

Bottoming Out

NCC reported a weak headline 2QFY20 performance, Rev/EBIDTA/APAT miss of 22/11/38%. With tailwinds like (1) Resumption of stuck AP orders (Rs 110bn, 33% order book) (2) Pick-up in new order inflow & (3) Sembcorp settlement, NCC de-rating may have settled for now. We maintain BUY with reduced TP of Rs 127/Sh (EPC business at 15x FY21E EPS) vs. Rs 154/sh earlier.

HIGHLIGHTS OF THE QUARTER

- Weak headline performance:** NCC reported weak P&L performance, largely attributable to stuck AP projects (Rs 110bn in value, 33% of order backlog) and extended monsoon (Rs 2.5-3bn revenue shortfall). AP Govt. has resumed dialogue on re-starting Central Govt. funded PMAY affordable housing projects totaling Rs 44bn. They are expected to move into execution during 3QFY20. AP Capital city projects worth Rs 66bn are expected to take time and clarity on the same can be expected by 4QFY20. Taking above factors into consideration, NCC has cut its FY20E Rev guidance from Rs 115bn to Rs 95-100bn (excluding AP revenue). EBIDTA margin retained at 11.5-12%.
- Order booking looks weak, guidance miss likely:** NCC has secured new orders worth Rs 31.7bn FYTD20. Whilst the company has retained Rs 120-140bn of new order

inflows guidance, we believe it is a tall ask. We estimate new orders of Rs 86bn for FY20E. Order backlog stands at Rs 331.7bn.

- BS strong, NWC under control, claims settlement nearing:** NCC standalone debt reduced Rs 1.1bn QoQ to Rs 22.9bn. NWC reduced by Rs 500mn QoQ. SembCorp settlement is expected by Mar-20, may yield Rs 4-5bn.

STANCE

Extended monsoon, delays in water division payment from Telangana Govt and resurvey/change in scope of electrical division orders impacted 2QFY20 execution. AP orders resumption remains a black box. Despite this, we believe that 2QFY20 is an execution bottom for NCC. We have built in Rs 23/32bn revenue for NCC during 3Q/4QFY20. We are now entering bid heavy 2HFY20 and NCC stands to gain from the same. Resumption in AP order execution (from 3QFY20) and likely favorable Sembcorp settlement by Mar-20 (unlocking Rs 4-5bn of cash inflow) are key re-rating tailwinds. We have cut FY20/21E EPS by 22.4/18.2%. Maintain BUY with reduced TP of Rs 127/sh. 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)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	FY18	FY19	FY20E	FY21E
Net Sales	17,320	31,048	(44.2)	21,877	(20.8)	74,363	120,798	95,601	121,408
EBITDA	2,330	3,651	(36.2)	2,666	(12.6)	7,739	14,230	10,994	13,476
APAT	520	1,732	(69.9)	813	(36.0)	3,123	6,229	3,532	4,769
Diluted EPS (Rs)	0.9	2.9	(69.9)	1.35	(36.0)	5.2	10.4	5.9	7.9
P/E (x)						11.2	5.6	9.9	7.3
EV / EBITDA (x)						6.1	3.6	5.0	3.9
RoE (%)						8.1	13.8	7.2	8.9

Source: Company, HDFC sec Inst Research

INDUSTRY	INFRASTRUCTURE
CMP (as on 5 Nov 2019)	Rs 58
Target Price	Rs 127

Nifty	11,917
Sensex	40,248

KEY STOCK DATA

Bloomberg	NJCC IN
No. of Shares (mn)	601
MCap (Rs bn) / (\$ mn)	35/495
6m avg traded value (Rs mn)	1,178

STOCK PERFORMANCE (%)

52 Week high / low	Rs 119/45		
	3M	6M	12M
Absolute (%)	(19.0)	(39.8)	(26.8)
Relative (%)	(28.7)	(43.1)	(42.0)

SHAREHOLDING PATTERN (%)

