

NCC

BUY

Beat estimate

### Summary

NCC Ltd (NJCC), Q4 beat our and consensus EBITDA by 7% and 13%. This is led by better execution (revenue), which increased by 28% YoY in Q4. And thus for FY23, NJCC revenue increased by 34% YoY and is better than guidance of 30%. Post the result we have factored improved execution of FY23 and other costs (interest) and thus EPS is upgraded by 5%/6% for FY24E/25E. TP is revised to Rs154 at 10x FY25E EPS (earlier Rs146). Retain BUY rating with catalyst being improvement in EBITDA margin better than guidance of 50bps increase and order win more than guidance of Rs250bn+ in FY24E. Commodities have weekend off-late and this augurs well for NJCC EBITDA margins in FY24E and in Q1FY24 received orders of Rs33bn. Stock trades at 8x FY25E EPS which is 20-25% discount to its infra peers and this could narrow on improved execution.

### Key Highlights and Investment Rationale

- Q4FY23 Snapshot:** Revenue increased by 28% YoY and EBITDA margin was steady at 10.6% vs 10.5% QoQ and 8.5% YoY. And thus for FY23, NCC revenue increased by 34% YoY and FY23 EBITDA margin of 10.1% vs 10% YoY. Q4 Reported PAT declined YoY by 27% as in Q4FY22: 1) There was exceptional gain 2) Lower tax rate 3) Higher Other income vs Q4FY23. On cash flow front, reported OCF of Rs8.7bn (with OCF/EBITDA of 65%) and OCF is better than reported in 1HFY23.
- Karnataka exposure:** NJCC in Karnataka State is executing orders of Rs40bn and is 8% of order book (including Bangalore Metro work of Rs20bn). In this 50% of the order is funding by state government. Company highlighted state government orders are in construction stage. And has already received Mobilization advance for these orders.

<b>TP</b>	<b>Rs154</b>
<b>CMP</b>	<b>Rs116</b>
Potential upside/downside	33%
Previous Rating	BUY

Price Performance (%)			
	-1m	-3m	-12m
Absolute	(3.3)	26.8	90.1
Rel to Sensex	(6.1)	21.1	75.6

V/s Consensus		
EPS (Rs)	FY24E	FY25E
IDBI Capital	12	15
Consensus	11	12
% difference	12.8	21.7

Key Stock Data	
Bloomberg/Reuters	NJCC IN/NCC.LBO
Sector	Infrastructure
Shares o/s (mn)	628
Market cap. (Rs mn)	72,642
3-m daily avg Trd value(Rs mn)	45.0
52-week high / low	Rs127 / 51
Sensex / Nifty	62,846 / 18,599

Shareholding Pattern (%)	
Promoters	22.0
FII	20.0
DII	12.8
Public	45.2

### Financial snapshot

Year	FY21	FY22E	FY23	FY24E	FY25E
Revenue	72,560	99,300	133,513	158,881	185,890
Change (yoy, %)	(12)	37	34	19	17
EBITDA	8,554	9,961	13,425	16,390	19,372
Change (yoy, %)	(17)	16	35	22	18
EBITDA Margin(%)	11.8	10.0	10.1	10.5	10.4
Adj.PAT	2,615	3,445	5,692	7,409	9,690
EPS (Rs)	4	6	9	12	15
Change (yoy, %)	(38)	32	63	28	31
PE(x)	27	21	13	10	8
Dividend Yield (%)	1	2	2	3	4
PBV (x)	10	8	6	4	4
RoE (%)	5	6	9	11	13
RoCE (%)	10	12	16	19	21

