

CMP: ₹ 90

Target: ₹ 110 (22%)

Target Period: 12 months

BUY

January 3, 2023

Order inflow traction remains strong...

About the stock: NCC is one of the leading construction companies in India with a presence across varied verticals of the infrastructure space such as buildings, roads, water, mining and electrical with order book at ₹ 40,020 crore as on Q2FY23.

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

Update: NCC has witnessed healthy order inflows in Q3FY23.

- The company has secured orders worth ₹ 5033 crore in Q3FY23, with inflows of ~₹ 12150 crore in 9MFY23. We note that NCC's order book at the end of Q2FY23 on a standalone basis was at an elevated level of ₹ 40,020 crore (3.4x order book to TTM bill ratio). The management has guided for ~₹ 16,000 crore of order inflows during FY23, which is on track
- In terms of execution, the company's topline guidance is ~30% YoY growth during FY23 (with 45.7% YoY growth reported in H1FY23) to be driven by higher executable order book and improved operating efficiency with margins likely to improve to 10% in H2FY23, up 40 bps from Q2FY23 levels

What should investors do? NCC's share price has de-grown by 32% over the past five years (from ~₹ 132 in January, 2018 to ~₹ 90 levels currently).

- Strong execution and management guidance of continued traction along with margin improvement make us maintain our constructive view and **BUY** rating on the company

Target Price and Valuation: We value NCC at ₹ 110/share (at 10x FY25 P/E).

Key triggers for future price performance:

- Firmly placed to capitalise on a huge infrastructure pipeline; continued momentum in awarding activities to translate into healthy order inflows
- Strong order book to ensure topline growth (16% CAGR over FY22-25E) with margins stable at ~10%
- Focus on monetisation of non-core subsidiaries to bring in cash flows. Unwinding of receivables to provide liquidity boost; strengthening of balance sheet is likely with a gradual decline in debt

Alternate Stock Idea: Besides NCC, we like PNC Infra in the infra space.

- Quality play on the road segment
- BUY with a target price of ₹ 350/share

Key Financial Summary

₹ crore	FY21	FY22	5 year CAGR (FY17-22)	FY23E	FY24E	FY25E	3 year CAGR (FY22-24E)
Net Sales	7,256.0	9,930.0	4.7%	12,814.2	14,094.3	15,505.8	16.0%
EBITDA	855.4	996.1	7.8%	1,250.8	1,403.9	1,551.1	15.9%
EBITDA Margin (%)	11.8	10.0		9.8	10.0	10.0	
Adj. PAT	261.5	344.5	8.8%	502.8	605.5	708.8	27.2%
Adj. EPS (₹)	4.3	5.6		8.0	9.6	11.3	
P/E (x)	21.2	11.3		11.3	9.4	8.0	
EV/EBITDA(x)	8.0	6.2		5.6	4.9	4.4	
RoNW (%)	4.9	5.9		8.1	9.0	9.8	
RoCE (%)	11.2	13.3		15.1	15.9	16.2	

Source: Company, ICICI Direct Research



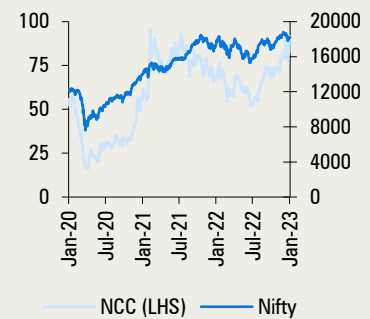
Particulars

Particular	Amount
Market Capitalization (₹ crore)	5,675.8
Total Debt (₹ crore)	1,184.1
Cash (₹ crore)	558.5
EV (₹ crore)	6,301.3
52 week H/L (₹)	97 / 52
Equity capital	125.6
Face value	2.0

Shareholding pattern

	Dec-21	Mar-22	Jul-22	Sep-22
Promoters	19.7	19.7	22.0	22.0
DII	12.1	11.2	11.2	13.0
FII	11.6	9.7	9.7	12.8
Other	56.6	59.5	57.2	52.2