	Jun-19	Sep-19
Promoters	18.12	18.11
FIs & Local MFs	28.02	30.39
FPIs	22.82	18.97
Public & Others	31.04	32.53
Pledged Shares	7.5	6.6

Source : BSE

Parikshit D Kandpal, CFA

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

Shrey Pujari

shrey.pujari@hdfcsec.com
+91-22-6639-3035

Revenue: Rs 17.3bn (21.8% miss)

EBITDA: Rs 2.3bn (10.5% miss); EBITDA margins at 13.5% are higher by 170bps versus our estimate of 11.4%

This increase in EBITDA margin can be attributed to Rs 310mn of claims received by the company for 3 projects in Maharashtra and better execution in high margin segments such as roads/mining

Other income includes Rs 445mn profit from sale of a land parcel

Interest expense: Rs 1.3bn (+21% YoY, +4% QoQ).

Adjusting for Rs 445m land sale profit and Rs 165mn diminution in investment value APAT stood at: Rs 523mn (38% miss)

Reported PAT stood at Rs 800mn

Standalone Quarterly Financial

Particulars (Rs mn)	2QFY20	2QFY19	YoY (%)	1QFY20	QoQ (%)	1HFY20	1HFY19	YoY (%)
Net Sales	17,320	31,048	(44.2)	21,877	(20.8)	39,197	54,644	(28.3)
Material Expenses	13,326	25,627	(48.0)	17,388	(23.4)	30,715	44,924	(31.6)
Employee Expenses	1,153	1,078	6.9	1,123	2.6	2,276	2,052	10.9
Other Operating Expenses	511	692	(26.2)	699	(26.9)	1,210	1,340	(9.7)
EBITDA	2,330	3,651	(36.2)	2,666	(12.6)	4,996	6,328	(21.1)
Depreciation	449	357	25.6	437	2.7	886	701	26.5
EBIT	1,881	3,294	(42.9)	2,229	(15.6)	4,110	5,628	(27.0)
Other Income (including EO)	538	(144)	(473.0)	250	115.1	788	151	421.8
Interest Cost	1,308	1,082	20.9	1,259	3.9	2,566	2,097	22.4
PBT	1,112	2,068	(46.2)	1,221	(8.9)	2,333	3,682	(36.6)
Tax	312	811	(61.6)	407	(23.5)	719	1,388	(48.2)
RPAT	800	1,257	(36.3)	813	(1.6)	1,614	2,293	(29.6)
E/o (adj for tax)	(280)	475	(158.9)	-	NM	(280)	475	(158.9)
APAT	520	1,732	(69.9)	813	(36.0)	1,334	2,768	(51.8)

Source: Company, HDFC sec Inst Research

Margin Analysis

	2QFY20	2QFY19	YoY (bps)	1QFY20	QoQ (bps)	1HFY20	1HFY19	YoY (%)
Material Expenses % Net Sales	76.9	82.5	(560)	79.5	(254)	78.4	82.2	(385)
Employee Expenses % Net Sales	6.7	3.5	318	5.1	152	5.8	3.8	205
Other Operating Expenses % Net Sales	3.0	2.2	72	3.2	(25)	3.1	2.5	63
EBITDA Margin (%)	13.5	11.8	170	12.2	127	12.7	11.6	117
Tax Rate (%)	28.0	39.2	(1,119)	33.4	(535)	30.8	37.7	(688)
APAT Margin (%)	4.6	4.0	57	3.7	90	4.1	4.2	(8)

