

Strong execution; robust outlook...

About the stock: NCC is one of the leading construction companies in India with a presence across varied verticals of infrastructure space like buildings, roads, water, mining and electrical. The consolidated order book was robust at ₹ 50,244 crore.

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

Q4FY23 Results: NCC's performance was marked by superior execution, which percolated to the bottomline.

- Standalone revenues were up 28.1% YoY to ₹ 4016 crore amid strong order book position and pick-up in execution. FY23 revenues grew 34.5% YoY at ₹ 13351 crore
- Operating margin was at 10.6% (up 204 bps YoY), driven by operating leverage & lower input costs. EBITDA at ₹ 424 crore, was up 58.8% YoY
- At the net level, the strong operating performance translated into 64% YoY growth in adjusted PAT (to ₹ 177.7 crore)

What should investors do? NCC's share price has been flat in the past five years.

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

Target Price and Valuation: We value NCC at ₹ 140/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 (17.5% CAGR over FY23-25E) with margins at 10.5% vs. 10.1% in FY23. The company has guided for ~20% topline growth and ~40% bottomline growth in FY24
- 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 the 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	FY20	FY21	FY22	FY23	5 year CAGR (FY18-22)	FY24E	FY25E	2 year CAGR (FY23-25E)
Net Sales	8,218.8	7,256.0	9,930.0	13,351.3	12.0%	16,015.6	18,424.4	17.5%
EBITDA	1,030.2	855.4	996.1	1,342.5	9.4%	1,682.4	1,935.0	20.1%
EBITDA Margin (%)	12.5	11.8	10.0	10.1		10.5	10.5	
Adj. PAT	414.7	261.5	344.5	569.2	14.7%	743.4	880.5	24.4%
Adj. EPS (₹)	6.8	4.3	5.6	9.1		11.8	14.0	
P/E (x)	18.5	27.0	14.4	12.8		9.8	8.3	
EV/EBITDA(x)	8.4	9.8	7.7	5.5		4.5	3.9	
RoNW (%)	8.1	4.9	5.9	9.0		10.8	11.6	
RoCE (%)	14.7	11.2	13.3	17.9		20.0	20.9	

Source: Company, ICICI Direct Research



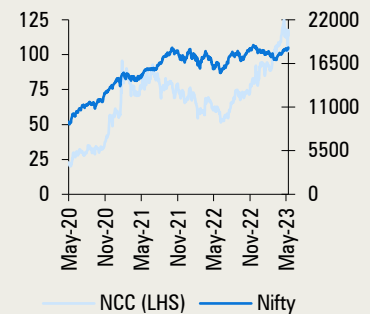
Particulars

Particular	Amount
Market Capitalization (₹ crore)	7,267
Total Debt (₹ crore)	980
Cash (₹ crore)	646
EV (₹ crore)	7,601
52 week H/L (₹)	127 / 52
Equity capital	125.6
Face value	2.0

Shareholding pattern

	Jul-22	Sep-22	Dec-22	Mar-23
Promoters	22.0	22.0	22.0	22.0
DII	11.2	13.0	12.4	12.9
FII	9.7	12.8	15.8	20.0
Other	57.2	52.2	49.9	45.2

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 Q4FY23 was at an elevated level of ₹ 50,244 crore (3.8x order book to TTM bill ratio), largely aided by ₹ 25,895 crore worth of orders secured in FY23. Going forward, the management expects the 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) electricals (RTSS scheme) and d) tunnelling. **Thus, the management believes similar (~₹ 26,000) crore of order inflows during FY24, is a possibility.** In terms of execution, the company has given topline guidance at ~20% YoY growth during FY24 to be driven by a) higher executable order book and b) pick-up in execution with operating efficiency. Further, the EBITDA and PAT margins are likely to improve by 50 bps, with bottomline growth expectations of ~40%.