Price Chart



Key Risks

Key Risk: (i) Weaker-than-expected execution; (ii) Stretched working capital and payment delays, if any

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Key business highlight and outlook

Strong order book to drive revenues ahead

NCC's order book at the end of Q2FY23 on a standalone basis was at an elevated level of ₹ 40,020 crore (3.4x order book to TTM bill ratio), largely aided by ₹ 7,117 crore worth of orders secured in H1FY23. Additionally, there were orders worth ₹ 5033 crore in Q3FY23. Going forward, the management expects the gained 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) roads and expressways, d) metro and railways and e) mining segments. **Overall, the management has guided for ~₹ 16,000 crore of order inflows during FY23. In terms of execution, the company during Q2FY23, had revised its topline guidance upwards to ~30% YoY growth during FY23 (vs. earlier guidance of 15-20% growth; 45.7% YoY growth reported in H1FY23) to be driven by a) higher executable order book and b) pick-up in execution with 100% operating efficiency. Further, the company intends to attain margins of 10% in FY23, with improvement of ~40 bps from current levels led by benign raw material prices.**

Company expects debt moderation ahead

NCC's standalone debt during Q2FY23 had inched up by ~₹ 278 crore on a QoQ basis to ₹ 1,985 crore, given the higher working capital draw down on accelerated execution. Going forward, the company expects its debt to reduce to ₹ ~1,500 crore by FY23-end, partly to be aided by higher profitability and better cash flow management. Further, receipt of money from NCC Urban monetisation would help in debt reduction, ahead. Recall that NCC had entered into a share purchase agreement with GRPL Housing Pvt Ltd to sell its entire shareholding in NCC Vizag Urban Infrastructure Ltd (a subsidiary company; equity investment: ~₹ 50 crore; loans and advances: ₹ 308 crore). The total equity consideration was at ₹ 199.5 crore (to be paid in four instalments). Out of these, the company received the first payment of ₹ 47.5 crore during Q4FY22 while the balance second, third and fourth instalments are likely to get released during December 2022, March 2023 and H1FY24, respectively. The funds are likely to be used for debt reduction.

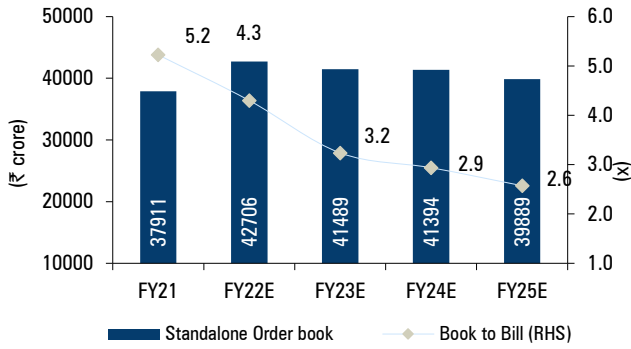
Exhibit 1: Change in estimates

(₹ Crore)	FY23E			FY24E			FY25E	
	Old	New	% Change	Old	New	% Change	New	
Revenue	12,552.7	12,814.2	2.1	13,956.3	14,094.3	1.0	15,505.8	Introduce FY25 estimates
EBITDA	1,225.3	1,250.8	2.1	1,390.2	1,403.9	1.0	1,551.1	
EBITDA Margin (%)	9.8	9.8	0 bps	10.0	10.0	0 bps	10.0	
PAT	483.3	502.8	4.0	588.6	605.5	2.9	708.8	
EPS (₹)	7.7	8.0	4.0	9.4	9.6	2.9	11.3	

