

Going strong

We maintain BUY on NCC with a TP of Rs 170/Sh (EPC business at 15x FY21E EPS). We have tweaked our finance cost estimate lower and increased our FY20/21E EPS by 2.2/0.4%.

HIGHLIGHTS OF THE QUARTER

- Strong year despite 4QFY19 top line miss:** Despite coming in 5% below our estimate, NCC posted lifetime high quarterly revenue of Rs 33.9bn (+45/5% YoY/QoQ). EBIDTA/APAT beat stood (5.4%)/5.9%.
- FY20E muted rev growth guidance a dampener; we expect 10%+ growth:** With new government in place NCC expects two months delay in execution of AP orders (~33% of order book, Rs 140bn). Besides it aims to consolidate on FY19 base after robust 62.4% YoY growth. NCC refrained from giving any guidance (beyond matching FY19's performance). We believe with robust order backlog 11.9% growth is achievable.
- Debt reduction a big positive:** Gross debt reduced by ~Rs 1.7bn QoQ to Rs 19.9bn. This was aided by ~Rs 4bn recovery from debtors and ~Rs 1.5bn repayment from subsidiaries. Group advances have reduced by ~Rs 0.7bn and investments by Rs 0.4bn. Total exposure now stands at Rs 13.9bn (~Rs 4.7/9.2bn in

advances/ investments). Further receipts of Rs 1.5-2bn in FY20E will help keep a check on debt (NCC expects further Rs 3bn debt reduction in FY20E).

- Update on claims:** SembCorp arbitration is delayed by 6 months and the outcome is now expected by Mar-20. In the TAQA case, NCC is appealing in the higher courts and expects an outcome over the next 12mths.

STANCE

NCC's strong order book is well diversified across segments and geographies and lends revenue visibility over the next 2 years. Apart from 2-3 months delay in some projects, NCC does not envisage execution to suffer as a result of the elections. We expect net working capital levels to remain stable (100days) leading to strong free cash flows of ~Rs 3.3/5.1bn in FY20/21E.

We have built in muted APAT growth over FY20-21E led by high interest costs, depreciation and pressure on margins. Re-rating is contingent on the pace of reduction of the ~Rs 13.9bn group exposure and real estate monetization. We maintain BUY. Key risks (1) Adverse ruling on ongoing arbitrations; (2) Slow down in government capex; (3) Deterioration in NWC days; and (4) Weak real estate monetization.

Financial Summary (Standalone)

(Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY18	FY19	FY20E	FY21E
Net Sales	33,889	23,448	44.5	32,265	5.0	74,363	120,798	135,178	148,257
EBITDA	3,977	2,814	41.3	3,925	1.3	7,739	14,230	15,758	16,610
APAT	1,858	1,097	69.4	1,603	15.9	3,123	6,229	6,340	6,477
Diluted EPS (Rs)	3.1	1.8	69.4	2.67	15.9	5.2	10.4	10.6	10.8
P/E (x)						21.9	11.0	10.8	10.6
EV / EBITDA (x)						10.4	6.0	5.4	5.1
RoE (%)						8.1	13.8	12.5	11.4

Source: Company, HDFC sec Inst Research

INDUSTRY	INFRASTRUCTURE
CMP (as on 24 May 2019)	Rs 114
Target Price	Rs 170
Nifty	11,844
Sensex	39,435

KEY STOCK DATA

Bloomberg	NJCC IN
No. of Shares (mn)	601
MCap (Rs bn) / (\$ mn)	69/986
6m avg traded value (Rs mn)	927

STOCK PERFORMANCE (%)

52 Week high / low	Rs 126/63		
	3M	6M	12M
Absolute (%)	34.6	31.1	(0.3)
Relative (%)	24.6	18.4	(14.0)

SHAREHOLDING PATTERN (%)

	Dec-18	Mar-19
Promoters	18.12	18.12
FIs & Local MFs	31.79	30.22
FPIs	15.88	19.86
Public & Others	34.21	31.80
Pledged Shares	7.7	7.7

