

Retail Equity Research (South India Focus)

NCC Ltd

Construction & Engineering

BSE CODE : 500294 NSE CODE: NCC
BLOOMBERG CODE: NJCC:IN SENSEX : 34,110

BUY

12M Investment Period

Rating as per Small Cap

CMP Rs. 26 TARGET Rs. 37 RETURN 41% ↑
(Closing: 03-06-20)

KEY CHANGES:

TARGET ↑

RATING ↑

EARNINGS ↓

Any tailwinds on execution is key for re-rating...
NCC Limited (NCC) is one of the largest well diversified construction companies in India with a foothold in every segment of construction sector.

- Q4FY20 top-line declined by 36% YoY as Covid led nation lock down disrupted the execution.
- However, EBITDA margin improved by 112bps YoY to 12.9% led by steep reduction in sub-contracting expenses and other expenses.
- Order book now stands at Rs26,572cr (3.2x TTM revenue) while NCC received fresh orders of Rs1,136cr in May 2020 & company expects tendering activity to pick-up from Q2FY21.
- Adj.PAT declined by 44% YoY due to higher tax rate (37%)& lower other income (33%).
- We reduce FY21E revenue estimate by 36% in expectation of slow-down in execution in H1FY21 .
- We expect all negative cues are largely factored in price and therefore we revise our rating to Buy and value standalone business at a P/E of 8x on FY22E earnings & real estate at 0.3xP/B with a TP of Rs37.

Slow pace in execution...

Q4FY20 revenue declined by 36% YoY to Rs2,182cr as Covid led lockdown impacted projects execution. FY20 revenue de-grew by 32% YoY to Rs8,219cr. NCC now gradually re-started construction over 90% of their projects as company had retained key workers at sites and is operating at 50%-70% run rate. Management pointed that Central Government projects (NHAI, Airport Authority of India and AIIMS) are not making any delay in payments. After the partial lifting of lockdown NCC start execution of projects like Mumbai-Nagpur Expressway project (Rs2,850cr), 3 AIIMS projects, Lucknow airport, Seabird defense project and mining projects. Covid led difficulty will have an overall impact on execution in H1FY21. We therefore reduce FY21E revenue estimate by 36%.

Margins improved...

In Q4FY20, EBITDA margin improved by 112bps YoY at 12.9% supported by favourable mix of high margin road, water and mining projects. Additionally, fall in sub-contracting expenses (47.5% YoY) and other cost rationalisation measures by the company also supported margins. However, Adj.PAT de-grew by 44% YoY to Rs104cr on account of higher tax rate of 37% (vs 30% in Q4FY19) and lower other income (33% YoY).

Order book @ 3.2x FY20 revenue...

NCC's order book stands at Rs26,572cr (3.1x TTM revenue) while projects from AP constitute 17% of order book at Rs4,480cr (excluding slow moving & cancelled projects). In FY20 NCC collected new orders worth Rs7172cr and in May 2020 NCC got new orders of Rs 1,136cr. The management is expecting that tendering activity to gradually pick up from Q2FY21 and they refrained from giving any guidance for FY21.

Valuations

We expect construction activity to gain traction from H2FY21 while NCCs execution capabilities and rising opportunity in railway, transportation, metros will help to gain more orders. NCC reduced consolidated debt by ~21% YoY in FY20 (D/E 0.4) and strengthened balance sheet. We expect most of the negatives are factored in current stock price. We value standalone business at a P/E of 8x on FY22E earnings and real estate business at 0.3x P/B and revised our rating to Buy with a target of Rs37.

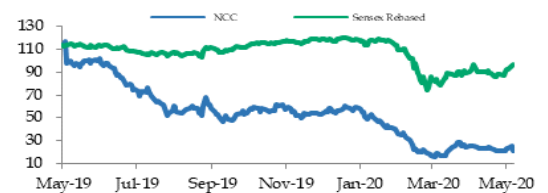
Company Data

Market Cap (cr)	Rs.1,664
Enterprise Value (cr)	Rs.3,400
Outstanding Shares (cr)	60.1
Free Float	80.43%
Dividend Yield	2.6%
52 week high	Rs.103
52 week low	Rs.16
6m average volume (cr)	0.6
Beta	1.4
Face value	Rs2

Shareholding (%)	Q2FY20	Q3FY20	Q4FY20
Promoters	18.11	18.11	19.57
FII's	17.38	17.73	14.67
MFs/Insti	28.30	24.08	18.51
Public	36.20	40.08	47.25
Total	100.0	100.0	100.0
Promoter pledge%	36.68	37.18	41.61