Source: Company, HDFC sec Inst Research

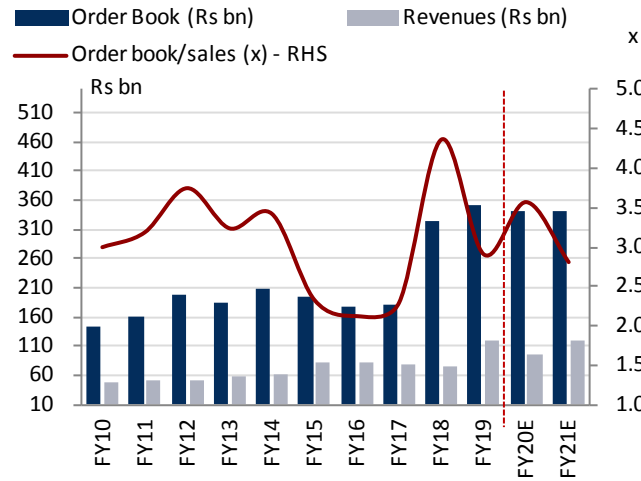
We expect NCC to maintain an order book to bill ratio of 3x over FY20-21E

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

We expect EBITDA margins to be in the range of 11-11.5%

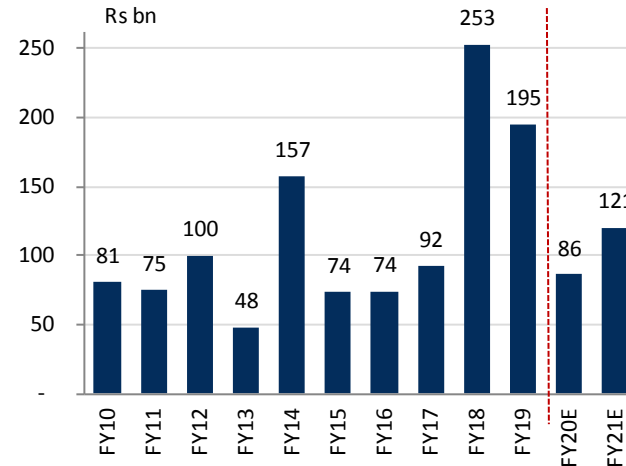
Over FY20-21E, annual order inflows would vary from Rs 80-120bn

Order book To Bill To Remain ~3x Over FY19-21E



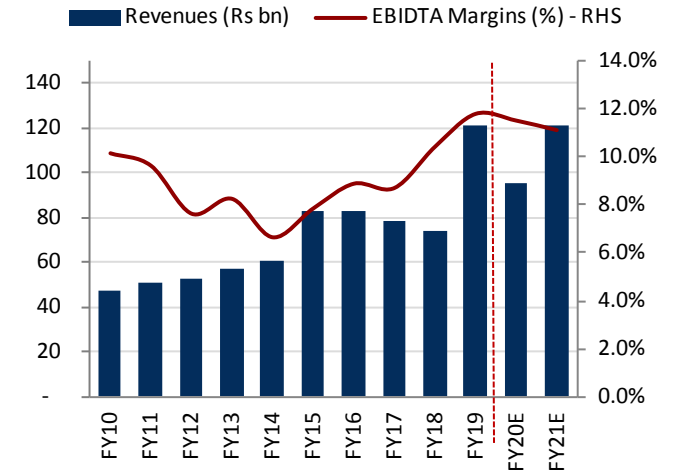
Source: Company, HDFC sec Inst Research

Order Inflow range: Rs 80-120bn during FY20-21E



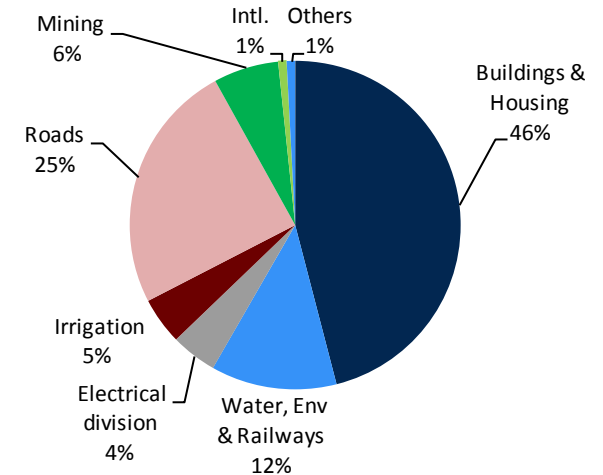
Source: Company, HDFC sec Inst Research

EBIDTA Margins To Range Between 11-11.5%



Source: Company, HDFC sec Inst Research

Order Book Dominated By Buildings, Water and Roads – Rs 331bn



Source: Company, HDFC sec Inst Research

After strong inflows in FY19, we expect order inflows for FY20E to drop below Rs 86bn and to increase to ~Rs120bn in FY21E

