

## Strong Performance to continue...

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. Standalone order book stood at ₹ 50,154 crore currently.

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

Q3FY24 Performance: NCC reported standalone topline of ₹ 4747 crore, up 40.7% YoY led by strong execution and robust order book. EBITDA margins at 10.1% was largely stable YoY (10.3% in Q3FY23). PAT was up 42% YoY at ₹ 212.8 crore. With strong standalone order book of ₹ 50154 crore, ~3x book to bill, the company raised the FY24 topline growth guidance to ~33% vs. 25% earlier.

### Investment Rationale

- Poised for a healthy execution ahead with strong order book:** NCC has a strong consolidated order book of ₹ 57430 crore. Standalone order book stood at ₹ 50,154 crore, (~3x book to bill ratio), largely aided by ₹ 21,238 crore worth of orders secured in M9FY24. Furthermore, in Q4FY24, it has received orders of ₹ 1,250 crore and has L1 of ₹ 4,000 crore. Thus, it is on track to receive orders of ₹ 26000 crore+, as guided. Given the robust orderbook, we expect strong revenue CAGR of ~21% over FY23-26E to ₹ 23589 crore
- Margin improvement & higher return ratios ahead:** With easing of raw materials, margins are likely to improve ahead. With strong execution and stabilised raw material prices, we expect margins to improve to 10.4% in FY26 vs. 10.1% in FY23. Strong topline growth coupled with margins expansion is likely to drive ~29% earnings CAGR over FY23-26E.
- Working Capital to drive balance sheet improvement:** The working capital days have improved to ₹ 92 days (aided by receivable days coming down to 61 days – lowest in last decade). We highlight that the company expects to close FY24 with debt of ₹ 1300-1500 crore (currently at ₹ 1473 crore) and bring it to below ₹ 1,000 crore by FY25

### 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 BUY rating on NCC. We value NCC at target price of ₹ 275 (14x FY26 P/E). It is one of our preferred picks in the sector



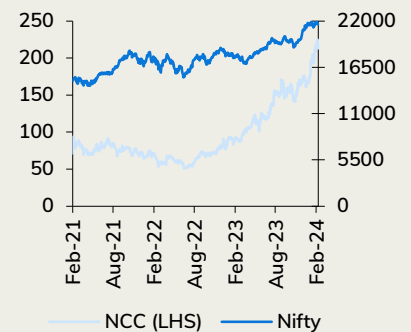
### Particulars

Particular	₹ crore
Market Capitalization	13,354
Total Debt FY23	980
Cash FY23	646
EV	13,688
52 week H/L (₹)	230 / 87
Equity capital	125.6
Face value	2.0

### Shareholding pattern

	Mar-23	Jun-23	Sep-23	Dec-23
Promoters	22.0	22.0	22.0	22.0
DII	12.9	12.3	11.0	10.5
FII	20.0	22.5	24.2	23.9
Other	45.2	43.3	42.8	43.6

### Price Chart



### Key risks

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

### Research Analyst

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### Key Financial Summary

₹ crore	FY21	FY22	FY23	5 year CAGR (FY18-23)	FY24E	FY25E	FY26E	3 year CAGR (FY23-26E)
Net Sales	7,256	9,930	13,351	12.0%	17,761	20,516	23,589	20.9%
EBITDA	855	996	1,343	9.4%	1,652	2,072	2,453	22.3%
EBITDA Margin (%)	11.8	10.0	10.1		9.3	10.1	10.4	
Adj. PAT	261	344	569	14.7%	843	979	1,227	29.2%
Adj. EPS (₹)	4.3	5.6	9.1		11.1	15.6	19.5	
P/E (x)	49.6	26.5	23.5		19.2	13.6	10.9	
EV/EBITDA(x)	16.7	13.7	9.9		8.4	6.7	5.6	
RoNW (%)	4.9	5.9	9.0		12.3	12.8	14.1	
RoCE (%)	11.2	13.3	17.9		18.9	22.3	24.1	