Source: Company, ICICI Direct Research

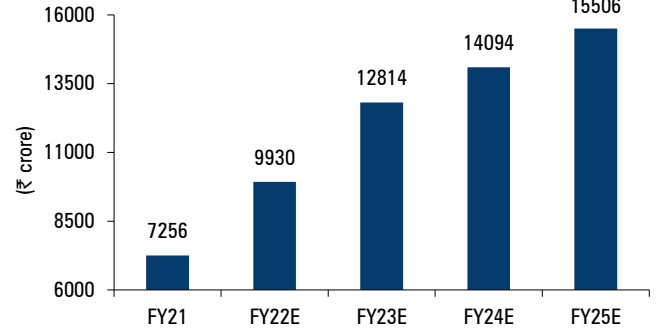
Company Analysis

Exhibit 1: Annual order book trend



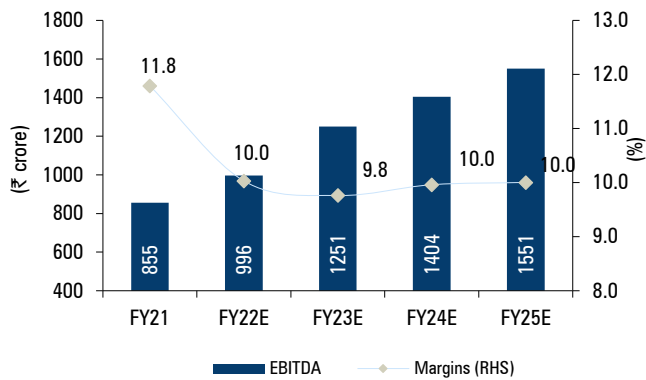
Source: Company, ICICI Direct Research

Exhibit 2: Annual revenue trend



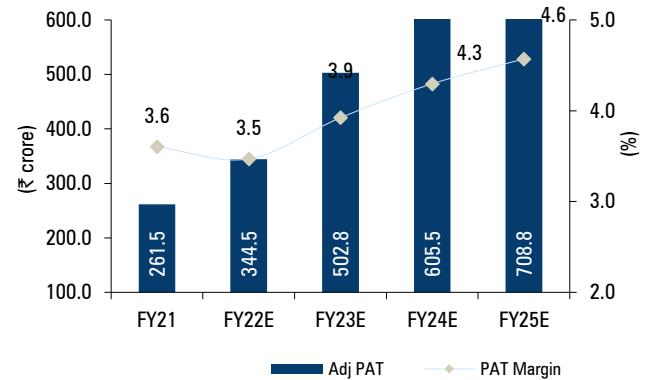
Source: Company, ICICI Direct Research

Exhibit 3: Annual EBITDA trend



Source: Company, ICICI Direct Research

Exhibit 4: Annual PAT trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 5: Profit and loss statement				
	₹ crore			
₹ crore	FY22	FY23E	FY24E	FY25E
Net Sales	9,930.0	12,814.2	14,094.3	15,505.8
Other Income	108.2	113.6	121.6	128.9
Total revenues	10,038.2	12,927.9	14,215.9	15,634.6
Raw Material Expenses	3,393.6	4,379.3	4,816.8	5,299.1
Employee benefit expense	429.1	553.8	609.1	670.1
Construction expenses	4,878.6	6,330.2	6,934.4	7,628.8
Other Expenses	232.6	300.1	330.1	356.6
Total operating expenses	8,933.9	11,563.4	12,690.4	13,954.7
EBITDA	996.1	1,250.8	1,403.9	1,551.1
Interest	459.6	494.9	507.6	504.2
Depreciation	182.3	193.8	204.1	219.3
PBT	608.0	675.7	813.9	956.5
Taxes	117.9	173.0	208.4	247.7
PAT	490.1	502.8	605.5	708.8
Adjusted PAT	344.5	502.8	605.5	708.8
EPS	4.3	8.0	8.0	9.6

