

Strong execution, margin recovery...

About the stock: NCC is one of the leading construction companies in India with a presence across varied verticals of the infrastructure space like buildings, roads, water, mining and electrical. Consolidated order book is robust at ₹ 41,860 crore.

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

Q3FY23 Results: NCC's performance was marked by superior execution and margin recovery.

- Standalone revenue improved 22.5% YoY to ₹ 3,312.7 crore
- Operating margin was at 10.5% (up 92 bps QoQ, down 30 bps YoY), driven by operating leverage and softening of RM costs. Effectively, EBITDA at ₹ 348.8 crore, was up 19% YoY
- At the net level, strong operating performance translated into 65% YoY growth in PAT (to ₹ 149.9 crore)

What should investors do? NCC's share price has de-grown by 25% over the past five years (from ~₹ 125 in February, 2018 to ~₹ 94 levels currently).

- Strong execution and management guidance of continued traction along with margin improvement prompts us to raise our earnings estimates and maintain **BUY** rating on the stock

Target Price and Valuation: We value NCC at ₹ 120/share (at 10x FY25 P/E).

Key triggers for future price performance:

- Firmly placed to capitalise on huge infrastructure pipeline; continued momentum in awarding activities to translate into healthy order inflows
- Strong order book to ensure topline growth (17.6% CAGR over FY22-25E) with margins improving to 10.5%
- Focus on monetisation of non-core subsidiaries to bring-in cash flows
- Unwinding of receivables to provide liquidity boost; strengthening of balance sheet likely with gradual decline in debt

Alternate Stock Idea: Besides NCC, we like PSP Projects in infra space.

- Quality play on building segment with strong execution and balance sheet
- BUY with a target price of ₹ 820/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%	13,032.7	14,630.3	16,142.4	17.6%
EBITDA	855.4	996.1	7.8%	1,298.2	1,530.5	1,695.5	19.4%
EBITDA Margin (%)	11.8	10.0		10.0	10.5	10.5	
Adj. PAT	261.5	344.5	8.8%	548.9	668.9	767.5	30.6%
Adj. EPS (₹)	4.3	5.6		8.7	10.7	12.2	
P/E (x)	21.8	11.6		10.7	8.8	7.7	
EV/EBITDA(x)	8.3	6.4		5.6	4.7	4.2	
RoNW (%)	4.9	5.9		8.8	9.9	10.4	
RoCE (%)	11.2	13.3		15.8	16.7	17.1	

Source: Company, ICICI Direct Research



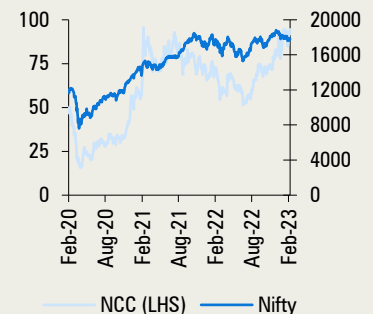
Particulars

Particular	Amount
Market Capitalization (₹ crore)	5,889
Total Debt (₹ crore)	1,184
Cash (₹ crore)	559
EV (₹ crore)	6,515
52 week H/L (₹)	98 / 52
Equity capital	125.6
Face value	2.0

Shareholding pattern

	Mar-22	Jul-22	Sep-22	Dec-22
Promoters	19.7	22.0	22.0	22.0
DII	11.2	11.2	13.0	12.4
FII	9.7	9.7	12.8	15.8
Other	59.5	57.2	52.2	49.9

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 Q3FY23 on a standalone basis was at an elevated level of ₹ 39,863 crore (3.2x order book to TTM bill ratio), largely aided by ₹ 12,612 crore worth of orders secured in 9MFY23. It further has L1 order of ~₹ 3000 crore. Additionally, the company has secured orders worth ₹ 1755 crore in January 2023, in electrical. 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 believes ~₹ 20,000 crore of order inflows during FY23, is a possibility, with ~₹ 17300+ crore worth orders already received, including L1 till date. In terms of execution, the company has maintained its topline guidance at ~30% YoY growth during FY23 to be driven by a) higher executable order book and b) pick-up in execution with 100% operating efficiency. Further, the margins are likely to improve (20-30 bps in Q4), given the benign raw material prices.**

Debt reduction seen...

NCC's standalone debt during Q3FY23 has declined by ~₹ 39 crore on a QoQ basis to ₹ 1,946 crore, given the improved collection momentum. Going forward, the company expects its debt to reduce to ~₹ 1,600-1700 crore by FY23-end, partly aided by higher profitability and improved collections. Further, receipt of money from NCC Urban monetisation would help in debt reduction, ahead.