Source: IDBI Capital Research, Company

**Conference call takeaways:**

- Company revenue growth guidance is 20% YoY for FY24E, of which JMM order to contribute 25% to revenue, Also Company is planning to enter the Railway segment.
- Ongoing arbitration proceedings are expected to complete by end of Q2FY24E, company has kept Rs140mn for arbitration proceedings.
- PAT margin is expected to improve by 50bps YOY & PAT to increase by 40%, Company expects EBITDA margin at 13-13.5% in FY24E.
- Order book stood at Rs500bn, of which 46% account for Buildings and 22% for water and canal.
- Order inflow guidance is about Rs260Bn flat YoY, Company expects order inflow from MDO project which is Rs300bn and its equally divided over the 3 years.
- JMM order phase 2 project there is revised and scope change work and accordingly inflow Q4Fy23 is Rs130bn+ versus monthly reported at Rs60bn+
- Order book client wise (funding from): Central: Rs156Bn, State:Rs226Bn PSU's Rs4Bn. Order Backlog of Rs44Bn is from Subsidiary companies.
- Company expects Capex of Rs2.75Bn for FY24E.
- Debt to reduce by Rs1-2bn in FY24E and if SembCorp and conclusion of NCC Vizag sale could reduce debt by Rs6-7bn , Interest cots Rs5-5.5bn
- Karnataka State govt order of Rs40Bn and 8% of order book is in construction stage. Already received Mobilization advance for these orders, of which about 50% order is from Bangalore Metro Rail Corp.
- State wise, trade receivables is higher from Telangana , Andhra and UP. More than 3 years receivables has also come down.

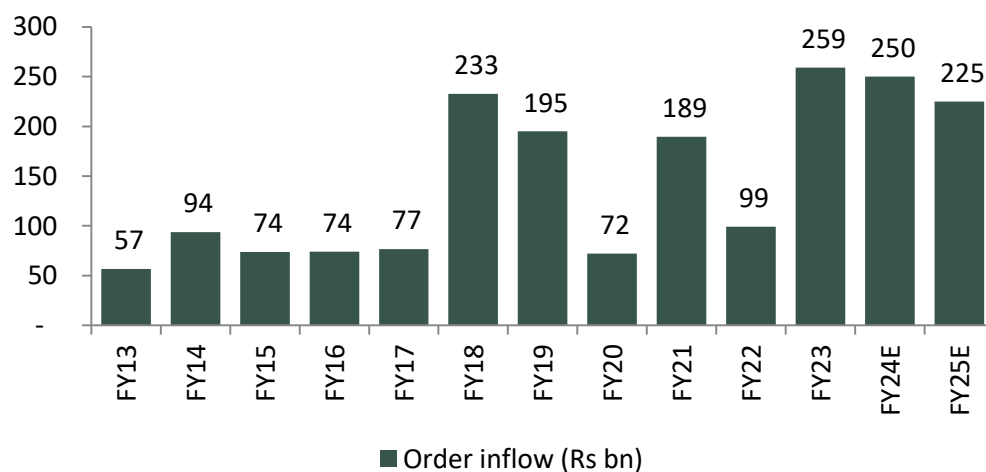
Exhibit 1: Financial snapshot

(Rs mn)

Particulars	Q4FY23	Q4FY22	YoY Chg (%)	Q3FY23	QoQ Chg (%)
<b>Net Sales</b>	<b>40,163</b>	<b>31,343</b>	<b>28</b>	<b>33,127</b>	<b>21</b>
<b>EBITDA</b>	<b>4,238</b>	<b>2,669</b>	<b>59</b>	<b>3,488</b>	<b>22</b>
<i>EBITDA margin (%)</i>	<i>10.55</i>	<i>8.5</i>	<i>204bps</i>	<i>10.5</i>	<i>2bps</i>
Other income	310	450	-31	574	-46
<b>PBIDT</b>	<b>4,548</b>	<b>3,119</b>	<b>46</b>	<b>4,063</b>	<b>12</b>
Depreciation	524	456	15	509	3
Interest	1,414	1,231	15	1,378	3
Exceptional items	-	1,345	-	-	-
<b>Adj. pre-tax profit</b>	<b>2,611</b>	<b>1,432</b>	<b>82</b>	<b>2,176</b>	<b>20</b>
Tax	834	345	141	677	23
<b>Reported PAT</b>	<b>1,777</b>	<b>1,087</b>	<b>64</b>	<b>1,499</b>	<b>19</b>