Source: Company, ICICI Direct Research

Exhibit 6: Cash flow statement				
	₹ crore			
₹ crore	FY22	FY23E	FY24E	FY25E
Profit after Tax	490.1	502.8	605.5	708.8
Depreciation	182.3	193.8	204.1	219.3
Prov for Taxes	317.8	71.3	77.6	117.9
Cash Flow before wc changes	798.7	846.6	1,067.7	1,220.3
Change in WC	(47.1)	230.9	(1,173.4)	(479.2)
Taxes Paid	86.8	(130.9)	(173.0)	(208.4)
Net CF from op. activities	890.4	(476.8)	330.4	399.7
(Purchase)/Sale of Fixed Assets	(187.8)	(225.0)	(200.0)	(200.0)
(Purchase)/Sale of Investments	73.8	-	-	-
Net CF from inv. activities	(114.0)	(225.0)	(200.0)	(200.0)
Proceeds from Secured Borrowing	(604.8)	400.0	110.0	110.0
Proceeds from Unsecured Borrowing	-	-	-	-
Net CF from fin. activities	(656.5)	303.0	(11.1)	(31.8)
Net Cash flow	119.9	(398.8)	119.3	167.9
Opening Cash	438.6	558.5	159.7	279.1
Closing Cash	558.5	159.7	279.1	447.0

Source: Company, ICICI Direct Research

Exhibit 7: Balance sheet				
	₹ crore			
₹ crore	FY22	FY23E	FY24E	FY25E
Equity Capital	122.0	125.6	125.6	125.6
Reserve and Surplus	5,681.2	6,083.4	6,567.8	7,134.8
Total Shareholders funds	5,803.2	6,209.0	6,693.4	7,260.4
Total Debt	1,184.1	1,584.1	1,694.1	1,804.1
Other Non-current Liabilities	-	-	-	-
Deferred Tax Liability	(54.1)	(54.1)	(54.1)	(54.1)
Source of Funds	6,933.1	7,738.9	8,333.3	9,010.4
Gross Block	2,260.0	2,485.0	2,685.0	2,885.0
Less: Accumulated Dep	1,196.2	1,390.1	1,594.1	1,813.4
Net Block	1,063.7	1,094.9	1,090.8	1,071.6
Capital WIP	7.0	7.0	7.0	7.0
Total Fixed Assets	1,070.7	1,101.9	1,097.8	1,078.6
Investments	1,156.7	1,156.7	1,156.7	1,156.7
Inventory	787.8	1,018.1	1,119.8	1,232.0
Sundry Debtors	2,492.2	3,335.2	3,668.4	4,035.7
Loans & Advances	407.8	526.6	579.2	637.2
Cash & Bank Balances	558.5	159.7	279.1	447.0
Other Current Assets	6,775.0	8,742.8	9,616.2	10,579.2
Total Current Assets	11,021.4	13,782.5	15,262.6	16,931.0
Trade Payable	4,280.6	5,523.9	6,075.7	6,684.1
Provisions	116.9	150.8	165.9	182.5
Other Current Liabilities	2,441.9	3,151.2	3,466.0	3,813.1
Total Current Liabilities	6,839.4	8,825.9	9,707.5	10,679.7
Net Current Assets	4,182.0	4,956.6	5,555.1	6,251.4
Application of Funds	6,933.1	7,738.9	8,333.3	9,010.4

Source: Company, ICICI Direct Research

Exhibit 8: Key ratios				
	FY22	FY23E	FY24E	FY25E
Per Share Data				
Reported EPS	8.0	8.0	9.6	11.3
Cash EPS	11.0	11.1	12.9	14.8
BVPS	95.2	98.9	106.6	115.6
Operating Ratios				
EBITDA / Net Sales	10.0	9.8	10.0	10.0
PAT / Net Sales	3.5	3.9	4.3	4.6
Return Ratios				
RoE	5.9	8.1	9.0	9.8
RoCE	13.3	15.1	15.9	16.2
RoC	12.8	14.0	14.9	15.6
Valuation Ratios				
EV / EBITDA	6.2	5.6	4.9	4.4
P/E	11.3	11.3	9.4	8.0
EV / Net Sales	0.6	0.5	0.5	0.4
Market Cap / Sales	0.6	0.4	0.4	0.4
Price to Book Value	1.0	0.9	0.9	0.8
Turnover Ratios				
Asset turnover	1.4	1.7	1.7	1.7
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	0.2	0.2	0.2
Current Ratio	1.5	1.5	1.5	1.5
Quick Ratio	1.4	1.4	1.4	1.4

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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