Margins are expected to be in the range of 11-11.5%

PAT is expected to dip in FY20 contributed by high interest costs, uncertainty in AP order book, delays in new order intake high depreciation on capex and pressure on margins. APAT is expected to improve in FY21E but is expected to remain subdued over FY19-21E period

Key Assumptions & Estimates

	FY20E	FY21E	Growth %		Comments
			FY20E	FY21E	
Closing order book	341,833	341,140	(2.7)	(0.2)	We expect order book to remain at FY19 levels by FY21E
New order booking	86,225	120,715	(55.8)	40.0	After strong inflows in FY19, we expect order inflows for FY20E to drop below Rs 90bn and to increase to ~Rs120bn in FY21E
Book to bill ratio	3.6	2.8			Book-to-bill ratio to remain around 3x levels
Total Revenue	95,601	121,408	(20.9)	27.0	We expect revenues to dip in FY20E followed by significant improvement in FY21E
EBIDTA	10,994	13,476	(22.7)	22.6	
EBIDTA margin (%)	11.5	11.1	(28.0)	(40.0)	Margins are expected to be in the range of 11-11.5%
Depreciation	1,800	2,063	20.5	14.6	
Financial Charges	5,248	5,556	16.3	5.9	Interest costs will increase as debt and finance charges increase on account of execution ramping up
Other income	1,453	907	145.0	(37.6)	
PBT	5,399	6,765	(38.8)	25.3	
Tax	1,587	1,996	(50.0)	25.8	
Tax rate (%)	29.4	29.5			
Exceptional	(280.0)	-			
APAT	3,532	4,769	(43.3)	35.0	APAT is expected to dip in FY20 contributed by high interest costs, uncertainty in AP order book, delays in new order intake high depreciation on capex and pressure on margins. APAT is expected to improve in FY21E but is expected to remain subdued over FY19-21E period
Gross Block Turnover	4.2	4.9			
Debtor days	122	100			
CFO - a	3,044	9,083			
CFI - b	(439)	(793)			
FCF - a+b	2,605	8,289			
CFF - c	(3,131)	(9,339)			
Total change in cash - a+b+c	(526)	(1,050)			

Source: HDFC sec Inst Research

We continue to value NCC's Standalone business at 15x Mar-21E EPS at Rs 119/sh

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

We arrive at SOTP of Rs 127/sh vs. Rs 154/sh earlier. TP cut is largely on account of FY21E EPS cut by 18.2%

Multiple re-rating will be contingent on the pace of monetization of group exposure of Rs 14.5bn to the subsidiaries, debt levels within controllable limits and pickup in new order intake and execution

We have revised our FY20/21E EPS estimates by (22.4)/(18.2)% to factor in delayed AP order book execution

Outlook And Valuation

Maintain BUY With A Reduced Target Price Of Rs 127/Sh

Valuation Methodology

- We value NCC's standalone business at 15x Mar-21E EPS at Rs 119/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 14.5bn to the subsidiaries, debt levels within controllable limits and

pickup in new order intake and execution. Total Sep-19-end investment in subsidiaries is Rs 9.15bn and Loan is Rs 5.4bn.