Other highlights

- **Jal Jeevan mission** projects execution is robust and the company has completed 25% of the work order till date. It expects strong execution of ~₹ 800 crore in Q4FY23
- **Andhra Pradesh contributes ₹ 5000 crore currently** to the overall order book. All of the projects are moving. Additionally, the **amount collected in Q3 from APT Capital City project is about ~₹ 60 crore** The net amount outstanding from the stuck project has come down from ₹ 107 crore to ₹ 64 crore after adjusting the mobilisation advance
- 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, it has received first payment of ₹ 47.5 crore during Q4FY22, while balance second, third and fourth instalments are likely to get released during December 2022, March 2023 and H1FY24, respectively. However, the December, 2022 tranche was delayed and the company now expects to receive it soon, which should lead to further debt reduction**
- The company has incurred capex of ₹ 95 crore in Q3 (~₹ 243 crore in 9MFY23) and **expects to spend another ~₹ 30-40 crore towards capex during Q4**
- Prompt payments from various central government authorities and collection of old dues are aiding improvements in the overall working cycle. **As on Q3FY22-end, total receivables for NCC was at ₹ 2,675 crore (collection period: 91 days; vs. 97 days at FY22-end)**
- As per the management, SembCorp arbitration proceedings are expected to conclude in 1-1.5 months. The company expects final judgement by June, 2023

Exhibit 1: Variance Analysis

Year	Q3FY23	Q3FY23E	Q3FY22	YoY (%)	Q2FY23	QoQ(%)	Comments
Net Sales	3,312.7	3,191.0	2,703.9	22.5	3,003.7	10.3	Topline aided by pick-up in execution
Other Income	57.4	28.0	19.7	191.3	32.8	75.1	
Total Construction Expenses	1,490.9	1,568.0	1,118.6	33.3	1,448.3	2.9	
Employee cost	133.7	135.0	112.0	19.4	131.5	1.7	
Other expenditure	1,339.3	1,170.0	1,180.6	13.4	1,135.3	18.0	
EBITDA	348.8	318.0	292.8	19.1	288.6	20.9	
EBITDA Margin (%)	10.5	10.0	10.8	-30 bps	9.6	92 bps	
Depreciation	50.9	50.0	45.9	10.9	49.0	3.9	
Interest	137.8	129.0	116.4	18.4	122.3	12.7	
Exceptional items	0.0	0.0	-20.0	NA	0.0	0.0	
PBT	217.5	167.0	130.2	67.1	150.1	44.9	
Taxes	67.7	44.0	39.2	72.5	28.5	137.4	
PAT	149.9	123.0	91.0	64.8	121.6	23.2	

Source: Company, ICICI Direct Research

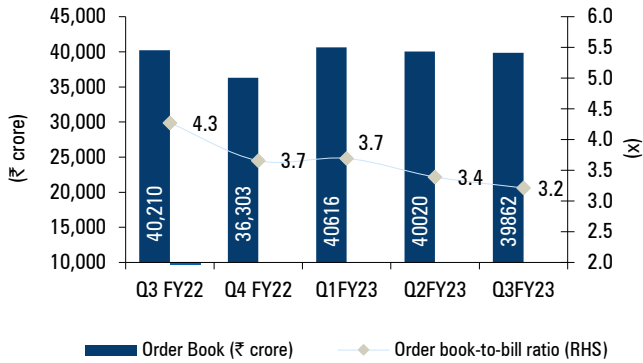
Exhibit 2: Change in estimates

(₹ Crore)	FY23E		FY24E		FY25E		% Change	
	New	Old	New	% Change	Old	New		
Revenue	13,032.7	14,094.3	14,630.3	3.8	15,505.8	16,142.4	4.1	Raise execution on strong order inflows
EBITDA	1,298.2	1,403.9	1,530.5	9.0	1,551.0	1,695.5	9.3	
EBITDA Margin (%)	10.0	10.0	10.5	50 bps	10.0	10.5	50 bps	
PAT	548.9	605.5	668.9	10.5	708.8	767.5	8.3	
EPS (₹)	8.7	9.6	10.7	10.5	11.2	12.2	8.3	