Source : BSE

Parikshit D Kandpal, CFA

parikshitd.kandpal@hdfcsec.com
+91-22-6171-7317

Kunal Bhandari, ACA

kunal.bhandari@hdfcsec.com
+91-22-6639-3035

Despite coming in 5% below our estimate, NCC posted lifetime high quarterly execution at Rs 33.9bn (+45/5% YoY. QoQ)

Margins continued to remain in the 11.5-12% guidance

We have adjusted for Rs 114mn of one-offs in 4QFY19

Standalone Quarterly Financial

Particulars (Rs mn)	4QFY19	4QFY18	YoY (%)	3QFY19	QoQ (%)	FY19	FY18	YoY (%)
Net Sales	33,889	23,448	44.5	32,265	5.0	120,798	74,363	62.4
Material Expenses	27,842	18,980	46.7	26,539	4.9	99,305	60,890	63.1
Employee Expenses	1,193	1,041	14.6	1,149	3.8	4,394	3,641	20.7
Other Operating Expenses	877	613	43.1	652	34.6	2,869	2,092	37.1
EBITDA	3,977	2,814	41.3	3,925	1.3	14,231	7,739	83.9
Depreciation	404	311	29.7	390	3.7	1,494	1,175	27.1
EBIT	3,573	2,503	42.8	3,536	1.1	12,736	6,564	94.0
Other Income (including EO)	246	176	39.5	196	25.4	593	903	(34.3)
Interest Cost	1,170	997	17.3	1,245	(6.0)	4,512	3,789	19.1
PBT	2,649	1,682	57.5	2,487	6.5	8,817	3,678	139.8
Tax	905	655	38.2	884	2.4	3,177	810	292.3
RPAT	1,744	1,027	69.8	1,603	8.8	5,640	2,868	96.7
E/o (adj for tax)	114	70	62.9	-	-	589	256	130.4
APAT	1,858	1,097	69.4	1,603	15.9	6,229	3,123	99.5

Source: Company, HDFC sec Inst Research

Margin Analysis

	4QFY19	4QFY18	YoY (bps)	3QFY19	QoQ (bps)	FY19	FY18	YoY (bps)
Material Expenses % Net Sales	82.2	80.9	121	82.3	(10)	82.2	81.9	32
Employee Expenses % Net Sales	3.5	4.4	(92)	3.6	(4)	3.6	4.9	(126)
Other Operating Expenses % Net Sales	2.6	2.6	(3)	2.0	57	2.4	2.8	(44)
EBITDA Margin (%)	11.7	12.0	(27)	12.2	(43)	11.8	10.4	137
Tax Rate (%)	34.2	38.9	(477)	35.5	(137)	36.0	22.0	1,401
APAT Margin (%)	5.1	4.4	77	5.0	18	4.7	3.9	81

Source: Company, HDFC sec Inst Research

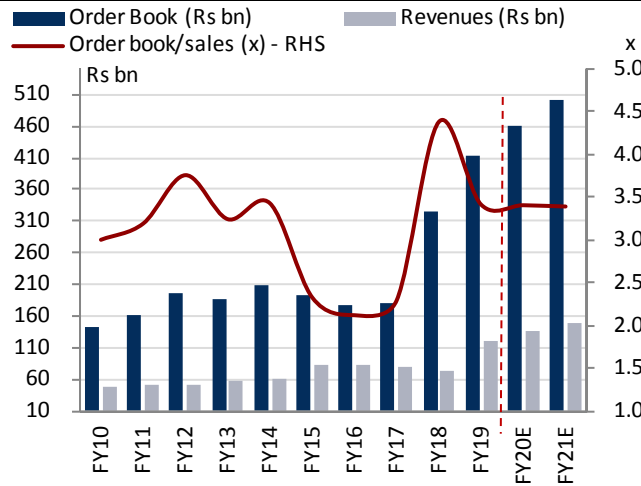
We expect NCC's order book to multiply 1.2x over FY19-21E