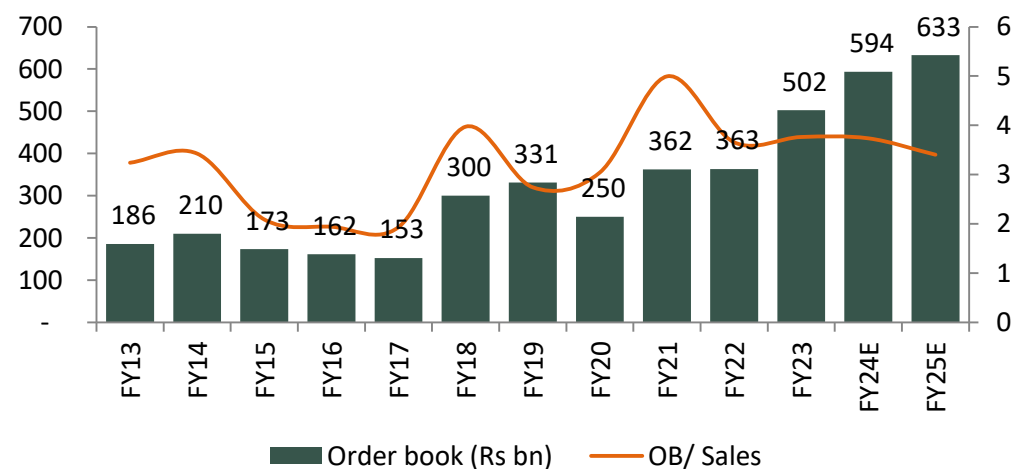
Source: Company

Exhibit 2: Order inflow in up-cycle, FY23 inflow at ~259bn



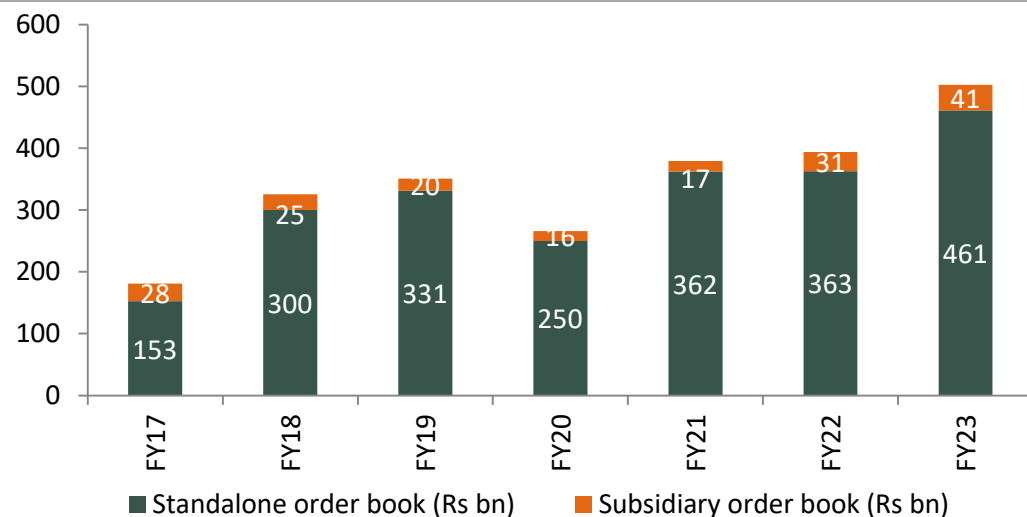
Source : Company, IDBI Capital Research

Exhibit 3: Order book (OB) provides visibility at ~3x (FY23 revenue)



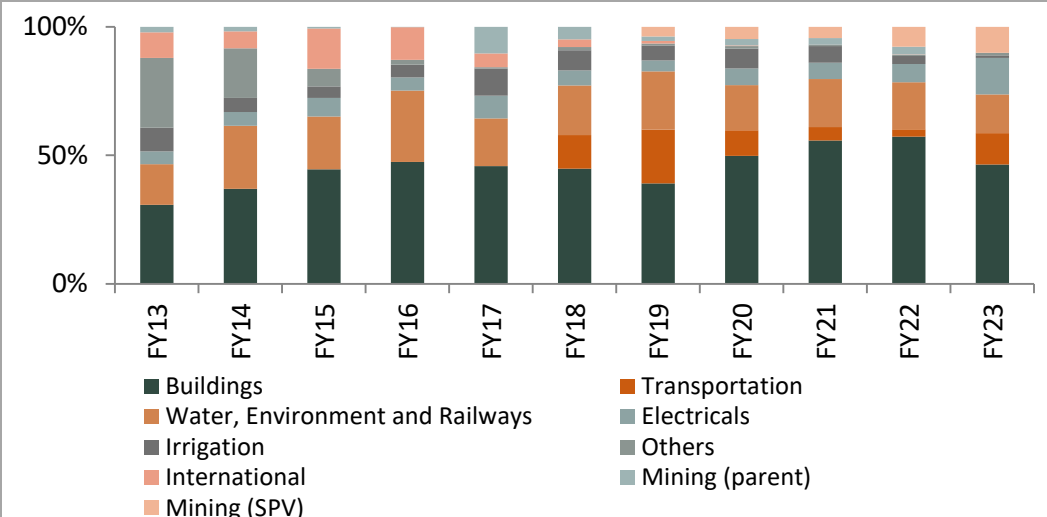
Source : Company, IDBI Capital Research Andhra Order at 12% of the book