Source: Company, ICICI Direct Research

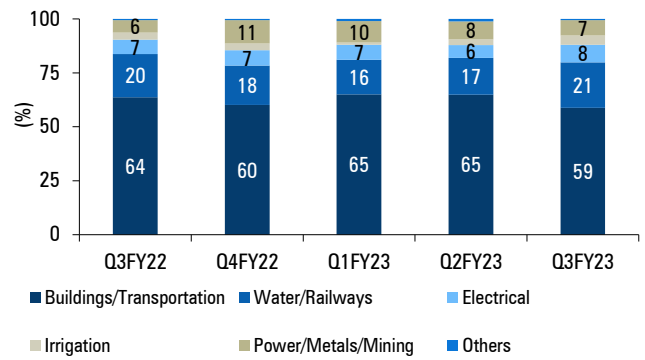
Company Analysis

Exhibit 1: Quarterly order book trend



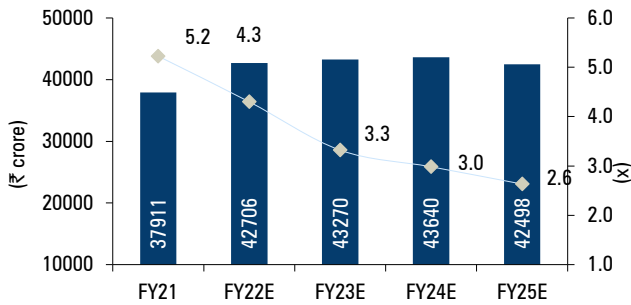
Source: Company, ICICI Direct Research

Exhibit 2: Order book composition



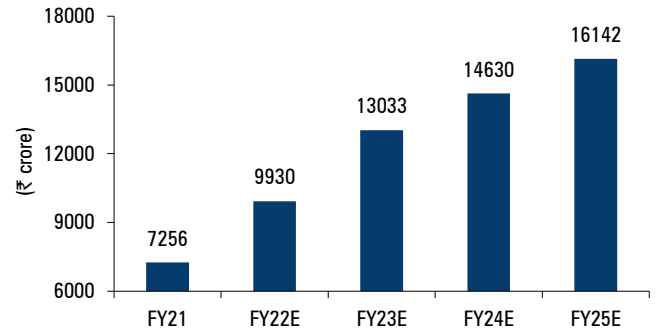
Source: Company, ICICI Direct Research

Exhibit 3: Annual standalone order book trend



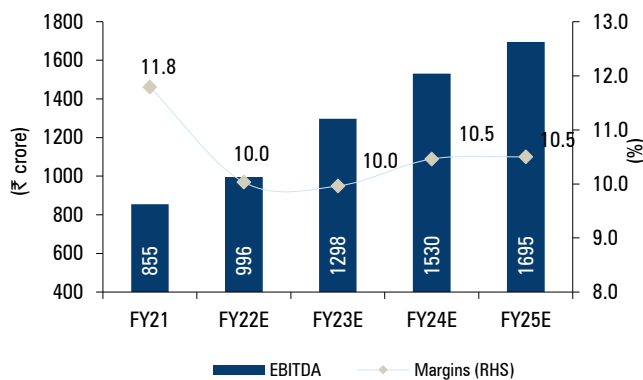
Source: Company, ICICI Direct Research

Exhibit 4: Annual revenue trend



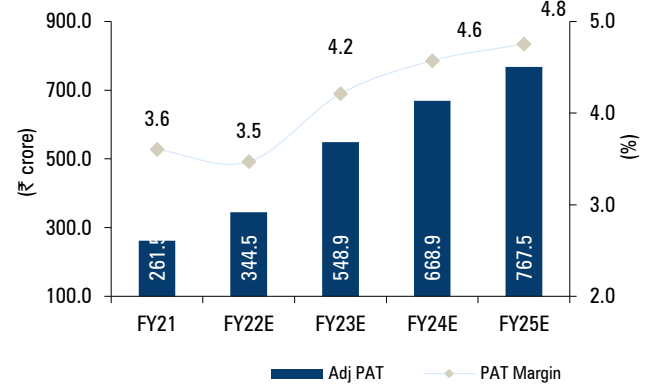
Source: Company, ICICI Direct Research

Exhibit 5: Annual EBITDA trend



Source: Company, ICICI Direct Research

Exhibit 6: Annual PAT trend



Source: Company, ICICI Direct Research

Financial summary

Exhibit 7: Profit and loss statement				
	₹ crore			
₹ crore	FY22	FY23E	FY24E	FY25E
Net Sales	9,930.0	13,032.7	14,630.3	16,142.4
Other Income	108.2	151.0	115.0	121.9
Total revenues	10,038.2	13,183.7	14,745.3	16,264.3
Raw Material Expenses	3,393.6	4,454.0	4,999.9	5,516.7
Employee benefit expense	429.1	563.2	632.3	697.6
Construction expenses	4,878.6	6,412.1	7,124.9	7,861.3
Other Expenses	232.6	305.2	342.7	371.3
Total operating expenses	8,933.9	11,734.5	13,099.8	14,446.9
EBITDA	996.1	1,298.2	1,530.5	1,695.5
Interest	459.6	505.3	523.5	546.5
Depreciation	182.3	203.2	219.2	235.2
PBT	608.0	740.7	902.8	1,035.7
Taxes	117.9	191.8	233.8	268.2
PAT	490.1	548.9	668.9	767.5
Adjusted PAT	344.5	548.9	668.9	767.5
EPS	8.0	8.7	10.7	12.2