Building, roads, water and electrical will be the key drivers of the order book

We expect EBITDA margins to be in the range of 11.2-11.7%

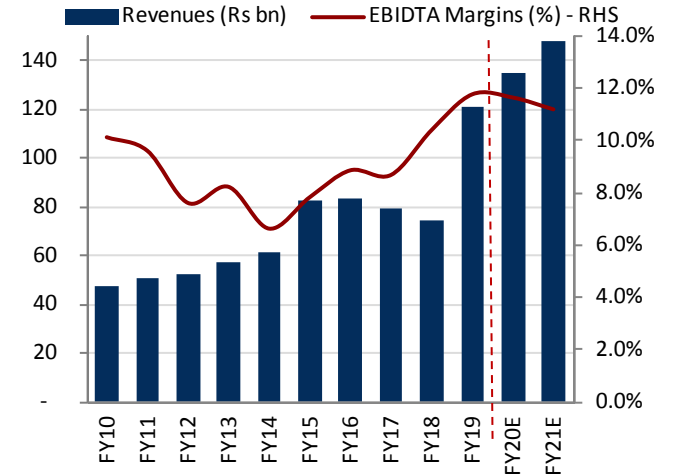
Over FY19-20E, annual order inflows would be in the range of Rs 180-190bn

Order book To Multiply 1.2x Over FY19-21E



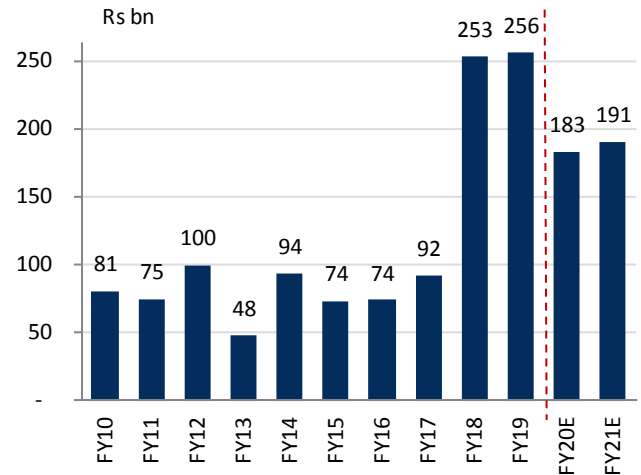
Source: Company, HDFC sec Inst Research

EBIDTA Margins To Range Between 11.2-11.7%



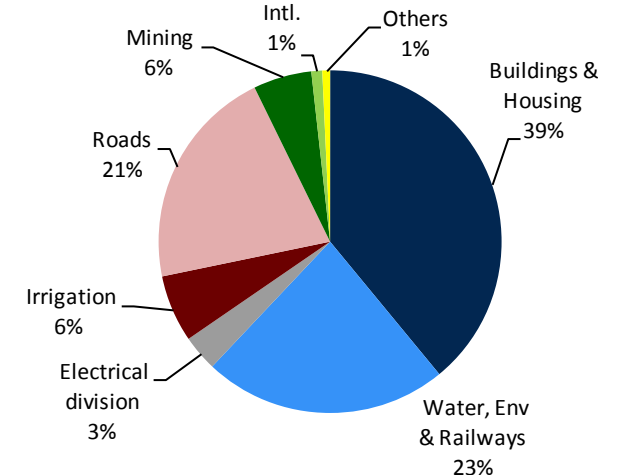
Source: Company, HDFC sec Inst Research

Order Inflow range: Rs 180-190bn FY20-21E



Source: Company, HDFC sec Inst Research

Order Book Dominated By Buildings, Water and Roads



Source: Company, HDFC sec Inst Research

After strong inflows in FY19, we expect Rs180-190bn annual inflows

Margins are expected to be in the range of 11-12%

Muted APAT growth over FY20-21E contributed by high interest costs, depreciation and pressure on margins

