

CMP: ₹ 320

Target: ₹ 400 (25%) Target Period: 12-15 months

BUY

August 8, 2024

Another healthy quarter! ...

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 ₹ 47,625 crore, 2.5x TTM book to bill.

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

Q1FY25 Performance: NCC reported standalone turnover of ₹ 4,747 crore in Q1 FY25, up 23% YoY led by strong execution and robust order book. EBITDA at ₹439.6 crore was up 15.5% YoY, however EBITDA margins at 9.3% was down 65 bps YoY, given the project mix. PAT was reported at ₹ 200.7 crore, up 23.7% YoY.

Investment Rationale:

- Poised for a healthy execution ahead with strong order book:** NCC has standalone order book of ₹ 47,625 crore, 2.5x TTM book to bill. On consolidated basis, order book stood at ₹ 52,626 crore, 2.4x TTM book to bill. We note that apart from overall opportunity, the company also indicated that it expects improved order inflows prospects from AP and Bihar, given the budget allocations. The company has guided for an order booking of about ~₹ 20,000 - 22,000 crore, excluding any order inflows from AP. The topline growth guidance was maintained at ~15% for FY25, albeit accelerated inflows could drive upgrade of the same going ahead, in our view. Given the robust orderbook, we expect healthy revenue CAGR of ~15.5% over FY24-26E to ₹ 24,429 crore.
- Strong earnings growth momentum & higher return ratios ahead:** The EBITDA margin guidance is 9.5% -10% amidst the competitive bidding scenario, and with company focussing on revenue growth momentum in FY25 over margins. We bake in EBITDA margins at 9.5%/10.3% in FY25/FY26 vs. 9% in FY24 (~10% on adjusted basis). Healthy topline growth coupled with stable finance cost is likely to drive ~28.6% earnings CAGR over FY24-26E. The strong earnings momentum will translate into improvement in return ratios, with RoE's likely to expand to 15.6% in FY26 vs. 12.3% 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, and improving balance sheet strength, it is poised for a healthy growth ahead.
- We value NCC at ₹ 400, at 18x FY26 P/E, and maintain our BUY rating on the stock

Key Financial Summary

| ₹ crore | FY21 | FY22 | FY23 | FY24E | 5 year CAGR (FY19-24) | FY25E | FY26E | 2 year CAGR (FY24-26E) |
|-------------------|-------|-------|--------|--------|-----------------------|--------|--------|------------------------|
| Net Sales | 7,256 | 9,930 | 13,351 | 18,314 | 8.7% | 21,053 | 24,429 | 15.5% |
| EBITDA | 855 | 996 | 1,343 | 1,648 | 3.0% | 2,000 | 2,504 | 23.3% |
| EBITDA Margin (%) | 11.8 | 10.0 | 10.1 | 9.0 | | 9.5 | 10.3 | |
| Adj. PAT | 261 | 344 | 569 | 837 | 8.2% | 1,019 | 1,384 | 28.6% |
| Adj. EPS (₹) | 4.3 | 5.6 | 9.1 | 10.1 | | 16.2 | 22.0 | |
| P/E (x) | 74.6 | 39.8 | 35.3 | 31.8 | | 19.7 | 14.5 | |
| EV/EBITDA(x) | 24.4 | 20.2 | 14.8 | 11.8 | | 9.8 | 7.6 | |
| RoNW (%) | 4.9 | 5.9 | 9.0 | 12.3 | | 13.3 | 15.6 | |
| RoCE (%) | 11.2 | 13.3 | 17.9 | 20.1 | | 22.0 | 25.8 | |

Source: Company, ICICI Direct Research



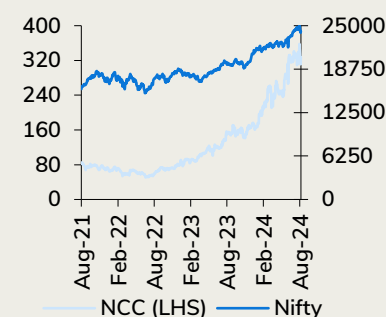
Particulars

| Particular | ₹ crore |
|-----------------------|-----------|
| Market Capitalization | 20,091 |
| Total Debt FY24 | 1,005 |
| Cash FY24 | 1,044 |
| EV | 20,052 |
| 52 week H/L (₹) | 364 / 137 |
| Equity capital | 125.6 |
| Face value | 2.0 |