## Q3FY24 Performance highlights and outlook

- **Guidance:** Given the strong revenue growth (~38%) in M9FY24, the company has raised the topline growth guidance for FY 24 to ~33% vs. ~25%, earlier. While it refrained from FY25 guidance currently, it indicated that on margin front, it would continue to look at improvement going ahead. The company indicated that owing to election, ordering might see some slowdown, but it is likely to recover post the same.
- **Order Book & Inflow:** The consolidated order book stood at ₹ 57430 crore. Standalone order book stood at ₹ 50,154 crore, difference being Smart meter project in Maharashtra and Pachhwara Coal Mining, being executed through SPV. We highlight that company had earlier guided for order inflows of ₹ 26000 crore. During M9FY24, it has received order inflows of ₹ 21238 crore. Furthermore, in Q4FY24, it has received LOA of ₹ 1,250 crore and has L1 orders of ~₹ 4,000 crore. Thus, it is on track to achieve its guidance.
- **Jal Jeevan projects** – It has seen good progress with ~43% of orders already executed, while rest will be completed by FY25. We note that total Order from Jal Jeevan mission was ₹ 16,700 crore, of which 43% has been executed by Dec23 and another ~5% will be executed by March end.
- **Advance Metering Project:** The company has won 3 smart meter projects. For 2 projects in Maharashtra (total revenue excl. maintenance part at ₹ 5756 crore), SPVs have been created for execution of smart meter projects in Nasik and Aurangabad zone. Bihar Project (₹ 3043 crore) is housed at NCC level. Total equity requirement for these projects is ₹ 500 crore. NCC plans to sell 50% stake in these projects at a premium, and envisages effective equity investment of ₹ 150-200 crore over 3 years.
- **Debt:** Q3FY24 Debt was at ₹ 1473 crore (similar to 2Q), Net Debt was at ₹ 1369 crore, The company expects to close FY24 with debt of ₹ 1300-1500 crore and bring it to below ₹ 1,000 crore by FY25

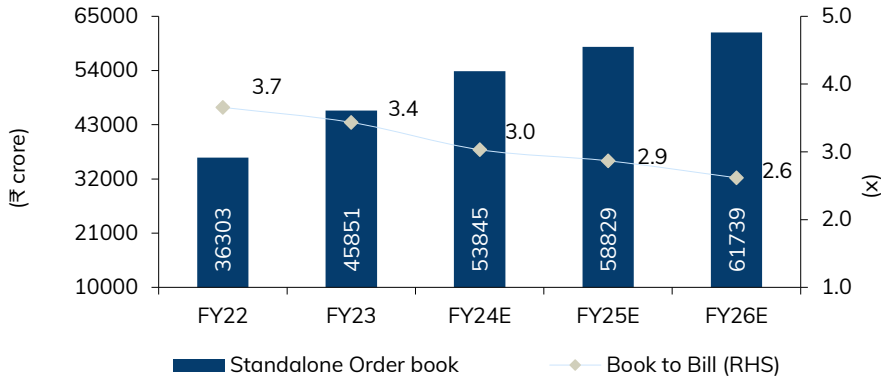
## Exhibit 1: Q3FY24 Earnings Table

	Q3FY24	Q3FY23	YoY (%)	Q2FY24	QoQ(%)	Comments
Net Sales	4,747.3	3,372.7	40.8	4,283.2	10.8	Topline aided by pick-up in execution
Other Income	26.3	57.4	-54.2	28.5	-7.7	
Total Construction Expenses	2,268.8	1,550.9	46.3	2,040.6	11.2	
Employee cost	173.3	133.7	29.6	152.1	13.9	
Other expenditure	1,825.5	1,339.3	36.3	1,811.9	0.7	
EBITDA	479.7	348.8	37.5	278.6	72.2	
EBITDA Margin (%)	10.1	10.3	-24 bps	6.5	360 bps	
Depreciation	52.8	50.9	3.8	52.5	0.6	
Interest	154.8	137.8	12.3	153.8	0.7	
Exceptional items	0.0	0.0	NA	0.0	0.0	
PBT	298.4	217.5	37.2	100.8	195.9	
Taxes	85.2	67.7	25.9	31.7	168.9	
Adjusted PAT	213.2	149.9	42.2	218.0	-2.2	Strong execution drives earnings growth

