOMBERG CODE: NJCC:IN SENSEX : 52,329

**BUY**

12 Months Investment Period Rating as per Small Cap

**CMP Rs. 82 TARGET Rs. 100 RETURN 21%** ↑  
(Closing: 07-06-21)

**KEY CHANGES:**

**TARGET** ↑

**RATING** ↔

**EARNINGS** ↑

**Strong order book provides visibility...**

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

- Q4FY21 revenue grew by 20% YoY led by ramp up in execution on account of better availability of workforce.
- EBITDA margin declined by 179bps YoY to 11.1% due to higher input costs and higher sub-contracting expenses (54% YoY).
- Order book remain healthy at Rs37,911cr (5.2x FY21 revenue) supported by strong inflow of Rs18,953 in FY21.
- As per company, the second wave of Covid is expected to impact execution in Q1FY22, but the impact to be lower than the last year.
- Due to uncertainty NCC has not given any guidance for revenue & margin, but remain positive on long term outlook.
- We maintain Buy rating due to strong order book, increased Govt's infra spending. We value at a P/E of 14x on FY23E EPS with a TP of Rs100.

**Lockdown to impact Q1FY22 revenue...**

Q4FY21 revenue increased by 20% YoY to Rs2,618cr (above our estimate) due to ramp up in execution driven by better availability of workforce. The company expects the second wave of Covid to impact Q1FY22 execution due to lockdown announced by many state governments, however, the impact to be lower than last year. The management has refrained from giving any guidance for revenue, margin and order inflow target for FY22. The labour availability and operational efficiency across project sites have been impacted and stands 10% to 15% below pre-covid level in April- May 2021. However, NCC remain positive on long term outlook. We reduce FY22E/FY23E revenue estimate by 5%/4% respectively due to uncertainty over near term execution.

**Robust order book...**

NCC's order book remains robust at Rs37,911cr (5.2x FY21 revenue) supported by strong order inflow of Rs18,953cr in FY21. The robust order book provides revenue visibility for three to four year. The management expects more orders from Jal Jeevan mission and affordable housing segment. In FY21 the company received Rs4,000cr of orders from Jal Jeevan. The company has reduced its exposure to Andhra Pradesh to 11% of order book.

**Higher input cost impacted margins...**

In Q4FY21, EBITDA margin declined by 179bps YoY to 11.1% on account of higher input cost and increase in sub-contracting expenses (54% YoY). The management highlighted that 65% to 70% of its orders are covered by cost escalation clause and expects margin to improve once the work efficiency across sites improves. Adj. PAT grew by 11% YoY to Rs115cr in Q4FY21.

**Valuations**

NCC's comfortable order book and focus on deleveraging balance sheet provides visibility for the coming years. We therefore, maintain Buy rating and value NCC at a P/E of 14x on FY23E earnings with a target of Rs100.

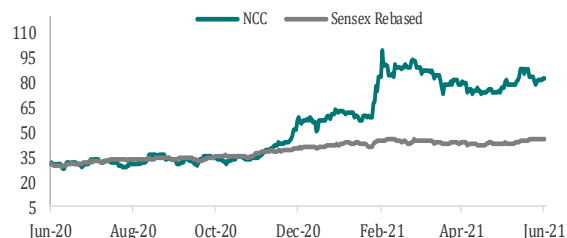
**Company Data**

Market Cap (cr)	₹ 4,940
Enterprise Value (cr)	₹ 6,592
Outstanding Shares (cr)	60.1
Free Float	80.3%
Dividend Yield	0.23%
52 week high	₹ 100
52 week low	₹ 27
6m average volume (cr)	0.6
Beta	1.4
Face value	₹ 2

Shareholding (%)	Q2FY21	Q3FY21	Q4FY21
Promoters	19.68	19.68	19.68
FII's	9.8	10.32	13.12
MFs/Insti	12.31	11.43	12.19
Public	58.21	58.57	55.01
Total	100.0	100.0	100
Promoter pledge%	26.19	23.28	20.52

Price Performance	3 month	6 Month	1 Year
Absolute Return	-4%	39%	171%
Absolute Sensex	3%	15%	53%
Relative Return*	-6%	24%	119%

over or under performance to benchmark index



Standalone (cr)	FY21A	FY22E	FY22E
Sales	7,256	9,401	10,996
Growth (%)	-11.7	29.6	17.0
EBITDA	854	1,081	1,276
EBITDA Margin(%)	11.8	11.5	11.6
PAT Adj.	261	421	555
Growth (%)	-37.0	61.0	31.9
Adj.EPS	4.3	7.0	9.2
Growth (%)	-37.0	61.0	31.9
P/E	18.9	11.7	8.9
P/B	0.9	0.8	0.7
EV/EBITDA	7.6	5.9	5.0
ROE (%)	5.0	7.6	9.3
D/E	0.3	0.3	0.2

