

## Weak Performance! ...

**About the stock:** NCC is one of the leading construction companies with presence across varied verticals such as buildings, roads, water, mining and electrical. Standalone order book is at ₹ 51,834 crore, 2.7x TTM book to bill.

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

**Q3FY25 Performance:** NCC reported revenue from operations for Q3 FY25 at ₹4671 crore, down 1.6% YoY given slower pace of execution due to elections and extended rainfall which led to elongated billing cycles. Subsequently, EBITDA reported at ₹409.5 crore was down 14.6% YoY along with margins reported at 8.8% YoY, down 130 bps YoY. PAT was reported at ₹185.4 crore, down 13% YoY given the muted execution.

### Investment Rationale:

- Elections led slowdown in Q3; Healthy order book; Execution to pick up in FY26:** The company attributed the weak execution to elections and extended rainfall and elongated billing cycle, thereof. Thus, topline growth guidance was revised downward at ~5% (vs 15% earlier) for FY25. We note that the standalone order book is at ₹ 51,834 crore, 2.7x TTM book to bill. The total order inflow for 9M FY25 stood at ₹13600 crore and L1 position for orders worth ₹ 9000-10000 crore. Thus, management has maintained order booking guidance of ~₹ 20,000 - 22,000 crore for FY25. While management has refrained from guiding for FY26, given the robust orderbook and healthy pipeline, we expect healthy revenue CAGR of ~12.7% over FY24-27E to ₹ 26,228 crore, with growth recovery from FY26 onwards
- Net debt surged; Margin guidance pruned:** Given the elongated billing cycle, the gross debt, at ₹2415 crore, was up by ₹680 crore QoQ. The company expects the same to reduce as it receives the payments. The EBITDA margin guidance was revised downward to 9.25% (vs 9.5% earlier) given the weak 9MFY25, albeit it indicated improved margins at 9.5% for Q4. We bake in EBITDA margins at 9%/9.4%/9.7% in FY25/FY26/FY27 vs. 9% in FY24.

### 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, execution is likely to improve ahead.
- We value NCC at ₹ 265 (vs. ₹ 400, earlier), now valuing it at 12x FY27 (vs. 15x, earlier), and maintain our BUY rating on the stock

### Key Financial Summary

₹ crore	FY22	FY23	FY24E	5 year CAGR (FY19-24)	FY25E	FY26E	FY27E	2 year CAGR (FY24-27E)
Net Sales	9,930	13,351	18,314	8.7%	19,229	22,345	26,228	12.7%
EBITDA	996	1,343	1,648	3.0%	1,750	2,101	2,544	15.6%
EBITDA Margin (%)	10.0	10.1	9.0		9.1	9.4	9.7	
Adj. PAT	344	569	837	8.2%	789	1,090	1,385	18.3%
Adj. EPS (₹)	5.6	9.1	10.1		12.6	17.4	22.1	
P/E (x)	25.1	22.3	20.1		16.1	11.6	9.2	
EV/EBITDA(x)	13.0	9.4	7.5		7.0	5.7	4.5	
RoNW (%)	5.9	9.0	12.3		10.6	13.1	14.5	
RoCE (%)	13.3	17.9	20.1		19.7	22.7	24.4	

Source: Company, ICICI Direct Research



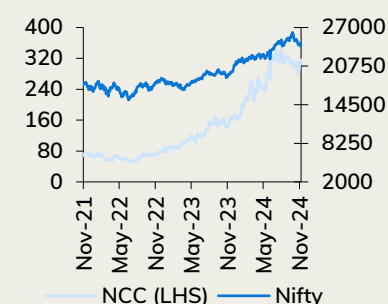
### Particulars

Particular	₹ crore
Market Capitalisation	12,557
Total Debt FY24	1,005
Cash FY24	1,044
EV	12,518
52 week H/L (₹)	364 / 191
Equity capital	125.6
Face value	2.0

### Shareholding pattern

	Mar-24	Jun-24	Sep-24	Dec-24
Promoters	47.5	47.5	47.5	47.5
DII	24.9	27.8	28.4	27.9
FII	19.2	16.2	16.1	16.0
Other	8.4	8.5	8.1	8.6

### Price Chart



### Key risks

- Lower than expected order inflows
- Heightened competitive intensity impacting margins

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## Performance highlights and outlook