Debt reduction seen; to reduce further ahead

NCC's standalone gross debt was at ₹ 980 crore (net debt ₹ 182 crore) as of FY23 end vs. ₹ 1184 crore in FY22. In Q4FY23, it declined by ~₹ 966 crore QoQ to ₹ 980 crore, given the improved collection momentum and receipt of mobilisation amount of ~₹ 650 crore in Q4. Going forward, the **company expects its debt to reduce by ₹ 100-200 crore in FY24**, partly aided by higher profitability and improved collections. **Furthermore, receipt of money from Sembcorp** (arbitration complete, judgement and amount receipt expectations by June-September, 2023) **and NCC Urban monetisation receipt** (expecting receipt of equity portion of ₹ 150 crore in FY24). **If it fructifies, it could result in further inflows of ₹ 500-700 crore and debt reduction.**

Other highlights

- **Andhra Pradesh contributes ₹ 3400 crore currently** to the overall order book, of which old projects are worth ₹ 700 crore. It indicated that all of the projects are moving. **The net amount outstanding from the AP capital city is ₹ 157 crore vs. ₹ 264 crore, earlier.** Bank guarantee was at ₹ 267 crore vs. ₹ 346 crore. In Karnataka, order backlog is ~₹ 4000 crore, of which ₹ 1097 crore was received in FY22, FY23. Recent orders are only at risk (no stoppage seen yet). Bengaluru Metro project (jointly funded by central government) order book is ₹ 2000 crore
- NCC is **expecting receipt of equity portion NCC Vizag Urban stake sale of ₹ 150 crore in FY24.** Recall, it had entered into a share purchase agreement with GRPL Housing Pvt Ltd to sell its entire shareholding (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 has received first payment of ₹ 47.5 crore during Q4FY22 while balance instalments were delayed. However, the company now expects to receive the same in FY24, which should lead to further debt reduction.** The debt proportion receipt, however, is likely over FY25 and FY26
- The company has incurred net capex of ₹ 232 crore in FY23 and **expects to spend another ~₹ 275 crore towards capex during FY24**
- Prompt payments from various central government authorities and collection of old dues are aiding improvements in the overall working cycle. **As on Q4FY23-end, total receivables for NCC was at ₹ 2,945 crore (collection period: 87 days; vs. 97 days at FY22-end)**
- As per the management, SembCorp arbitration proceedings have concluded and the company expects final judgement and amount receipt by June-September, 2023
- TAQA arbitration may take some more time (trying for amicable settlement). There has been no significant improvement
- In the international business, one project is under execution and it would take another three to four months to close. Amount of ₹ 41 crore was received in FY23. Thus, ~₹ 38 crore net exposure is left in while Oman and Harmony Dubai ₹ 224 crore has exposure

Exhibit 1: Variance Analysis

Year	Q4FY23	Q4FY23E	Q4FY22	YoY (%)	Q3FY23	QoQ(%)	Comments
Net Sales	4,016.3	3,698.5	3,134.3	28.1	3,372.7	19.1	Topline aided by pick-up in execution
Other Income	31.0	29.7	45.0	-31.2	57.4	-46.1	
Total Construction Expenses	1,540.1	1,664.5	1,489.3	3.4	1,550.9	-0.7	
Employee cost	136.6	138.0	115.6	18.1	133.7	2.1	
Other expenditure	1,915.8	1,500.0	1,262.4	51.8	1,339.3	43.0	
EBITDA	423.8	396.0	266.9	58.8	348.8	21.5	
EBITDA Margin (%)	10.6	10.7	8.5	204 bps	10.3	21 bps	
Depreciation	52.4	55.7	45.6	14.8	50.9	2.8	
Interest	141.4	136.7	123.1	14.8	137.8	2.6	
Exceptional items	0.0	0.0	134.5	NA	0.0	0.0	
PBT	261.1	233.3	277.7	-6.0	217.5	20.0	
Taxes	83.4	63.0	34.5	141.5	67.7	23.3	
PAT	177.7	170.3	243.2	-26.9	149.9	18.5	
Adjusted PAT	177.7	170.3	108.7	63.5	149.9	18.5	