**Exhibit 4: Subsidiary OB includes Mining SPV**



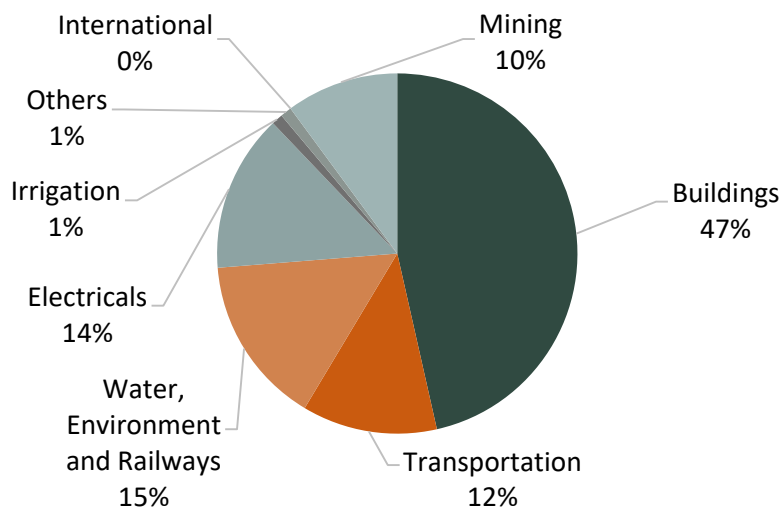
Source : Company

**Exhibit 5: Diversified presence in major infrastructure verticals**



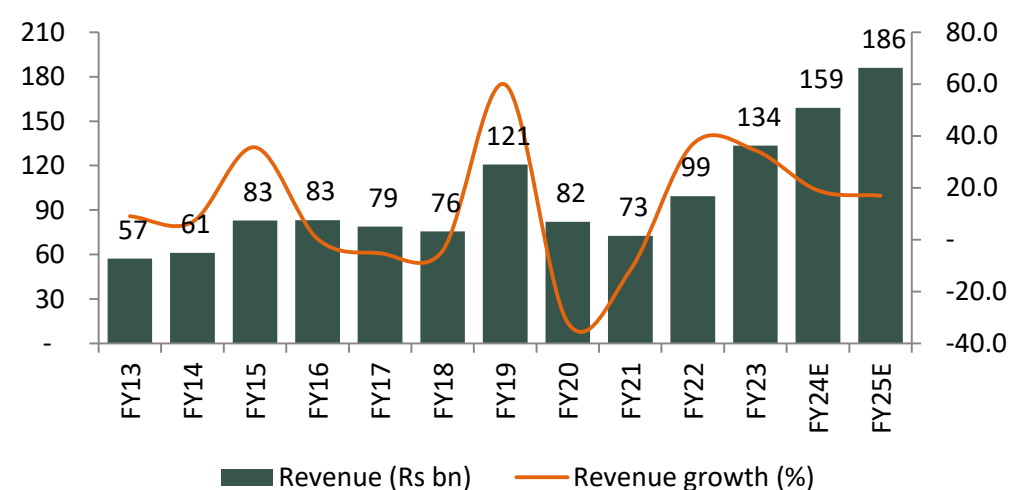
Source : Company

**Exhibit 6: Largest order book in Buildings segment as on Mar'23**



Source : Company

**Exhibit 7: Expect improved execution**



Source : Company, IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Net sales</b>	<b>82,188</b>	<b>72,560</b>	<b>99,300</b>	<b>133,513</b>	<b>158,881</b>	<b>185,890</b>
<i>Change (yoy, %)</i>	<i>(32.0)</i>	<i>(12)</i>	<i>37</i>	<i>34</i>	<i>19</i>	<i>17</i>
Operating expenses	(71,887)	(64,007)	(89,339)	(120,088)	(142,490)	(166,519)
<b>EBITDA</b>	<b>10,302</b>	<b>8,554</b>	<b>9,961</b>	<b>13,425</b>	<b>16,390</b>	<b>19,372</b>
<i>Change (yoy, %)</i>	<i>-27.6</i>	<i>(17)</i>	<i>16</i>	<i>35</i>	<i>22</i>	<i>18</i>
<i>Margin (%)</i>	<i>12.5</i>	<i>11.8</i>	<i>10.0</i>	<i>10.1</i>	<i>10.3</i>	<i>10.4</i>