- Further, re-rating is contingent on the velocity of real estate monetization. We adopt a SOTP methodology and value NCC at Rs 127/sh.
- Standalone at 15x Mar-21E EPS – Rs 119/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	71,535	119	At 15x Mar-21E EPS
Real Estate	Real Estate	4,785	8	At P/B multiple of 0.5x
Total		76,320	127	

Source: HDFC sec Inst Research

Change in Estimates

Particulars	FY20E			FY21E		
	New	Old	% Change	New	Old	% Change
Revenues (Rs mn)	95,601	114,722	(16.7)	121,408	140,352	(13.5)
EBITDA (Rs mn)	10,994	13,373	(17.8)	13,476	15,725	(14.30)
EBITDA margin (%)	11.5	11.7	(15.7)	11.1	11.2	(10)
APAT (Rs mn)	3,532	4,549	(22.4)	4,769	5,831	(18.2)
EPS (Rs)	5.9	7.6	(22.4)	7.9	9.7	(18.2)

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 (%)		
					FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E	FY19	FY20E	FY21E
Dilip Buildcon	58.2	425	BUY	720	55.6	50.0	50.5	5.6	6.2	6.2	4.8	4.2	4.0	26.9	19.3	16.4
PNC Infratech	43.8	171	BUY	339	9.1	13.6	15.8	12.8	8.6	7.4	7.1	5.1	4.3	11.9	15.3	15.4
NCC	34.9	58	BUY	127	10.4	5.9	7.9	4.8	8.5	6.3	3.3	4.5	3.5	13.8	7.2	8.9
KNR Constructions	34.2	243	BUY	375	12.3	14.1	17.5	14.9	13.0	10.5	6.6	6.6	5.1	13.5	13.0	13.7
Ashoka EPC	26.9	96	BUY	220	11.5	10.5	12.4	2.1	2.3	2.0	2.8	2.5	2.2	15.5	12.6	13.2
Sadbhav Engineering	22.4	131	BUY	269	10.9	10.3	14.2	6.7	7.1	5.2	6.5	4.6	4.1	9.2	8.1	10.1
Ahluwalia Contracts	20.4	305	BUY	402	17.5	20.2	24.3	16.7	14.5	12.0	8.4	6.6	5.2	17.3	16.9	17.2
JMC Projects	19.8	118	BUY	176	8.5	8.9	9.5	11.0	10.4	9.7	6.6	5.7	4.9	16.6	15.1	14.1
PSP Projects	19.5	542	NEU	590	25.1	33.1	39.4	21.6	16.4	13.8	11.8	10.1	8.3	26.8	28.3	26.9
Capacite Infraprojects	14.9	220	BUY	351	14.1	16.6	22.5	12.2	12.5	9.2	6.0	4.9	3.9	12.0	12.6	15.1
HG Infra	12.0	185	BUY	462	19.0	25.7	29.6	7.9	5.9	5.1	4.4	3.1	2.7	20.6	22.6	21.0
ITD Cementation	10.4	60	BUY	78	4.8	5.9	6.5	12.6	10.3	9.3	4.6	4.3	3.8	8.0	9.4	9.5
JKIL	10.3	151	BUY	258	23.4	27.5	32.3	6.5	5.5	4.7	3.8	3.2	2.8	11.1	11.9	12.7
Average								10.4	9.3	7.8	5.9	5.0	4.2	15.6	14.8	14.9

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	95,601	121,408
Growth (%)	(5.2)	(5.8)	62.4	(20.9)	27.0
Material Expenses	66,871	60,890	99,305	77,437	100,040
Employee Expenses	3,315	3,641	4,394	4,589	4,856
Other Operating Expenses	1,883	2,093	2,869	2,581	3,035
EBIDTA	6,852	7,739	14,230	10,994	13,476
EBIDTA (%)	8.7	10.4	11.8	11.5	11.1
EBIDTA Growth (%)	(7.1)	12.9	83.9	(22.7)	22.6
Depreciation	1,121	1,175	1,494	1,800	2,063
EBIT	5,731	6,564	12,736	9,194	11,414
Other income (including EO)	897	903	593	1,453	907
Interest	3,957	3,789	4,512	5,248	5,556
PBT	2,672	3,677	8,817	5,399	6,765
Tax	417	809	3,177	1,587	1,996
RPAT	2,255	2,868	5,640	3,812	4,769
EO Items	503	256	589	(280)	-
APAT	2,758	3,123	6,229	3,532	4,769
APAT Growth (%)	14.9	13.2	99.4	(43.3)	35.0
EPS	5.0	5.2	10.4	5.9	7.9
EPS Growth (%)	14.9	4.8	99.4	(43.3)	35.0