Key Assumptions & Estimates

	FY20E	FY21E	Growth %		Comments
			FY20E	FY21E	
Closing order book	460,020	502,320	11.7	9.2	We expect 10.4% FY19-21E order book growth
New order booking	183,228	190,557	(28.5)	4.0	After strong inflows in FY19, we expect Rs180-190bn annual inflows
Book to bill ratio	3.4	3.4			Book-to-bill ratio to remain largely stable
Total Revenue	135,178	148,257	11.9	9.7	We model for 10.8% revenue CAGR over FY19-21E
EBIDTA	15,758	16,610	10.7	5.4	
EBIDTA margin (%)	11.7	11.2	(12.3)	(45.3)	Margins are expected to be in the range of 11-12%
Depreciation	1,712	2,063	14.6	20.5	
Financial Charges	5,003	5,374	10.9	7.4	Interest costs will increase as debt increases on account of execution ramping up
Other income	712	640	20.0	(10.1)	
PBT	9,754	9,814	10.6	0.6	
Tax	3,414	3,337	7.5	(2.3)	
Tax rate (%)	35.0	34.0			
Exceptional	-	-			
APAT	6,340	6,477	1.8	2.2	Muted APAT growth over FY20-21E contributed by high interest costs, depreciation and pressure on margins
Gross Block Turnover	6.0	5.9			
Debtor days	91	95			
CFO - a	6,840	7,894			Cash flow improvements in line with EBIDTA growth
CFI - b	(1,788)	(1,060)			We are building in ~Rs 6.2bn capex over FY20-21E
FCF - a+b	5,052	6,834			
CFF - c	(6,686)	(5,657)			
Total change in cash - a+b+c	(1,635)	1,177			

Source: HDFC sec Inst Research

We have valued NCC's Standalone business at 15x Mar-21E EPS

Multiple re-rating will be contingent on the pace of monetization of group exposure of Rs 13.9bn to the subsidiaries, elevated debt levels and multiple ongoing arbitrations

Real estate is valued at 0.5x equity invested - Rs 8/sh

We have moderated our finance cost estimates taking into consideration debt reduction post partial receipts of group company advances and realization of debtors

Outlook And Valuation

Maintain BUY With A Target Price Of Rs 170/Sh

Valuation Methodology

- We value NCC's standalone business at 15x Mar-21E EPS at Rs 162/sh and real estate at 0.5x equity invested Rs 8/sh. We have not valued Roads, Power and International business as these have been largely monetized or securitized.
- Multiple re-rating will be contingent on the pace of monetization of group exposure of Rs 13.9bn to the subsidiaries, elevated debt levels and multiple

ongoing arbitrations. Total Mar-19-end investment in subsidiaries is Rs 9.2bn and Loan is Rs 4.7bn.

- Further, re-rating is contingent on the velocity of real estate monetization. We adopt a SOTP methodology and value NCC at Rs 170/sh
- Standalone at 16x Mar-21E EPS – Rs 162/sh, Real Estate – Rs 8/sh. We maintain our stance as **BUY**

Valuation

Particulars	Segments	Value (Rs mn)	Value per share(Rs)	Rationale
NCC Standalone	Construction business	97,158	162	At 15x Mar-21E EPS
Real Estate	Real Estate	4,785	8	At P/B multiple of 0.5x
Total		101,943	170	

Source: HDFC sec Inst Research

Change In Estimates

	FY20E			FY21E		
	New	Old	%	New	Old	%
Revenues (Rs mn)	135,178	135,178	-	148,257	148,257	-
EBITDA (Rs mn)	15,758	15,758	-	16,610	16,610	-
EBITDA Margins (%)	11.7	11.7	-	11.2	11.2	-
APAT (Rs mn)	6,340	6,204	2.2	6,477	6,448	0.4

Source: HDFC sec Inst Research

We summarize the valuations of the core EPC operations of our coverage universe and excluding the value of the asset portfolio, land and any other investment

Peer Group Valuation Summary (Core EPC Operations)