Depreciation	(1,775)	(1,741)	(1,823)	(1,998)	(2,239)	(2,450)
<b>EBIT</b>	<b>8,526</b>	<b>6,813</b>	<b>8,138</b>	<b>11,427</b>	<b>14,151</b>	<b>16,922</b>
Interest paid	(5,179)	(4,578)	(4,596)	(5,100)	(5,322)	(5,066)
Other income	1,513	1,156	1,082	1,523	1,073	1,094
<b>Pre-tax profit</b>	<b>4,534</b>	<b>3,391</b>	<b>6,080</b>	<b>7,850</b>	<b>9,901</b>	<b>12,949</b>
Tax	(713)	(776)	(1,179)	(2,158)	(2,492)	(3,259)
<i>Effective tax rate (%)</i>	<i>15.7</i>	<i>22.9</i>	<i>19.4</i>	<i>27.5</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	-	-	-	-	-	-
<b>Net profit</b>	<b>3,820</b>	<b>2,615</b>	<b>4,901</b>	<b>5,692</b>	<b>7,409</b>	<b>9,690</b>
Exceptional items	(327)	-	1,456	-	-	-
<b>Adjusted net profit</b>	<b>4,147</b>	<b>2,615</b>	<b>3,445</b>	<b>5,692</b>	<b>7,409</b>	<b>9,690</b>
<i>Change (yoy, %)</i>	<i>(33.4)</i>	<i>(37)</i>	<i>32</i>	<i>65</i>	<i>30</i>	<i>31</i>
EPS	6.9	4.3	5.6	9.2	11.8	15.4
Dividend per sh	0.2	0.8	2.0	2.5	3.2	4.2
<i>Dividend Payout %</i>	<i>2.9</i>	<i>18.7</i>	<i>35.4</i>	<i>27</i>	<i>27</i>	<i>27</i>