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
₹ crore	FY22	FY23E	FY24E	FY25E
Profit after Tax	490.1	548.9	668.9	767.5
Depreciation	182.3	203.2	219.2	235.2
Prov for Taxes	317.8	71.3	77.6	117.9
Cash Flow before wc changes	798.7	931.3	1,187.7	1,357.8
Change in WC	(47.1)	230.9	(1,255.2)	(598.0)
Taxes Paid	86.8	(130.9)	(191.8)	(233.8)
Net CF from op. activities	890.4	(503.2)	290.1	436.6
(Purchase)/Sale of Fixed Assets	(187.8)	(280.0)	(200.0)	(200.0)
(Purchase)/Sale of Investments	73.8	-	-	-
Net CF from inv. activities	(114.0)	(280.0)	(200.0)	(200.0)
Proceeds from Secured Borrowing	(604.8)	500.0	110.0	110.0
Proceeds from Unsecured Borrowing	-	-	-	-
Net CF from fin. activities	(656.5)	393.8	(23.8)	(43.5)
Net Cash flow	119.9	(389.3)	66.3	193.1
Opening Cash	438.6	558.5	169.2	235.5
Closing Cash	558.5	169.2	235.5	428.7

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
₹ crore	FY22	FY23E	FY24E	FY25E
Equity Capital	122.0	125.6	125.6	125.6
Reserve and Surplus	5,681.2	6,120.3	6,655.5	7,269.4
Total Shareholders funds	5,803.2	6,245.9	6,781.0	7,395.0
Total Debt	1,184.1	1,684.1	1,794.1	1,904.1
Other Non-current Liabilities	-	-	-	-
Deferred Tax Liability	(54.1)	(54.1)	(54.1)	(54.1)
Source of Funds	6,933.1	7,875.8	8,521.0	9,244.9
Gross Block	2,260.0	2,540.0	2,740.0	2,940.0
Less: Accumulated Dep	1,196.2	1,399.4	1,618.6	1,853.8
Net Block	1,063.7	1,140.5	1,121.3	1,086.1
Capital WIP	7.0	7.0	7.0	7.0
Total Fixed Assets	1,070.7	1,147.5	1,128.3	1,093.1
Investments	1,156.7	1,156.7	1,156.7	1,156.7
Inventory	787.8	1,035.5	1,162.4	1,282.5
Sundry Debtors	2,492.2	3,392.1	3,807.9	4,201.4
Loans & Advances	407.8	535.6	601.2	663.4
Cash & Bank Balances	558.5	169.2	235.5	428.7
Other Current Assets	6,775.0	8,891.9	9,981.8	11,013.5
Total Current Assets	11,021.4	14,024.2	15,788.9	17,589.6
Trade Payable	4,280.6	5,618.1	6,306.7	6,958.6
Provisions	116.9	153.4	172.2	190.0
Other Current Liabilities	2,441.9	3,204.9	3,597.8	3,969.7
Total Current Liabilities	6,839.4	8,976.4	10,076.7	11,118.2
Net Current Assets	4,182.0	5,047.9	5,712.2	6,471.4
Application of Funds	6,933.1	7,875.8	8,521.0	9,244.9

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
₹ crore	FY22	FY23E	FY24E	FY25E
Per Share Data				
Reported EPS	8.0	8.7	10.7	12.2
Cash EPS	11.0	12.0	14.1	16.0
BVPS	95.2	99.5	108.0	117.8
Operating Ratios				
EBITDA / Net Sales	10.0	10.0	10.5	10.5
PAT / Net Sales	3.5	4.2	4.6	4.8
Return Ratios				
RoE	5.9	8.8	9.9	10.4
RoCE	13.3	15.8	16.7	17.1
RoC	12.8	14.2	15.8	16.6
Valuation Ratios				
EV / EBITDA	6.4	5.6	4.8	4.3
P/E	11.7	10.8	8.8	7.7
EV / Net Sales	0.6	0.6	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

ANALYST CERTIFICATION

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