COMPANY	MCap (Rs bn)	CMP (Rs)	RECO	TP (Rs)	Adj. EPS (Rs/sh)			P/E (x)			EV/EBITDA (x)			ROE (%)		
					FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E	FY19E	FY20E	FY21E
Dilip Buildcon	84.4	617	BUY	737	55.6	53.1	51.9	9.1	9.5	9.7	6.4	5.7	5.4	26.9	20.4	16.7
NCC	68.5	114	BUY	170	10.4	10.6	10.8	11.0	10.8	10.6	6.0	5.4	5.1	13.8	12.5	11.4
PNC Infratech	45.9	179	BUY	339	7.7	13.6	15.8	16.3	9.2	7.4	8.7	5.6	4.5	10.2	15.7	15.6
Sadbhav Engineering	42.7	249	BUY	382	14.4	16.3	19.6	11.2	9.9	8.2	8.8	7.1	6.3	11.8	11.9	12.6
KNR Constructions	38.4	273	BUY	336	11.4	16.3	15.4	18.6	13.1	13.9	8.2	6.6	5.8	12.8	15.4	12.5
Ashoka Buildcon	35.9	128	BUY	261	11.5	10.8	12.7	5.0	5.3	4.3	4.7	4.1	3.4	15.5	13.0	13.5
Ahluwalia Contracts	23.4	349	BUY	443	18.9	23.2	26.9	17.7	14.5	12.5	8.9	7.2	5.9	18.5	18.9	18.3
ITD Cementation *	19.8	115	NEU	118	4.8	7.1	7.9	23.7	16.2	14.6	7.6	7.8	7.1	10.2	11.3	11.3
JMC Projects	22.7	135	BUY	164	8.5	8.6	9.3	13.0	12.8	11.9	7.5	6.5	5.7	16.6	14.5	13.7
HG Infra	17.9	275	BUY	457	19.8	25.9	29.6	13.3	10.1	8.6	6.2	5.0	4.2	21.3	22.4	20.7
Capacite Infra	18.1	266	BUY	351	14.1	16.7	22.6	18.6	15.2	11.2	7.2	6.0	4.8	12.0	12.7	15.1
PSP Projects	18.3	509	BUY	550	24.0	31.0	34.4	21.2	16.4	14.8	11.8	8.9	7.7	25.5	26.6	24.0
J. Kumar Infraprojects	12.0	159	BUY	335	22.0	26.6	33.5	7.2	6.0	4.7	3.8	3.1	2.5	10.6	11.7	13.4
Average								14.2	11.4	10.1	7.3	6.1	5.2	15.8	15.9	15.3

Source: HDFC sec Inst Research, *FY19E should be read as 15MFY19

Income Statement (Standalone)

Year ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Net Revenues	78,921	74,363	120,798	135,178	148,257
Growth (%)	(5.2)	(5.8)	62.4	11.9	9.7
Material Expenses	66,871	60,890	99,305	111,039	122,751
Employee Expenses	3,315	3,641	4,394	4,731	5,189
Other Operating Expenses	1,883	2,093	2,869	3,650	3,706
EBIDTA	6,852	7,739	14,230	15,758	16,610
EBIDTA (%)	8.7	10.4	11.8	11.7	11.2
EBIDTA Growth (%)	(7.1)	12.9	83.9	10.7	5.4
Depreciation	1,121	1,175	1,494	1,712	2,063
EBIT	5,731	6,564	12,736	14,046	14,548
Other income (including EO)	897	903	593	712	640
Interest	3,957	3,789	4,512	5,003	5,374
PBT	2,672	3,677	8,817	9,754	9,814
Tax	417	809	3,177	3,414	3,337
RPAT	2,255	2,868	5,640	6,340	6,477
EO Items	503	256	589	-	-
APAT	2,758	3,123	6,229	6,340	6,477
APAT Growth (%)	14.9	13.2	99.4	1.8	2.2
EPS	5.0	5.2	10.4	10.6	10.8
EPS Growth (%)	14.9	4.8	99.4	1.8	2.2

Source: Company, HDFC sec Inst Research

Balance Sheet (Standalone)