Price Performance	3 month	6 Month	1 Year
Absolute Return	-40%	-62%	-79%
Absolute Sensex	-12%	-17%	-16%
Relative Return*	-28%	-45%	-63%

over or under performance to benchmark index



Standalone (cr)	FY20A	FY21E	FY22E
Sales	8,219	7,581	9,098
Growth (%)	-32.0	-7.8	20.0
EBITDA	1,030	842	1,028
EBITDA Margin(%)	12.5	11.1	11.3
PAT Adj.	415	191	261
Growth (%)	-33.4	-54.0	36.9
Adj.EPS	6.9	3.2	4.3
Growth (%)	-33.4	-54.0	36.9
P/E	4.1	8.8	6.4
P/B	0.3	0.3	0.3
EV/EBITDA	3.2	4.1	3.5
ROE (%)	8.4	3.7	4.9
D/E	0.3	0.3	0.4

Antu Eapen Thomas
Research Analyst

Particulars	Value (Rs Cr)	Value/Share (Rs)	Rationale
Standalone EPC	1,933	35	P/E 8x FY22E EPS
Real Estate	479	2	0.3x P/BV
Total Value per share		37	

Quarterly Financials (Standalone)

Profit & Loss

Rs cr)	Q4FY20	Q4FY19	YoY Growth %	FY20	FY19	YoY Growth %
Sales	2,182	3,389	-35.6	8,219	12,080	-32.0
EBITDA	281	398	-29.5	1,030	1,423	-27.6
EBITDA margins %	12.9	11.7	1.12	12.5	11.8	0.75
Depreciation	44	40	8.8	178	149	18.8
EBIT	237	357	-33.8	853	1,274	-33.1
Interest	120	117	2.1	518	451	14.8
Other Income	24	36	-33.2	151	118	27.9
Exceptional Items						
PBT	148	265	-44.2	453	882	-48.6
Tax	38	91	-58.6	71	318	-77.6
Share of profit from Associate						
Minority Interest						
Reported PAT	110	174	-36.7	382	564	-32.3
Adjustments	(7)	11		(33)	(59)	-44.6
Adj PAT	104	186	-44.2	415	623	-33.4
No. of Shares	60.1	60.1		60.1	61.1	
EPS (Rs)	1.9	3.3	-44.2	7.5	11.2	-33.4

Change in Estimates

Year / Rs cr	Old estimates		New estimates		Change %
	FY21E	FY20E	FY21E	FY21E	
Revenue	11902	7,581	9,098		(36.3)
EBITDA	1,369	849	1,046		(38.5)
Margins (%)	11.5	11.2	11.5		(2)bps
Adj. PAT	538	196	282		(64.6)
EPS	9.0	3.3	4.7		(64.6)

Standalone Financials

PROFIT & LOSS

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Sales	7,559	12,080	8,219	7,581	9,098
% change	(4)	60	-32	-8	20
EBITDA	855	1,423	1,030	842	1,028
% change	25	66	-28	-18	22
Depreciation	117	149	178	200	221
EBIT	737	1,274	853	641	807
Interest	379	451	518	535	586
Other Income	116	118	151	150	130
PBT	368	882	453	256	350
% change	38	140	-49	-44	37
Tax	81	318	71	65	89
Tax Rate (%)	22	36	0.16	0.26	0.26
Reported PAT	287	564	382	191	261
Adj.*	(107)	(59)	-33	0	0
Adj. PAT	393	623	415	191	261
% change	125	58	-33.4	-54.0	36.9
No. of shares (cr)	60	60	61	61	61
Adj EPS (Rs)	7	10	7	3	4
% change	125	58	-33.4	-54.0	36.9
DPS (Rs)	0.2	0.2	0.2	0.2	0.2