## SOTP Valuation

Particulars	Invested Equity (Rs Cr)	Value/Share (Rs)	Rationale
Standalone EPC		98	P/E14x FY23E EPS
Real estate	346	2	0.3x P/BV
<b>Total Value per share</b>		<b>100</b>	

## Quarterly Financials (Standalone)

### Profit & Loss

Rs cr)	Q4FY21	Q4FY20	YoY Growth %	Q3FY21	QoQ Growth %	FY21	FY20	YoY Growth %
<b>Sales</b>	<b>2,618</b>	<b>2,182</b>	20.0	<b>1,918</b>	36.5	<b>7,256</b>	<b>8,219</b>	-11.7
<b>EBITDA</b>	290	281	3.3	239	21.1	855	1,030	-17.0
EBITDA margins %	11.1	12.9	-179bps	12.5	-141bps	11.8	12.5	-76bps
Depreciation	43	44	-1.4	44	-1.3	174	178	-1.9
<b>EBIT</b>	<b>246</b>	<b>237</b>	4.2	<b>195</b>	26.1	<b>680</b>	<b>853</b>	-20.2
Interest	118	120	-1.5	107	10.5	458	518	-11.6
Other Income	21	24	-12.1	24	-13.6	116	151	-23.6
Exceptional Items	-	-	0	-	-	-	-32.7	0
<b>PBT</b>	<b>150</b>	<b>148</b>	1.4	<b>113</b>	32.1	<b>338</b>	<b>453</b>	-25.4
Tax	34	38	-8.3	43	-20.2	77	71	8.1
<b>Reported PAT</b>	<b>115</b>	<b>110</b>	5	<b>70</b>	64	<b>261</b>	<b>382</b>	-31.6
Adjustments	-	-6.7		-		-	33	
<b>Adj PAT</b>	<b>115</b>	<b>104</b>	11.4	<b>70</b>	64.2	<b>261</b>	<b>415</b>	-37.0
No. of Shares	60	60		60		60	60	
<b>EPS (Rs)</b>	<b>2</b>	<b>2</b>	11.4	<b>1</b>	64.2	<b>5</b>	<b>7</b>	-37.0

### Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %	
	FY22E	FY23E	FY22E	FY23E	FY22E	FY23E
Revenue	9,901	11,483	9,401	10,996	-5.0	-4.2
EBITDA	1,198	1,378	1,081	1,276	-9.8	-7.4
Margins (%)	12.1	12	11.5	11.6	-60bps	-40bps
Adj. PAT	481	581	421	555	-12.6	-4.5
EPS	8.0	9.7	7.0	9.2	-12.6	-4.5

## Standalone Financials

### PROFIT & LOSS

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Revenue</b>	12,080	8,219	7,256	9,401	10,996
% change	59.8	-32.0	-11.7	29.6	17.0
<b>EBITDA</b>	1,423	1,030	854	1,081	1,276
% change	66.5	-27.6	-17.1	26.5	18.0
Depreciation	149	178	174	181	193
<b>EBIT</b>	<b>1274</b>	<b>853</b>	<b>680</b>	<b>900</b>	<b>1082</b>
Interest	451	518	458	461	468
Other Income	118.3	151.3	115.6	125.0	130.0
<b>PBT</b>	<b>882</b>	<b>453</b>	<b>338</b>	<b>564</b>	<b>745</b>
% change	139.8	-48.6	-25.4	66.9	31.9
Tax	318	71	77	144	190
Tax Rate (%)	36.0	15.7	22.8	25.5	25.5
<b>Reported PAT</b>	<b>564</b>	<b>382</b>	<b>261</b>	<b>421</b>	<b>555</b>
Adj*	-59	-33	0	0	0
<b>Adj PAT</b>	<b>623</b>	<b>415</b>	<b>261</b>	<b>421</b>	<b>555</b>
% change	58.3	-33.4	-37.0	61.0	31.9
No. of shares (cr)	60	61	61	61	61
<b>Adj EPS (Rs.)</b>	10.4	6.9	4.3	7.0	9.2
% change	58.3	-33.4	-37.0	61.0	31.9
DPS (Rs.)	0.2	0.2	0.2	0.2	0.2

### CASH FLOW

Y.E March (Rs. cr)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Net inc. + Depn.</b>	1,031	631	512	745	938
Non-cash adj.	140	414	545	176	282
Changes in W.C	-430	-329	-32	-53	-521
<b>C.F. Operation</b>	859	867	1141	993	829
Capital exp.	-518	-349	-94	-110	-100
Change in inv.	-37	19	-152	-38	-39
Other invest.CF	-37	37	0	0	0
<b>C.F - Investment</b>	-710	-445	-362	-273	-269
Issue of equity	0	0	0	0	0
Issue/repay debt	573	-85	-125	-80	30
Dividends paid	-49	-50	-43	-46	-50
Other finance.CF	19	248	-32	-154	-2
<b>C.F - Finance</b>	91	-404	-658	-741	-489
Chg. in cash	240	18	122	-21	71
Closing cash	299	317	439	418	489