Year ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
SOURCES OF FUNDS					
Share Capital	1,112	1,201	1,201	1,201	1,201
Reserves	33,311	41,215	46,367	52,423	58,617
Total Shareholders Funds	34,423	42,416	47,568	53,625	59,818
Long Term Debt	91	1,185	3,200	3,200	3,200
Short Term Debt	15,676	11,815	16,730	15,330	15,330
Total Debt	15,767	13,001	19,930	18,530	18,530
Net Deferred Taxes	(1,354)	(1,793)	(1,726)	(1,726)	(1,726)
Other Long-term Liabilities (Retention Money)	842	1,394	1,297	1,297	1,297
TOTAL SOURCES OF FUNDS	49,677	55,019	67,068	71,725	77,919
APPLICATION OF FUNDS					
Net Block	6,403	8,081	12,405	14,193	14,830
CWIP	13	229	813	813	813
Investments	10,287	15,110	13,872	12,872	11,872
Non Current Assets	2,535	3,556	3,768	5,407	5,930
Total Non-current Assets	19,238	26,976	30,858	33,285	33,445
Inventories	15,258	16,956	5,129	6,084	6,726
Debtors	23,501	34,620	30,496	33,702	38,587
Cash & Equivalents	1,095	659	2,990	1,355	2,531
Other Current Assets	28,994	27,002	60,376	68,144	74,048
Total Current Assets	68,848	79,237	98,990	109,285	121,893
Creditors	28,688	33,882	43,844	49,997	54,835
Other Current Liabilities	9,721	17,313	18,936	20,848	22,584
Total Current Liabilities	38,409	51,195	62,779	70,845	77,419
Net Current Assets	30,440	28,043	36,211	38,440	44,474
TOTAL APPLICATION OF FUNDS	49,677	55,019	67,068	71,725	77,919

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

Year ending March (Rs mn)	FY17	FY18	FY19P	FY20E	FY21E
Reported PBT	2,672	3,677	8,817	9,754	9,814
Non-operating & EO items	(599)	401	(593)	(712)	(640)
Interest expenses	3,957	3,789	4,512	5,003	5,374
Depreciation	1,121	1,175	1,494	1,712	2,063
Working Capital Change	(4,746)	(3,310)	(6,080)	(5,504)	(5,380)
Taxes Paid	(436)	(1,263)	(3,177)	(3,414)	(3,337)
OPERATING CASH FLOW (a)	1,968	4,469	4,974	6,840	7,894
Capex	(1,286)	(3,076)	(6,402)	(3,500)	(2,700)
Free cash flow (FCF)	682	1,393	(1,429)	3,340	5,194
Investments and Income on investments and deposits	5,838	(456)	1,831	1,712	1,640
INVESTING CASH FLOW (b)	4,552	(3,532)	(4,571)	(1,788)	(1,060)
Debt Issuance (Net of repayments)	(3,068)	(2,766)	6,929	(1,400)	-
Interest expenses	(4,083)	(3,752)	(4,512)	(5,003)	(5,374)
FCFE	(6,469)	(5,124)	988	(3,063)	(180)
Share capital Issuance	-	5,413	-	-	-
Dividend	(402)	(268)	(284)	(283)	(283)
FINANCING CASH FLOW (c)	(7,552)	(1,372)	2,133	(6,686)	(5,657)
NET CASH FLOW (a+b+c)	(1,032)	(435)	2,536	(1,635)	1,177
Non-operating and EO items	(32)	-	(206)	-	-
Closing Cash & Equivalents	1,095	659	2,989	1,355	2,531