BALANCE SHEET

Y.E March (Rs Cr)	FY18A	FY19A	FY20A	FY21E	FY22E
Cash	59	299	317	213	263
Accounts Receivable	4,689	3,154	2,618	2,451	2,842
Inventories	1696	513	515	545	598
Other Cur. Assets	2,382	6,741	6,952	7,021	7,553
Investments	1,024	1,119	1,100	1,111	1,144
Gross Fixed Assets	1,550	2,060	2,410	2,510	2,610
Net Fixed Assets	748	1,109	1,047	1,186	1,067
CWIP	23	14	15	10	10
Intangible Assets	2	1	1	1	1
Def. Tax (Net)	179	173	206	184	182
Other Assets	0	37	0	0	0
Total Assets	10,801	13,159	12,770	12,722	13,660
Current Liabilities	5,202	6,314	5,591	5,284	5,883
Provisions	44	62	86	83	87
Debt Funds	1,164	1,736	1,652	1,802	1,922
Other Liabilities	149	290	337	300	300
Equity Capital	120	120	122	122	122
Reserves & Surplus	4,122	4,637	4,984	5,132	5,346
Shareholder's Fund	4,242	4,757	5,106	5,253	5,468
Total Liabilities	10,801	13,159	12,770	12,722	13,660
BVPS	76	86	92	94	98

CASH FLOW

Y.E March (Rs Cr)	FY18A	FY19A	FY20E	FY21E	FY22E
Net inc. + Depn.	485	1,031	631	456	572
Non-cash adj.	250	140	414	492	499
Changes in W.C	(331)	(430)	(329)	(278)	(373)
C.F. Operation	447	859	867	820	827
Capital exp.	(316)	(518)	(349)	(104)	(100)
Change in inv.	(76)	(37)	19	(11)	(33)
Other invest.CF	3	(37)	37	0	0
C.F - Investment	(359)	(710)	(445)	(265)	(263)
Issue of equity	0	0	0	0	0
Issue/repay debt	(538)	573	(85)	150	120
Dividends paid	(27)	(49)	(50)	(43)	(46)
Other finance.CF	0	19	248	(231)	(2)
C.F - Finance	(137)	91	(404)	(659)	(514)
Chg. in cash	(50)	240	18	(103)	49
Closing cash	59	299	317	213	263

RATIOS

Y.E March	FY18A	FY19A	FY20A	FY21E	FY22E
Profitab & Return					
EBITDA margin (%)	11.3	11.8	12.5	11.1	11.3
EBIT margin (%)	9.8	10.5	10.4	8.5	8.9
Net profit mgn.(%)	5.2	5.2	5.0	2.5	2.9
ROE (%)	10.2	13.8	8.4	3.7	4.9
ROCE (%)	8.1	11.7	11.0	7.8	8.7
W.C & Liquidity					
Receivables (days)	202.6	118.5	128.2	122.0	106.2
Inventory (days)	95.9	40.6	28.9	32.1	28.7
Payables (days)	270.3	211.6	334.5	329.3	280.0
Current ratio (x)	1.7	1.7	1.8	1.9	1.9
Quick ratio (x)	0.9	0.5	0.5	0.5	0.5
Turnover & Leverage					
Gross asset T.O (x)	5.3	6.7	3.7	3.1	3.6
Total asset T.O (x)	0.8	1.0	0.6	0.6	0.7
Int. covge. ratio (x)	1.9	2.8	1.6	1.2	1.4
Adj. debt/equity (x)	0.3	0.4	0.3	0.3	0.4
Valuation					
EV/Sales (x)	0.4	0.3	0.4	0.5	0.4
EV/EBITDA (x)	3.3	2.4	3.2	4.1	3.5
P/E (x)	4.2	2.7	4.0	8.7	6.4
P/BV (x)	0.4	0.3	0.3	0.3	0.3

Recommendation Summary (Last 3 years)



Dates	Rating	Target
25th January 2017	BUY	94
26th May 2017	Accumulate	97
26th February 2018	Accumulate	138
30th May 2018	BUY	146
3rd September 2018	BUY	120
22nd November 2018	BUY	106
22nd February 2019	BUY	107
28th May 2019	BUY	142
1st June 2019	Reduce	90
21st August 2019	Reduce	55
4th June 2020	BUY	37

Source: Bloomberg, Geojit Research.

Investment Criteria

Large Cap Stocks;		Mid Cap and Small Cap;			
Buy	-	Upside is above 10%.	Buy	-	Upside is above 15%.
Hold	-	Upside is between 0% - 10%.	Accumulate	-	Upside is between 10% - 15%.
Reduce	-	Downside is more than 0%.	Hold	-	Upside is between 0% - 10%.
Neutral	-	Not Applicable	Reduce/Sell	-	Downside is more than 0%.
			Neutral	-	Not Applicable

To satisfy regulatory requirements, we attribute 'Accumulate' as Buy and 'Reduce' as Sell.

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Neutral- The analyst has no investment opinion on the stock under review

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