Shareholding pattern

| | Sep-23 | Dec-23 | Mar-24 | Jun-24 |
|-----------|--------|--------|--------|--------|
| Promoters | 22.0 | 22.0 | 22.0 | 22.0 |
| DII | 11.0 | 10.5 | 10.6 | 11.4 |
| FII | 24.2 | 23.9 | 27.3 | 23.7 |
| Other | 42.8 | 43.6 | 40.0 | 43.0 |

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 Inflow** - The company received orders worth ₹408 crore in the first quarter. Furthermore, it has L1 orders (wherein it is lowest bidder) of ~₹ 8500 crore, which it expects to receive Letter of Awards by Q2FY25. The consolidated order book stood at ₹ 52626 crore, 2.4x TTM book to bill. The standalone order book stood at ₹47625 crore, 2.5x TTM book to bill. The company has overall bidding prospects of ~₹ 2 lakh crore.
- **AP & Bihar Prospects** –
 - Given the change in state government, it expects the revival of capital city projects in AP as well pending payments to materialise. The company has total receivables of ~₹ 500-550 crore from AP, including ₹ 150 crore from capital city. It expects the same to come down to ₹ 200 crore by H2FY25.
 - The company also sounded positive on incremental ordering prospects from Bihar, given NCC presence and strong budget allocation for the same.
- **Guidance** – The company maintained the order inflow guidance of about ~₹ 20,000-22,000 crore. Despite ordering impacted owing to elections in Q1, we expect the guidance is largely achievable going ahead. The topline growth guidance has also been maintained at ~15% for FY25. The EBITDA margin guidance is ~9.5% -10% amidst the competitive bidding scenario, and with company focussing on revenue growth momentum in FY25.
- **SPV smart meters project** – Recall, the company had secured three Smart Meters projects valuing ₹ 7403 crore, out of the three projects, for two projects in Maharashtra worth ₹ 5756 crore, is done through SPV. The work-sharing between SPV and NCC Ltd. the SPVs has given contract value of ₹ 3660 crore by retaining ₹ 2095 crore at SPV level. Total equity requirement for these projects is ₹ 500 crore.
 - For Bihar Smart Meter Project, NCC Ltd has already started the work, and supplied 80,000 meters with 55,000 meters installed. The company is expecting clearance from the client in a month's time, post which they will continue to install the meters.
 - On Maharashtra, client has changed priorities and installation is required to be done at offices, which are scattered and thus the progress is slower. The company expects the same to pick by Q4.
- **Jal Jeevan Missions project** - The total orders from Jal Jeevan mission was originally ~₹ 16,900 crore, of which 60% has been executed as of Q1FY25 (~53% as of FY25). For Q1, ~₹ 1212 crore was executed from this segment. The company expects execution worth ₹ 6000 crore of Jal Jeevan project in FY25 and remaining in FY26.
- **NCC Vizag** – NCC has received ₹ 52 crore in FY24 and another ₹ 67 crore in May '24, aggregating to ₹ 119 crore. The balance ₹ 33 crore is expected to be received in 2-3 months. Additionally, it has a loan exposure of ~₹ 377 crore which it expects to receive in 2 years.
- **Debt** – The gross debt saw an increase in the debt by ₹815 crore QoQ given the seasonality and lower collection momentum amid elections and now stands at ₹1,820 crore. The company expects the gross debt to come down to ₹ 500 crore by FY25.
- **Capex** – For Q1, capex stood at ₹ 51 crore. It has given a capex guidance of ₹ 250 crore for FY25 vs. ₹ 285 crore spent in FY24.
- **Legacy issues** –
 - **Sembcorp** – The arbitration tribunal has awarded a total amount of ₹198 crore out of which NCC has received ₹151 crore and balance of ₹45 crore is pending owing to a legal battle.

- **Settlement of Taqa** – Out of ₹ 175 crore NCC is required to pay, ₹ 90 crore was paid in March '24, ₹ 45 crore was paid in June and balance is payable in December.