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Shareholders' funds</b>	<b>51,056</b>	<b>53,694</b>	<b>58,032</b>	<b>63,219</b>	<b>68,614</b>	<b>75,670</b>
Share capital	1,220	1,220	1,220	1,256	1,256	1,256
Reserves & surplus	49,837	52,475	56,812	61,963	67,359	74,414
<b>Total Debt</b>	<b>19,101</b>	<b>17,889</b>	<b>11,841</b>	<b>9,796</b>	<b>8,796</b>	<b>6,796</b>
Other liabilities	19,101	17,889	11,841	9,796	8,796	6,796
<b>Curr Liab &amp; prov</b>	<b>58,404</b>	<b>26,602</b>	<b>24,922</b>	<b>29,451</b>	<b>32,848</b>	<b>37,158</b>
Current liabilities	57,547	55,443	68,397	82,982	98,522	115,114
Provisions	857	1,021	1,169	1,290	1,535	1,796
<b>Total liabilities</b>	<b>76,648</b>	<b>73,332</b>	<b>80,237</b>	<b>92,778</b>	<b>107,317</b>	<b>121,910</b>
<b>Total equity &amp; liabilities</b>	<b>127,705</b>	<b>127,026</b>	<b>138,269</b>	<b>155,997</b>	<b>175,931</b>	<b>197,580</b>
Net fixed assets	12,064	12,392	12,313	14,075	14,586	15,135
Investments	8,887	9,841	8,934	8,745	8,745	8,745
Other non-curr assets	2,055	411	541	475	541	541
<b>Current assets</b>	<b>104,699</b>	<b>104,382</b>	<b>116,480</b>	<b>132,701</b>	<b>152,059</b>	<b>173,158</b>
Inventories	5,829	5,949	8,913	10,778	11,753	13,751
Sundry Debtors	26,180	26,602	24,922	29,451	32,848	37,158
Cash and Bank	3,169	4,386	5,585	6,456	9,004	11,163
Loans and advances	5,771	2,956	4,011	3,717	2,717	1,717
<b>Total assets</b>	<b>127,705</b>	<b>127,026</b>	<b>138,269</b>	<b>155,997</b>	<b>175,931</b>	<b>197,580</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	4,534	3,391	6,080	7,850	9,901	12,949
Depreciation	1,775	1,741	1,823	1,998	2,239	2,450
Tax paid	(1,366)	(184)	(1,733)	(2,753)	(2,492)	(3,259)
Chg in working capital	(3,471)	(1,744)	3,959	(2,355)	(2,271)	(3,348)
Other operating activities	4,893	3,893	2,829	3,991	4,249	3,972
<b>Cash flow from operations (a)</b>	<b>6,364</b>	<b>7,097</b>	<b>12,960</b>	<b>8,731</b>	<b>11,627</b>	<b>12,765</b>
Capital expenditure	(1,441)	(1,915)	(2,153)	(3,420)	(2,750)	(3,000)
Chg in investments	(505)	(937)	(1,065)	(439)	-	-
Other investing activities	304	3,491	1,907	2,535	2,073	2,094
<b>Cash flow from investing (b)</b>	<b>(1,642)</b>	<b>639</b>	<b>(1,311)</b>	<b>(1,324)</b>	<b>(678)</b>	<b>(906)</b>
Equity raised/(repaid)	824	266	-	797	-	-
Debt raised/(repaid)	(832)	(1,212)	(6,048)	(2,045)	(1,000)	(2,000)
Dividend (incl. tax)	(1,086)	(122)	(488)	(1,256)	(2,014)	(2,634)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(4,735)	(5,825)	(4,456)	(4,983)	(5,322)	(5,066)
<b>Cash flow from financing (c)</b>	<b>(5,830)</b>	<b>(6,893)</b>	<b>(10,992)</b>	<b>(7,487)</b>	<b>(8,336)</b>	<b>(9,700)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(1,107)</b>	<b>843</b>	<b>657</b>	<b>(80)</b>	<b>2,614</b>	<b>2,159</b>

### Financial Ratios

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	84.9	88	95	102	109	121
Adj EPS (Rs)	6.9	4.3	5.6	9.2	11.8	15.4
Adj EPS growth (%)	-33.5	-38	32	63	28	31
EBITDA margin (%)	12.5	11.8	10.0	10.1	10.3	10.4
Pre-tax margin (%)	5.5	4.7	6.1	5.9	6.2	7.0
Net Debt/Equity (x)	0.3	0.3	0.1	0.1	0.0	-0.1
ROCE (%)	12.4	10	12	16	19	21
ROE (%)	8.4	5	6	9	11	13

### DuPont Analysis

Asset turnover (x)	0.6	0.6	0.7	0.9	1.0	1.0
Leverage factor (x)	2.6	2.4	2.4	2.4	2.5	2.6
Net margin (%)	5.0	3.6	3.5	4.3	4.7	5.2

### Working Capital & Liquidity ratio

Inventory days	26	30	33	29	27	27
Receivable days	116	134	92	81	75	73
Payable days	202	212	174	134	134	134

### Valuations

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	16.8	27.1	20.5	12.6	9.8	7.5
Price/Book value (x)	1.4	1.3	1.2	1.1	1.1	1.0
EV/Net sales (x)	1.1	1.2	0.8	0.6	0.5	0.4
EV/EBITDA (x)	8.4	9.8	7.7	5.7	4.4	3.5
Dividend Yield (%)	0.2	0.7	1.7	2.2	2.8	3.6

Source: Company; IDBI Capital Research





# Notes

Dealing

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**Key to Ratings Stocks:****BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

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