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	49,895	54,381
Total Shareholders Funds	34,423	42,416	47,568	51,096	55,582
Long Term Debt	91	1,185	3,200	3,200	3,200
Short Term Debt	15,676	11,815	16,733	19,133	15,633
Total Debt	15,767	13,001	19,933	22,333	18,833
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	67,072	73,000	73,985
APPLICATION OF FUNDS					
Net Block	6,403	8,081	12,417	13,508	14,146
CWIP	13	229	813	813	813
Investments	10,287	15,110	12,403	11,403	10,403
Non Current Assets	2,535	3,556	5,237	3,824	4,856
Total Non-current Assets	19,238	26,976	30,869	29,548	30,217
Inventories	15,258	16,956	5,129	4,243	5,482
Debtors	23,501	34,620	30,496	31,954	33,262
Cash & Equivalents	1,095	659	2,990	2,494	1,445
Other Current Assets	28,994	27,002	60,376	55,266	60,638
Total Current Assets	68,848	79,237	98,990	93,957	100,827
Creditors	28,688	33,882	43,844	35,359	38,252
Other Current Liabilities	9,721	17,313	18,944	15,114	18,775
Total Current Liabilities	38,409	51,195	62,787	50,474	57,027
Net Current Assets	30,440	28,043	36,203	43,484	43,800
TOTAL APPLICATION OF FUNDS	49,677	55,019	67,072	73,000	73,985

Source: Company, HDFC sec Inst Research

Cash Flow (Standalone)

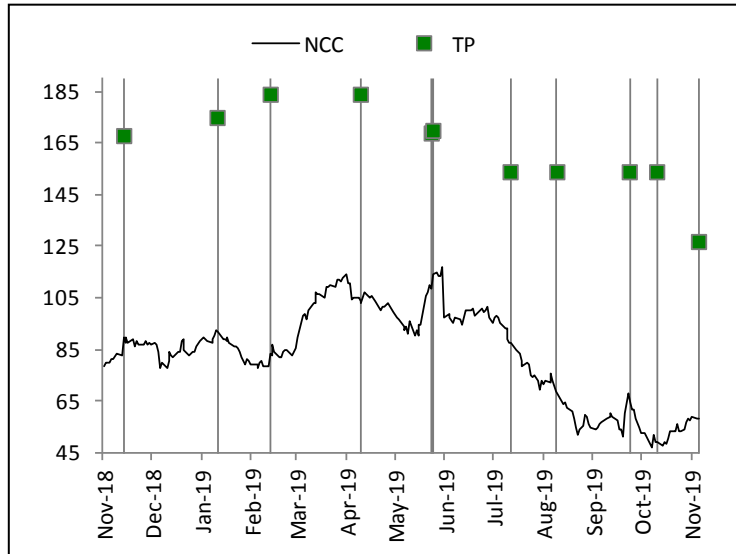
Year ending March (Rs mn)	FY17	FY18	FY19	FY20E	FY21E
Reported PBT	2,672	3,677	8,817	5,399	6,765
Non-operating & EO items	(599)	401	(593)	(1,453)	(907)
Interest expenses	3,957	3,789	4,512	5,248	5,556
Depreciation	1,121	1,175	1,494	1,800	2,063
Working Capital Change	(4,746)	(3,310)	(7,541)	(6,363)	(2,398)
Taxes Paid	(436)	(1,263)	(3,177)	(1,587)	(1,996)
OPERATING CASH FLOW (a)	1,968	4,469	3,512	3,044	9,083
Capex	(1,286)	(3,076)	(6,414)	(2,892)	(2,700)
Free cash flow (FCF)	682	1,393	(2,902)	152	6,383
Investments and Income on investments and deposits	5,838	(456)	3,301	2,453	1,907
INVESTING CASH FLOW (b)	4,552	(3,532)	(3,113)	(439)	(793)
Debt Issuance (Net of repayments)	(3,068)	(2,766)	6,932	2,400	(3,500)
Interest expenses	(4,083)	(3,752)	(4,315)	(5,248)	(5,556)
FCFE	(6,469)	(5,124)	(284)	(2,696)	(2,673)
Share capital Issuance	-	5,413	275	-	-
Dividend	(402)	(268)	(724)	(283)	(283)
FINANCING CASH FLOW (c)	(7,552)	(1,372)	2,168	(3,131)	(9,339)
NET CASH FLOW (a+b+c)	(1,032)	(435)	2,567	(526)	(1,050)
Non-operating and EO items	(32)	-	(237)	31	-
Closing Cash & Equivalents	1,095	659	2,990	2,494	1,445