Source: Company, ICICI Direct Research

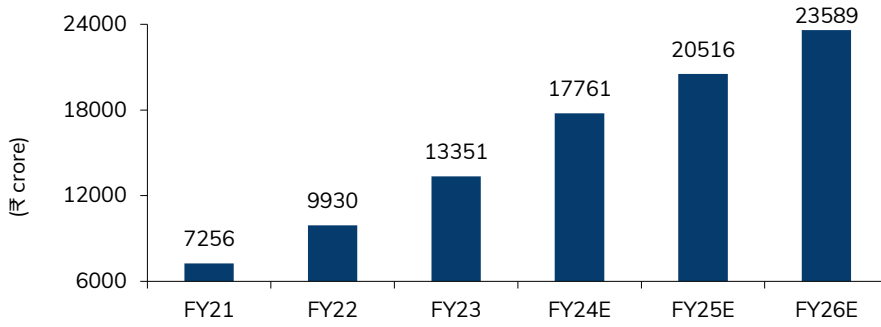
## Key Charts

Exhibit 2: Order Book Trend



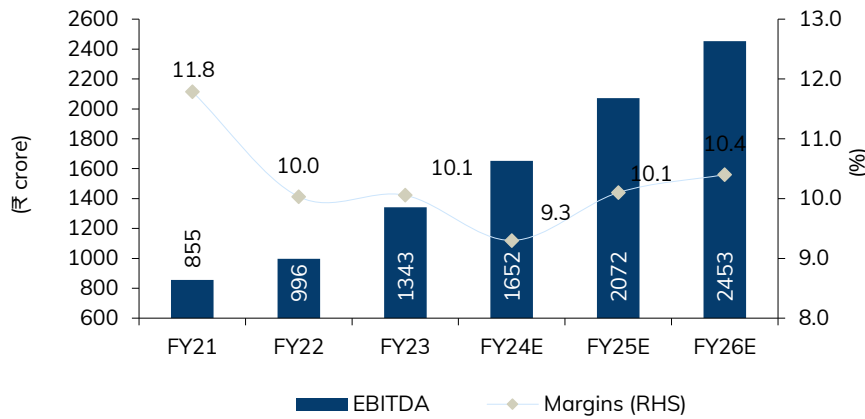
Source: Company, ICICI Direct Research

Exhibit 3: Revenue trend



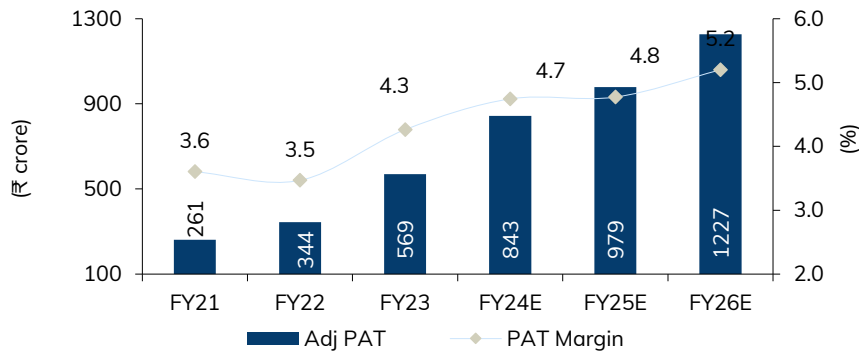
Source: Company, ICICI Direct Research

Exhibit 4: EBITDA & EBITDA margin trend



Source: Company, ICICI Direct Research

Exhibit 5: PAT Trend



Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 6: Profit and loss statement ₹ crore

₹ crore	FY23	FY24E	FY25E	FY26E
Net Sales	13,351	17,761	20,516	23,589
Other Income	152	111	124	143
Total revenues	13,504	17,872	20,640	23,732
RM Exp.	4,751	6,394	7,242	8,327
Employee exp	520	622	718	826
Constr. exp	6,431	8,614	9,930	11,346
Other Exp	307	480	554	637
Total op exp.	12,009	16,110	18,444	21,136
EBITDA	1,343	1,652	2,072	2,453
Interest	510	593	638	681
Depreciation	200	213	235	258
PBT	785	957	1,323	1,658
Taxes	216	263	344	431
PAT	569	694	979	1,227
Adjusted PAT	569	843	979	1,227
EPS	9.1	11.1	15.6	19.5