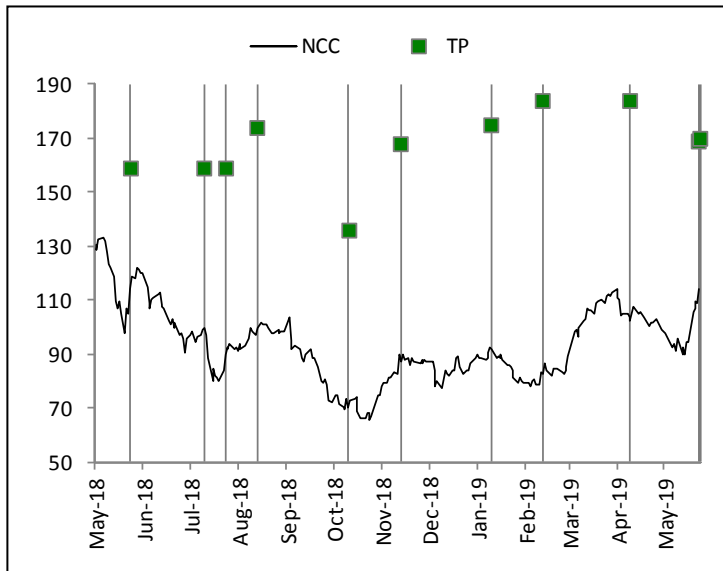
Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY17	FY18	FY19P	FY20E	FY21E
PROFITABILITY (%)					
GPM	15.3	18.1	17.8	17.9	17.2
EBITDA Margin	8.7	10.4	11.8	11.7	11.2
EBIT Margin	7.3	8.8	10.5	10.4	9.8
APAT Margin	3.5	4.2	5.2	4.7	4.4
RoE	8.2	8.1	13.8	12.5	11.4
Core RoCE	12.6	13.0	16.2	15.9	13.8
RoCE	11.3	10.6	12.7	13.4	12.9
EFFICIENCY					
Tax Rate (%)	15.6	22.0	36.0	35.0	34.0
Asset Turnover (x)	5.8	4.6	5.9	6.0	5.9
Inventory (days)	71	83	15	16	17
Debtors (days)	109	170	92	91	95
Other Current assets (days)	134	133	182	184	182
Payables (days)	133	166	132	135	135
Other Current liab & provns (days)	45	85	57	56	56
Cash Conversion Cycle (days)	136	134	100	100	103
Debt/EBITDA (x)	2.3	1.7	1.4	1.2	1.1
Net D/E	0.4	0.3	0.4	0.3	0.3
Interest Coverage	1.4	1.7	2.8	2.8	2.7
PER SHARE DATA					
EPS (Rs/sh)	5.0	5.2	10.4	10.6	10.8
CEPS (Rs/sh)	6.1	6.7	11.9	13.4	14.2
DPS (Rs/sh)	0.6	0.6	0.6	0.6	0.6
BV (Rs/sh)	61.9	70.6	79.2	89.3	99.6
VALUATION					
P/E	23.0	21.9	11.0	10.8	10.6
P/BV	1.8	1.6	1.4	1.3	1.1
EV/EBITDA	11.4	10.4	6.0	5.4	5.1
EV/Revenues	1.0	1.1	0.7	0.6	0.6
OCF/EV (%)	2.5	5.5	5.8	8.0	9.3
FCF/EV (%)	0.9	1.7	(1.7)	3.9	6.1
FCFE/Market Cap (%)	1.1	2.0	(2.1)	4.9	7.6
Dividend Yield (%)	0.5	0.5	0.5	0.5	0.5

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY



Date	CMP	Reco	Target
25-May-18	114	BUY	159
10-Jul-18	97	BUY	159
25-Jul-18	90	BUY	159
13-Aug-18	99	BUY	174
11-Oct-18	74	BUY	136
14-Nov-18	90	BUY	168
10-Jan-19	93	BUY	175
13-Feb-19	84	BUY	184
9-Apr-19	104	BUY	184
23-May-19	110	BUY	169
25-May-19	114	BUY	170

Rating Definitions

- BUY : Where the stock is expected to deliver more than 10% returns over the next 12 month period
- NEUTRAL : Where the stock is expected to deliver (-)10% to 10% returns over the next 12 month period
- SELL : Where the stock is expected to deliver less than (-)10% returns over the next 12 month period

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HDFC securities Limited, I Think Techno Campus, Building - B, "Alpha", Office Floor 8, Near Kanjurmarg Station, Opp. Crompton Greaves, Kanjurmarg (East), Mumbai 400 042 Phone: (022) 3075 3400 Fax: (022) 2496 5066

Compliance Officer: Binkle R. Oza Email: complianceofficer@hdfcsec.com Phone: (022) 3045 3600

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