Source: Company, ICICI Direct Research

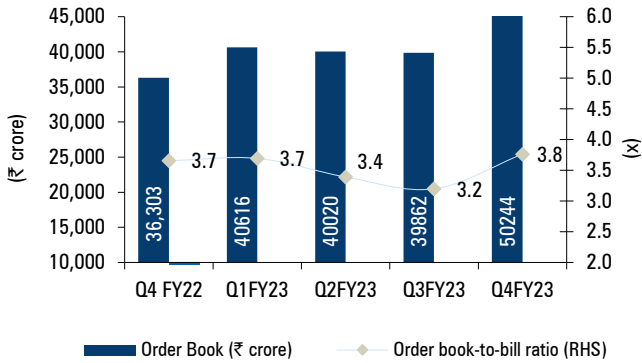
Exhibit 2: Change in estimates

(₹ Crore)	FY23		FY24E		FY25E			
	Old	New	% Change	Old	New	% Change		
Revenue	13,351.3	14,630.3	16,015.6	9.5	16,142.4	18,424.4	14.1	Raise execution on strong order inflows
EBITDA	1,342.5	1,530.5	1,682.4	9.9	1,695.5	1,935.0	14.1	
EBITDA Margin (%)	10.1	10.5	10.5	4 bps	10.5	10.5	0 bps	
PAT	569.2	668.9	743.4	11.1	767.5	880.5	14.7	
EPS (₹)	9.1	10.7	11.8	11.1	12.2	14.0	14.7	