Exhibit 1: Quarter Performance

| | Q1FY25 | Q1FY24 | YoY (%) | Q4FY24 | QoQ(%) | Comments |
|-----------------------------|---------|---------|---------|---------|--------|--|
| Net Sales | 4,713.3 | 3,838.3 | 22.8 | 5,446.0 | -13.5 | Topline aided healthy pick-up in execution |
| Other Income | 34.1 | 27.7 | 23.0 | 41.7 | -18.2 | |
| Total Construction Expenses | 2,300.2 | 1,953.8 | 17.7 | 2,577.9 | -10.8 | |
| Employee cost | 176.4 | 137.0 | 28.7 | 178.5 | -1.2 | |
| Other expenditure | 1,797.0 | 1,366.9 | 31.5 | 2,179.9 | -17.6 | |
| EBITDA | 439.6 | 380.6 | 15.5 | 509.7 | -13.7 | |
| EBITDA Margin (%) | 9.3 | 9.9 | -59 bps | 9.4 | -3 bps | |
| Depreciation | 53.1 | 52.1 | 2.0 | 51.8 | 2.6 | |
| Interest | 153.2 | 132.3 | 15.8 | 154.3 | -0.7 | |
| Exceptional items | 0.0 | 0.0 | NA | -56.6 | 0.0 | |
| PBT | 267.4 | 223.9 | 19.4 | 288.7 | -7.4 | |
| Taxes | 66.7 | 61.6 | 8.2 | 101.4 | -34.2 | |
| Adjusted PAT | 200.7 | 162.3 | 23.7 | 243.9 | -17.7 | |

Source: Company, ICICI Direct Research

Financial Summary

Exhibit 2: Profit and loss statement ₹ crore

| ₹ crore | FY23 | FY24 | FY25E | FY26E |
|----------------|--------|--------|--------|--------|
| Net Sales | 13,351 | 18,314 | 21,053 | 24,429 |
| Other Income | 152 | 124 | 143 | 171 |
| Total revenues | 13,504 | 18,439 | 21,196 | 24,600 |
| RM Exp. | 4,751 | 7,277 | 8,253 | 9,454 |
| Employee exp | 520 | 641 | 737 | 855 |
| Constr. exp | 6,431 | 8,448 | 9,684 | 11,176 |
| Other Exp | 307 | 301 | 379 | 440 |
| Total op exp. | 12,009 | 16,666 | 19,053 | 21,925 |
| EBITDA | 1,343 | 1,648 | 2,000 | 2,504 |
| Interest | 510 | 595 | 555 | 583 |
| Depreciation | 200 | 209 | 225 | 243 |
| PBT | 785 | 911 | 1,363 | 1,850 |
| Taxes | 216 | 280 | 343 | 466 |
| PAT | 569 | 631 | 1,019 | 1,384 |
| Adjusted PAT | 569 | 837 | 1,019 | 1,384 |
| EPS | 9.1 | 10.1 | 16.2 | 22.0 |

Source: Company, ICICI Direct Research

Exhibit 3: Cash flow statement ₹ crore

| ₹ crore | FY23 | FY24 | FY25E | FY26E |
|-----------------------------|-------|-------|-------|-------|
| Profit after Tax | 569 | 631 | 1,019 | 1,384 |
| Depreciation | 200 | 209 | 225 | 243 |
| Prov for Taxes | 71 | 78 | 118 | 216 |
| CF before wc changes | 977 | 1,258 | 1,683 | 2,165 |
| Change in WC | 231 | (181) | 130 | (889) |
| Taxes Paid | (131) | (209) | (291) | (343) |
| Net CF from op. activities | 595 | 960 | 355 | 930 |
| (Purchase)/Sale of FA | (314) | (256) | (250) | (250) |
| (Purchase)/Sale of Inv. | 62 | (190) | - | - |
| Net CF from inv. activities | (253) | (446) | (250) | (250) |
| Change in Debt | (205) | 25 | 95 | (500) |
| Other | - | - | - | - |
| Net CF from fin. activities | (255) | (115) | (62) | (688) |
| Net Cash flow | 87 | 399 | 43 | (9) |
| Opening Cash | 559 | 646 | 1,044 | 1,087 |
| Closing Cash | 646 | 1,044 | 1,087 | 1,079 |