- **Order Book and Order Pipeline:** the standalone orderbook stood at ₹51834 crore as of Q3 FY25, 2.7x TTM book to bill. The management has indicated a prospective bidding pipeline of ₹2.4 lakh crore for the year. The order book break up –the building division is worth ₹21085 crore (38% of total order book), the transportation division is worth ₹10800 crore (19% of total orderbook), the Water division is worth ₹5450 crore (10% of total orderbook) electrical T&D business is worth ₹10633 crore (19% of total orderbook), the irrigation and mining divisions are worth ₹4496 crore (8% of total orderbook) and ₹3050 crore (5% of total orderbook).
- **Guidance:** The management has revised the revenue growth guidance downward to 5% (vs 15% earlier) and EBITDA margin guidance to 9.25% (vs 9.5%) for the year. It also indicated it expects to achieve margins of around 9.5% in Q4. It has however maintained the order inflow outlook at ₹20000-22000 crore for the year, given it has already achieved over ₹13600 crore worth of order inflows as of 9M FY25 (₹8440 crore in Q3) and has L1 position worth ₹9000-10000 crore in pipeline.
- **JJM and River Interlinking project:** For the JJM project, the management indicated a beginning balance of ₹8000 crore, of which ₹3400 crore has been executed and the balance work for execution stands at ₹4700 crore. It also indicated the importance of the Ken-Batwa River Interlinking project, it hopes to tap into the healthy pipeline of river interlinking projects going forward as it is starting to gain traction.
- **Andhra Pradesh Prospects:** The management has indicated that the clients are attempting to close the projects which were awarded in the past. The state government is expected to start the process of awarding contracts for the capital city development soon. As for the receivables, on the capital city front, pending payments to the tune of ₹160 crore are expected to be received by end of March 2025. Also, there is an exposure of about ₹400-450 crore in the running projects, out of which the company has received ₹230 crore in Q3 leaving a balance of ₹200-250 crore yet to be received for the running projects.
- **Smart meters project:** Recall, the company had secured three Smart Meters projects valued close to ₹ 8000 crore, out of the three projects, the two projects in Maharashtra are worth approximately ₹ 5700 crore, and the third project is in the state of Bihar which is value at about ₹2300 crore.
  - The company has commenced the trials for the Bihar project having already installed 3 lakh meters showcasing good progress in the state, once the sample testing is done, the company expects to receive the green signal from the client to start rolling out the project.
  - As for Maharashtra, execution had slowed down owing to the state elections with government deferring the projects for a few months, with the government now stabilized, the company is receiving the clearances, management is hoping for execution to pick up.
- **NCC Vizag deal:** The company has received the full payment for the equity portion of the project. On the loan front, out of ₹374 crore, the company have received about ₹15 crore against the interest amount, it expects ₹374 crore to be realized in the next couple of years.
- **Debt:** The company's debt at the beginning of the year stood at ₹1005 crore with net debt after cash and cash equivalents at ₹517 crore. As of Q3, the debt stood at ₹2415 crore and net debt at ₹2343 crore. The debt has increased by ₹680 crore compared to Q2. The debt-to-equity ratio stood at 0.33x at the end of Q3.

- **Capex:** The company has incurred a capex of ₹223 crore as of Q3 as against the budgeted capex of ₹250 crore. The balance capex is likely to be incurred during Q4.
- **Working Capital:** The working capital as of Q3 stood at ₹5488 crore (32% of turnover) with working capital days at 95 days for the quarter.

**Exhibit 1: Quarter Performance**

	Q3FY25	Q3FY24	YoY (%)	Q2FY25	QoQ(%)	Comments
Net Sales	4,670.9	4,747.3	-1.6	4,445.0	5.1	Topline declined given slower pace of execution due to elections and extended rainfall which led to elongated billing cycles
Other Income	48.8	26.3	85.6	35.1	39.1	
Total Construction Expenses	2,343.0	2,268.8	3.3	1,989.2	17.8	
Employee cost	193.2	173.3	11.5	188.9	2.3	
Other expenditure	1,725.3	1,825.5	-5.5	1,865.7	-7.5	
EBITDA	409.4	479.7	-14.7	401.2	2.1	
EBITDA Margin (%)	8.8	10.1	-134 bps	9.0	-26 bps	Margin decline was owing to negative operating leverage
Depreciation	52.9	52.8	0.2	53.9	-1.7	
Interest	161.0	154.8	4.0	164.5	-2.2	
Exceptional items	0.0	0.0	NA	0.0	0.0	
PBT	244.3	298.4	-18.1	217.8	12.2	
Taxes	59.0	85.2	-30.7	57.3	3.0	
Adjusted PAT	185.3	213.2	-13.1	160.6	15.4	