Source: Company, ICICI Direct Research

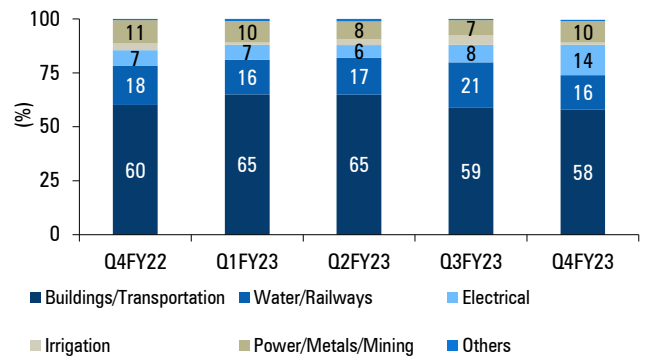
Company Analysis

Exhibit 1: Quarterly order book trend



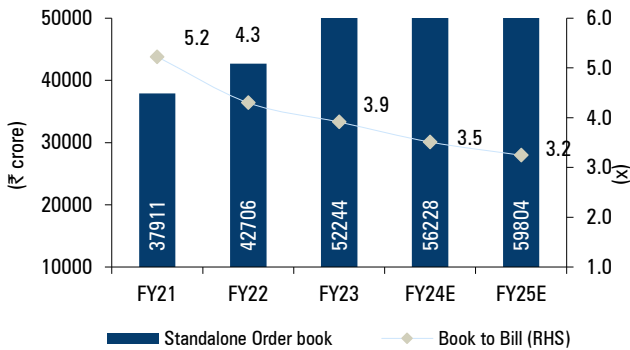
Source: Company, ICICI Direct Research

Exhibit 2: Orderbook composition



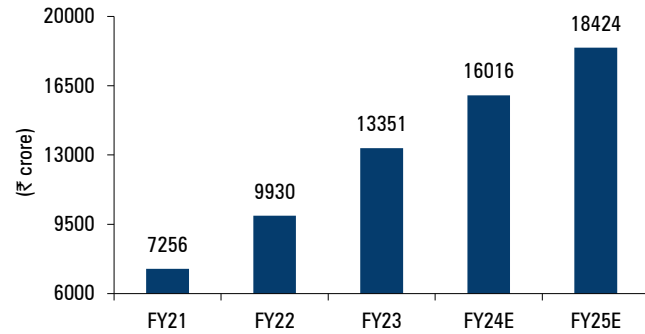
Source: Company, ICICI Direct Research

Exhibit 3: Annual standalone orderbook trend



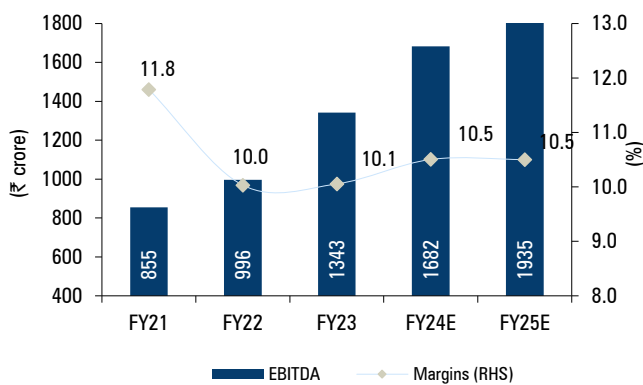
Source: Company, ICICI Direct Research

Exhibit 4: Annual revenue trend



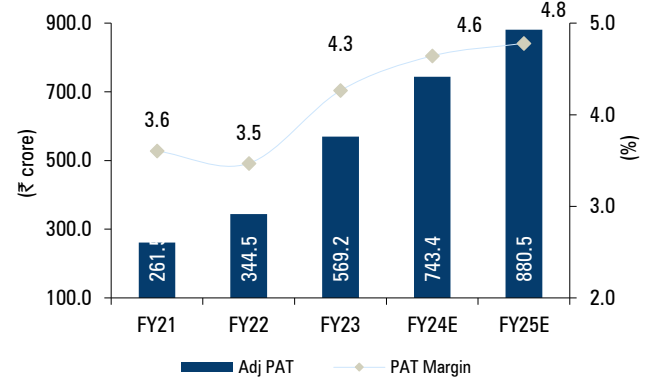
Source: Company, ICICI Direct Research

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	FY23	FY24E	FY25E
Net Sales	9,930.0	13,351.3	16,015.6	18,424.4
Other Income	108.2	152.3	115.0	121.9
Total revenues	10,038.2	13,503.6	16,130.6	18,546.3
Raw Material Expenses	3,393.6	4,751.0	5,653.5	6,503.8
Employee benefit expense	429.1	520.4	624.3	718.2
Construction expenses	4,878.6	6,430.6	7,687.5	8,843.7
Other Expenses	232.6	306.8	368.0	423.8
Total operating expenses	8,933.9	12,008.8	14,333.3	16,489.4
EBITDA	996.1	1,342.5	1,682.4	1,935.0
Interest	459.6	510.0	538.0	587.1
Depreciation	182.3	199.8	226.8	246.8
PBT	608.0	785.0	1,032.6	1,223.0
Taxes	117.9	215.8	289.1	342.4
PAT	490.1	569.2	743.4	880.5
Adjusted PAT	344.5	569.2	743.4	880.5
EPS	8.0	9.1	11.8	14.0