Source: Company, ICICI Direct Research

### Exhibit 8: Balance Sheet ₹ crore

₹ crore	FY23	FY24E	FY25E	FY26E
Equity Capital	126	126	126	126
Reserve and Surplus	6,196	6,733	7,524	8,562
Shareholders funds	6,322	6,859	7,650	8,688
Total Debt	980	1,410	1,200	1,050
Other Non-curr. Liab.	-	-	-	-
Def.Tax Liability	(48)	(48)	(48)	(48)
Source of Funds	7,254	8,221	8,802	9,691
Gross Block	2,559	2,834	3,134	3,434
Less: Acc. Dep	1,396	1,609	1,844	2,101
Net Block	1,163	1,226	1,291	1,333
Capital WIP	22	22	22	22
Total Fixed Assets	1,185	1,247	1,312	1,355
Investments	1,095	1,095	1,095	1,095
Inventory	1,078	1,411	1,630	1,874
Sundry Debtors	2,945	3,650	4,216	4,847
Loans & Advances	372	487	562	646
Cash & Bank	646	514	333	401
Other Current Assets	7,514	9,996	11,546	13,276
Total Current Assets	12,554	16,057	18,287	21,044
Trade Payable	4,823	6,423	7,419	8,531
Provisions	129	172	198	228
Other Curr.Liabilities	3,346	4,452	5,142	5,913
Total Curr. Liabilities	8,298	11,047	12,760	14,671
Net Current Assets	4,256	5,011	5,527	6,373
Application of Funds	7,254	8,221	8,802	9,691

Source: Company, ICICI Direct Research

### Exhibit 7: Cash flow statement ₹ crore

₹ crore	FY23	FY24E	FY25E	FY26E
Profit after Tax	569	694	979	1,227
Depreciation	200	213	235	258
Prov for Taxes	71	78	118	216
CF before wc changes	977	1,305	1,737	2,086
Change in WC	231	(181)	(1,036)	(697)
Taxes Paid	(131)	(209)	(263)	(344)
Net CF from op. activities	595	(130)	517	706
(Purchase)/Sale of FA	(314)	(275)	(300)	(300)
(Purchase)/Sale of Inv.	62	-	-	-
Net CF from inv. activities	(253)	(275)	(300)	(300)
Change in Debt	(205)	430	(210)	(150)
Other	-	-	-	-
Net CF from fin. activities	(255)	273	(398)	(338)
Net Cash flow	87	(132)	(181)	68
Opening Cash	559	646	514	333
Closing Cash	646	514	333	401

Source: Company, ICICI Direct Research

### Exhibit 9: Key ratios

	FY23	FY24E	FY25E	FY26E
<b>Per Share Data</b>				
Reported EPS	9.1	11.1	15.6	19.5
Cash EPS	12.2	14.4	19.3	23.6
BVPS	100.7	109.2	121.8	138.4
<b>Operating Ratios</b>				
EBITDA / Net Sales	10.1	9.3	10.1	10.4
PAT / Net Sales	4.3	4.7	4.8	5.2
<b>Return Ratios</b>				
RoE	9.0	12.3	12.8	14.1
RoCE	17.9	18.9	22.3	24.1
RoIC	17.3	18.7	21.7	23.7
<b>Valuation Ratios</b>				
EV / EBITDA	9.9	8.4	6.7	5.6
P/E	23.5	19.2	13.6	10.9
EV / Net Sales	1.0	0.8	0.7	0.6
Market Cap / Sales	1.0	0.7	0.6	0.5
Price to Book Value	2.1	1.9	1.7	1.5
<b>Turnover Ratios</b>				
Asset turnover	1.8	2.2	2.3	2.4
Debtors Turnover Ratio	4.5	4.9	4.9	4.9
Creditors Turnover Rati	2.8	2.8	2.8	2.8
<b>Solvency Ratios</b>				
Net Debt / Equity	0.1	0.1	0.1	0.1
Current Ratio	1.4	1.4	1.4	1.4
Quick Ratio	1.3	1.3	1.3	1.3

Source: Company, ICICI Direct Research

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Reduce: -15% to -5%;

Sell: <-15%



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