Source: Company, HDFC sec Inst Research

Key Ratios (Standalone)

	FY17	FY18	FY19	FY20E	FY21E
PROFITABILITY (%)					
GPM	15.3	18.1	17.8	19.0	17.6
EBITDA Margin	8.7	10.4	11.8	11.5	11.1
EBIT Margin	7.3	8.8	10.5	9.6	9.4
APAT Margin	3.5	4.2	5.2	3.7	3.9
RoE	8.2	8.1	13.8	7.2	8.9
Core RoCE	12.6	13.0	15.8	11.0	11.9
RoCE	11.3	10.6	12.7	10.3	11.7
EFFICIENCY					
Tax Rate (%)	15.6	22.0	36.0	29.4	29.5
Asset Turnover (x)	5.8	4.6	5.7	4.2	4.9
Inventory (days)	71	83	15	16	16
Debtors (days)	109	170	92	122	100
Other Current assets (days)	134	133	182	211	182
Payables (days)	133	166	132	135	115
Other Current liab & provns (days)	45	85	57	58	56
Cash Conversion Cycle (days)	136	134	100	156	127
Debt/EBITDA (x)	2.3	1.7	1.4	2.0	1.4
Net D/E	0.4	0.3	0.4	0.4	0.3
Interest Coverage	1.4	1.7	2.8	1.8	2.1
PER SHARE DATA					
EPS (Rs/sh)	5.0	5.2	10.4	5.9	7.9
CEPS (Rs/sh)	6.1	6.7	11.9	9.3	11.4
DPS (Rs/sh)	0.6	0.6	0.6	0.6	0.6
BV (Rs/sh)	61.9	70.6	79.2	85.1	92.6
VALUATION					
P/E	11.7	11.2	5.6	9.9	7.3
P/BV	0.9	0.8	0.7	0.7	0.6
EV/EBITDA	6.8	6.1	3.6	5.0	3.9
EV/Revenues	0.6	0.6	0.4	0.6	0.4
OCF/EV (%)	4.2	9.5	6.8	5.6	17.4
FCF/EV (%)	1.5	3.0	(5.6)	0.3	12.2
FCFE/Market Cap (%)	2.1	4.0	(8.3)	0.4	18.3
Dividend Yield (%)	1.0	1.0	1.0	1.0	1.0

Source: Company, HDFC sec Inst Research

RECOMMENDATION HISTORY


Date	CMP	Reco	Target
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
11-Jul-19	87	BUY	154
10-Aug-19	69	BUY	154
22-Sep-19	61	BUY	154
10-Oct-19	50	BUY	154
5-Nov-19	58	BUY	127

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

INSTITUTIONAL RESEARCH

Disclosure:

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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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