Source: Company, ICICI Direct Research

## Financial Summary

### Exhibit 2: Profit and loss statement ₹ crore

₹ crore	FY24	FY25E	FY26E	FY27E
Net Sales	18,314	19,229	22,345	26,228
Other Income	124	143	157	173
Total revenues	18,439	19,372	22,502	26,401
RM Exp.	7,277	7,538	8,647	10,150
Employee exp	641	673	782	918
Constr. exp	8,448	8,941	10,413	12,144
Other Exp	301	327	402	472
Total op exp.	16,666	17,479	20,244	23,684
EBITDA	1,648	1,750	2,101	2,544
Interest	595	613	557	604
Depreciation	209	225	243	261
PBT	911	1,054	1,458	1,851
Taxes	280	266	367	467
PAT	631	789	1,090	1,385
Adjusted PAT	837	789	1,090	1,385
EPS	20.1	19.7	22.7	24.4

Source: Company, ICICI Direct Research

### Exhibit 4: Balance Sheet ₹ crore

₹ crore	FY24	FY25E	FY26E	FY27E
Equity Capital	126	126	126	126
Reserve and Surplus	6,687	7,319	8,221	9,417
Shareholders funds	6,813	7,444	8,346	9,543
Total Debt	1,005	1,100	600	600
Other Non-curr. Liab.	-	-	-	-
Def.Tax Liability	(59)	(59)	(59)	(59)
Source of Funds	7,759	8,486	8,888	10,084
Gross Block	2,712	2,962	3,212	3,462
Less: Acc. Dep	1,537	1,762	2,004	2,266
Net Block	1,175	1,200	1,208	1,196
Capital WIP	40	40	40	40
Total Fixed Assets	1,215	1,240	1,247	1,236
Investments	1,286	1,286	1,286	1,286
Inventory	1,434	1,528	1,775	2,084
Sundry Debtors	2,791	3,161	3,673	4,311
Loans & Advances	369	474	551	647
Cash & Bank	1,044	1,233	985	1,391
Other Current Assets	8,382	8,800	10,226	12,003
Total Current Assets	14,019	15,196	17,210	20,436
Trade Payable	6,117	6,422	7,463	8,760
Provisions	150	158	183	215
Other Curr.Liabilities	3,251	3,413	3,966	4,656
Total Curr. Liabilities	9,518	9,994	11,613	13,631
Net Current Assets	4,501	5,203	5,597	6,805
Application of Funds	7,759	8,486	8,888	10,084

Source: Company, ICICI Direct Research

### Exhibit 3: Cash flow statement ₹ crore

₹ crore	FY24	FY25E	FY26E	FY27E
Profit after Tax	631	789	1,090	1,385
Depreciation	209	225	243	261
Prov for Taxes	71	78	118	216
CF before wc changes	1,198	1,435	1,798	2,207
Change in WC	231	(181)	130	(512)
Taxes Paid	(131)	(209)	(291)	(266)
Net CF from op. activities	960	501	690	844
(Purchase)/Sale of FA	(256)	(250)	(250)	(250)
(Purchase)/Sale of Inv.	(190)	-	-	-
Net CF from inv. activities	(446)	(250)	(250)	(250)
Change in Debt	25	95	(500)	-
Other	-	-	-	-
Net CF from fin. activities	(115)	(62)	(688)	(188)
Net Cash flow	399	189	(249)	406
Opening Cash	646	1,044	1,233	985
Closing Cash	1,044	1,233	985	1,391

Source: Company, ICICI Direct Research

### Exhibit 5: Key ratios

	FY24	FY25E	FY26E	FY27E
<b>Per Share Data</b>				
Reported EPS	10.1	12.6	17.4	22.1
Cash EPS	13.4	16.1	21.2	26.2
BVPS	108.5	118.6	132.9	152.0
<b>Operating Ratios</b>				
EBITDA / Net Sales	9.0	9.1	9.4	9.7
PAT / Net Sales	4.6	4.1	4.9	5.3
<b>Return Ratios</b>				
RoE	12.3	10.6	13.1	14.5
RoCE	20.1	19.7	22.7	24.4
RoIC	21.6	21.1	23.6	26.4
<b>Valuation Ratios</b>				
EV / EBITDA	7.5	7.0	5.7	4.5
P/E	20.1	16.1	11.6	9.2
EV / Net Sales	0.7	0.6	0.5	0.4
Market Cap / Sales	0.7	0.6	0.6	0.5
Price to Book Value	1.9	1.7	1.5	1.3
<b>Turnover Ratios</b>				
Asset turnover	2.4	2.3	2.5	2.6
Debtors Turnover Ratio	4.5	6.6	6.1	6.1
Creditors Turnover Rati	2.8	3.0	3.0	3.0
<b>Solvency Ratios</b>				
Net Debt / Equity	(0.0)	(0.0)	(0.0)	(0.1)
Current Ratio	1.4	1.4	1.4	1.4
Quick Ratio	1.2	1.2	1.2	1.2

Source: Company, ICICI Direct Research

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Buy: >15%

Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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