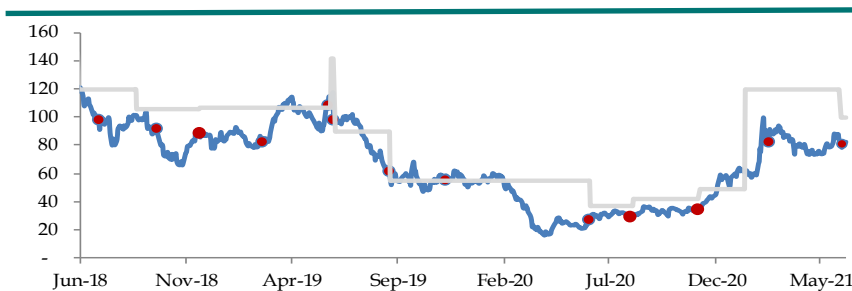
### BALANCE SHEET

Y.E March (Rs. cr)	FY19A	FY20A	FY21A	FY22E	FY23E
Cash	299	317	439	418	489
Accounts Receivable	3,154	2,618	2,660	3,039	3,465
Inventories	513	515	527	611	687
Other Cur. Assets	6,741	6,952	6,723	7,006	7,682
Investments	1,119	1,100	1,252	1,290	1,329
Gross Fixed Assets	2,060	2,410	2,510	2,610	2,710
Net Fixed Assets	1,109	1,047	1,039	1,133	1,042
CWIP	14	15	22	10	10
Intangible Assets	1	1	1	1	1
Def. Tax (Net)	173	206	41	182	178
Other Assets	37	-	-	-	-
<b>Total Assets</b>	<b>13,159</b>	<b>12,770</b>	<b>12,703</b>	<b>13,690</b>	<b>14,883</b>
Current Liabilities	6,314	5,591	5,368	6,110	6,752
Provisions	62	86	102	90	105
Debt Funds	1,736	1,652	1,527	1,447	1,477
Other Liabilities	290	337	336	300	300
Equity Capital	120	122	122	122	122
Reserves & Surplus	4,637	4,984	5,247	5,622	6,126
Shareholder's Fund	4,757	5,106	5,369	5,744	6,248
<b>Total Liabilities</b>	<b>13,159</b>	<b>12,770</b>	<b>12,703</b>	<b>13,690</b>	<b>14,883</b>
<b>BVPS (Rs.)</b>	86	92	97	103	112

### RATIOS

Y.E March	FY19A	FY20A	FY21A	FY22E	FY23E
<b>Profitab. &amp; Return</b>					
EBITDA margin (%)	11.8	12.5	11.8	11.5	11.6
EBIT margin (%)	10.5	10.4	9.4	9.6	9.8
Net profit mgn.(%)	5.2	5.0	3.6	4.5	5.0
ROE (%)	13.8	8.4	5.0	7.6	9.3
ROCE (%)	11.7	11.0	10.3	9.3	10.1
<b>W.C &amp; Liquidity</b>					
Receivables (days)	118.5	128.2	132.8	110.6	107.9
Inventory (days)	40.6	28.9	32.4	27.0	26.4
Payables (days)	211.6	334.5	340.6	272.4	261.9
Current ratio (x)	1.7	1.8	1.9	1.8	1.8
Quick ratio (x)	0.5	0.5	0.6	0.5	0.5
<b>Turnover &amp; Leverage</b>					
Gross asset T.O (x)	6.7	3.7	2.9	3.7	4.1
Total asset T.O (x)	1.0	0.6	0.6	0.7	0.8
Int. coverage ratio (x)	2.8	1.6	1.5	2.0	2.3
Adj. debt/equity (x)	0.4	0.3	0.3	0.3	0.2
<b>Valuation</b>					
EV/Sales (x)	0.6	0.8	0.9	0.7	0.6
EV/EBITDA (x)	4.7	6.4	7.6	5.9	5.0
P/E (x)	7.9	11.9	18.9	11.7	8.9
P/BV (x)	1.0	0.9	0.9	0.8	0.7

## Recommendation Summary (Last 3 years)



Dates	Rating	Target
30 <sup>th</sup> May 2018	BUY	146
3 <sup>rd</sup> September 2018	BUY	120
22 <sup>nd</sup> November 2018	BUY	106
22 <sup>nd</sup> February 2019	BUY	107
28 <sup>th</sup> May 2019	BUY	142
1 <sup>st</sup> June 2019	Reduce	90
21 <sup>st</sup> August 2019	Reduce	55
4 <sup>th</sup> June 2020	BUY	37
14 <sup>th</sup> August 2020	Buy	42
11 <sup>th</sup> November 2020	BUY	49
19 <sup>th</sup> February 2021	Buy	120
08 <sup>th</sup> June 2021	BUY	100

Source: Bloomberg, Geojit Research.

## Investment Criteria

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

### Not rated

#### 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:** 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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