Source: Company, ICICI Direct Research

Exhibit 8: Cash flow statement				
	₹ crore			
₹ crore	FY22	FY23	FY24E	FY25E
Profit after Tax	490.1	569.2	743.4	880.5
Depreciation	182.3	199.8	226.8	246.8
Prov for Taxes	317.8	71.3	77.6	117.9
Cash Flow before wc changes	798.7	976.9	1,339.5	1,597.3
Change in WC	(47.1)	230.9	(181.0)	(714.3)
Taxes Paid	86.8	(130.9)	(209.1)	(289.1)
Net CF from op. activities	890.4	594.6	255.9	476.8
(Purchase)/Sale of Fixed Assets	(187.8)	(314.1)	(275.0)	(250.0)
(Purchase)/Sale of Investments	73.8	61.5	-	-
Net CF from inv. activities	(114.0)	(252.6)	(275.0)	(250.0)
Proceeds from Secured Borrowing	(604.8)	(204.5)	-	110.0
Proceeds from Unsecured Borrowing	-	-	-	-
Net CF from fin. activities	(656.5)	(255.0)	(157.0)	(78.4)
Net Cash flow	119.9	87.1	(176.1)	148.5
Opening Cash	438.6	558.5	645.6	469.6
Closing Cash	558.5	645.6	469.6	618.0

Source: Company, ICICI Direct Research

Exhibit 9: Balance sheet				
	₹ crore			
₹ crore	FY22	FY23	FY24E	FY25E
Equity Capital	122.0	125.6	125.6	125.6
Reserve and Surplus	5,681.2	6,196.3	6,782.8	7,475.0
Total Shareholders funds	5,803.2	6,321.9	6,908.4	7,600.6
Total Debt	1,184.1	979.6	979.6	1,089.6
Other Non-current Liabilities	-	-	-	-
Deferred Tax Liability	(54.1)	(47.5)	(47.5)	(47.5)
Source of Funds	6,933.1	7,253.9	7,840.4	8,642.6
Gross Block	2,260.0	2,559.4	2,834.4	3,084.4
Less: Accumulated Dep	1,196.2	1,396.1	1,622.8	1,869.6
Net Block	1,063.7	1,163.4	1,211.6	1,214.8
Capital WIP	7.0	21.7	21.7	21.7
Total Fixed Assets	1,070.7	1,185.0	1,233.2	1,236.5
Investments	1,156.7	1,095.2	1,095.2	1,095.2
Inventory	787.8	1,077.8	1,272.5	1,463.9
Sundry Debtors	2,492.2	2,945.1	3,554.2	4,088.7
Loans & Advances	407.8	371.7	438.8	504.8
Cash & Bank Balances	558.5	645.6	469.6	618.0
Other Current Assets	6,775.0	7,514.1	9,013.6	10,369.2
Total Current Assets	11,021.4	12,554.4	14,748.6	17,044.6
Trade Payable	4,280.6	4,822.7	5,785.1	6,655.2
Provisions	116.9	129.0	154.7	178.0
Other Current Liabilities	2,441.9	3,346.5	4,014.3	4,618.0
Total Current Liabilities	6,839.4	8,298.2	9,954.1	11,451.3
Net Current Assets	4,182.0	4,256.2	4,794.4	5,593.4
Application of Funds	6,933.1	7,253.9	7,840.4	8,642.6

Source: Company, ICICI Direct Research

Exhibit 10: Key ratios				
	₹ crore			
₹ crore	FY22	FY23	FY24E	FY25E
Per Share Data				
Reported EPS	8.0	9.1	11.8	14.0
Cash EPS	11.0	12.2	15.5	18.0
BVPS	95.2	100.7	110.0	121.1
Operating Ratios				
EBITDA / Net Sales	10.0	10.1	10.5	10.5
PAT / Net Sales	3.5	4.3	4.6	4.8
Return Ratios				
RoE	5.9	9.0	10.8	11.6
RoCE	13.3	17.9	20.0	20.9
RoC	12.8	17.3	19.8	21.1
Valuation Ratios				
EV / EBITDA	7.7	5.5	4.5	3.9
P/E	14.4	12.8	9.8	8.3
EV / Net Sales	0.8	0.6	0.5	0.4
Market Cap / Sales	0.7	0.5	0.4	0.4
Price to Book Value	1.2	1.1	1.1	1.0
Turnover Ratios				
Asset turnover	1.4	1.8	2.0	2.1
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	0.1	0.1	0.1
Current Ratio	1.5	1.4	1.4	1.4
Quick Ratio	1.4	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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