Source: Company, ICICI Direct Research

Exhibit 4: Balance Sheet ₹ crore

| ₹ crore | FY23 | FY24 | FY25E | FY26E |
|-------------------------|--------|--------|--------|--------|
| Equity Capital | 126 | 126 | 126 | 126 |
| Reserve and Surplus | 6,196 | 6,687 | 7,549 | 8,745 |
| Shareholders funds | 6,322 | 6,813 | 7,675 | 8,871 |
| Total Debt | 980 | 1,005 | 1,100 | 600 |
| Other Non-curr. Liab. | - | - | - | - |
| Def. Tax Liability | (48) | (59) | (59) | (59) |
| Source of Funds | 7,254 | 7,759 | 8,716 | 9,412 |
| Gross Block | 2,491 | 2,712 | 2,962 | 3,212 |
| Less: Acc. Dep | 1,328 | 1,537 | 1,762 | 2,004 |
| Net Block | 1,163 | 1,175 | 1,200 | 1,208 |
| Capital WIP | 22 | 40 | 40 | 40 |
| Total Fixed Assets | 1,185 | 1,215 | 1,240 | 1,247 |
| Investments | 1,095 | 1,286 | 1,286 | 1,286 |
| Inventory | 1,078 | 1,434 | 1,673 | 1,941 |
| Sundry Debtors | 2,945 | 2,791 | 3,461 | 4,016 |
| Loans & Advances | 372 | 369 | 519 | 602 |
| Cash & Bank | 646 | 1,044 | 1,087 | 1,079 |
| Other Current Assets | 7,514 | 8,382 | 9,635 | 11,180 |
| Total Current Assets | 12,554 | 14,019 | 16,375 | 18,818 |
| Trade Payable | 4,823 | 6,117 | 7,032 | 8,159 |
| Provisions | 129 | 150 | 173 | 201 |
| Other Curr. Liabilities | 3,346 | 3,251 | 3,737 | 4,336 |
| Total Curr. Liabilities | 8,298 | 9,518 | 10,942 | 12,696 |
| Net Current Assets | 4,256 | 4,501 | 5,433 | 6,121 |
| Application of Funds | 7,254 | 7,759 | 8,716 | 9,412 |

Source: Company, ICICI Direct Research

Exhibit 5: Key ratios

| | FY23 | FY24 | FY25E | FY26E |
|--------------------------|-------|-------|-------|-------|
| Per Share Data | | | | |
| Reported EPS | 9.1 | 10.1 | 16.2 | 22.0 |
| Cash EPS | 12.2 | 13.4 | 19.8 | 25.9 |
| BVPS | 100.7 | 108.5 | 122.2 | 141.3 |
| Operating Ratios | | | | |
| EBITDA / Net Sales | 10.1 | 9.0 | 9.5 | 10.3 |
| PAT / Net Sales | 4.3 | 4.6 | 4.8 | 5.7 |
| Return Ratios | | | | |
| RoE | 9.0 | 12.3 | 13.3 | 15.6 |
| RoCE | 17.9 | 20.1 | 22.0 | 25.8 |
| RoIC | 17.3 | 21.6 | 23.4 | 27.3 |
| Valuation Ratios | | | | |
| EV / EBITDA | 14.7 | 11.8 | 9.7 | 7.6 |
| P/E | 35.2 | 31.7 | 19.7 | 14.5 |
| EV / Net Sales | 1.5 | 1.1 | 0.9 | 0.8 |
| Market Cap / Sales | 1.5 | 1.1 | 0.9 | 0.8 |
| Price to Book Value | 3.2 | 2.9 | 2.6 | 2.3 |
| Turnover Ratios | | | | |
| Asset turnover | 1.8 | 2.4 | 2.4 | 2.6 |
| Debtors Turnover Ratio | 4.5 | 6.6 | 6.1 | 6.1 |
| Creditors Turnover Ratio | 2.8 | 3.0 | 3.0 | 3.0 |
| Solvency Ratios | | | | |
| Net Debt / Equity | 0.1 | (0.0) | 0.0 | (0.1) |
| Current Ratio | 1.4 | 1.4 | 1.4 | 1.4 |
| Quick Ratio | 1.3 | 1.2 | 1.2 | 1.2 |

Source: Company, ICICI Direct Research

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Hold: -5% to 15%;

Reduce: -15% to -5%;

Sell: <-15%



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