Stock Update

NCC Ltd.

February 19, 2024

RETAILRESEARCH

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NCC Ltd.

Industry	LTP	Recommendation	Base Case Fair Value	Bull Case Fair Value	Time Horizon
Civil Construction	Rs.225.55	Buy in the band of Rs 223-228 & add more on dips to Rs 198-202 band	Rs 248	Rs 267	2-3 quarters

HDFC Scrip Code	NCCLTDEQNR
BSE Code	500294
NSE Code	NCC
Bloomberg	NJCC IN
CMP Feb 16, 2024	225.55
Equity Capital (Rs cr)	125.6
Face Value (Rs)	2
Equity Share O/S (cr)	62.8
Market Cap (Rs cr)	14164
Book Value (Rs)	103.7
Avg. 52 Wk Volumes	447222
52 Week High	231.2
52 Week Low	87.4

Share holding Pattern % (Dec, 2023)	
Promoters	22.00
Institutions	34.41
Non Institutions	43.59
Total	100.00

HDFCsec Retail research stock rating meter

for details about the ratings, refer at the end of the report

* Refer at the end for explanation on Risk Ratings

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Our Take:

NCC Limited, formerly known as Nagarjuna Construction Company Ltd, stands as a prominent force in the Indian construction industry, boasting a comprehensive and diversified portfolio across all facets of the construction sector. Over the course of more than four decades, the company has amassed invaluable expertise, successfully delivering a multitude of projects spanning roads, buildings, bridges, irrigation, mining, and more, consistently meeting project deadlines. NCC's proficiency extends to core infrastructure domains, with a proven track record of executing projects for central and state-level agencies, PSUs, and private sector clients alike. The company's capabilities are further amplified by its expansive geographical presence, providing an extended reach into diverse opportunities. Renowned for its adept management of large-scale projects for multiple clients, NCC possesses the requisite qualifications to competitively bid for and undertake substantial endeavors in the construction realm.

Company's order book has remained resilient, providing revenue visibility for 2-3 years. NCC has a robust order backlog of Rs.57440 Cr – including Rs.796 cr in Q3, providing strong revenue visibility over the next couple of years. Going forward the management expects order inflows to gain momentum given the strong emphasis in affordable housing, Jal Jeevan mission and roads & expressway and metro & railway segment. On the back of robust order pipeline across key sectors, the management aims to add over Rs 26,000+ Cr orders in FY24E. Company has a L1 order for about Rs.4000 Cr and has also received an LOA of Rs.1250 cr.

Over last few years, NCC has been focusing on monetization of its non-core subsidiaries, reduction in debt levels and improving the receivables in order to boost its liquidity position. These efforts have resulted into improvement in execution and better operating performance.

We had issued a stock update report on NCC dated November 6th, 2023 (link); both the targets were achieved within our time frame. Given the robust order book, pick-up in execution, and healthy balance sheet, we are issuing a stock update report.

Valuation & Recommendation:

The company has a well-diversified order book, robust execution capabilities, strong focus on debt reduction and improvement in working capital. Segment diversity across building, mining, railways, electrical, water & environment is one of the key differentiators at NCC. Company's vast experience and proven execution capabilities can help leverage rising opportunities in the buildings, water infra, transportation, metros, defence and airports as the awarding momentum pickup. The government announced in the budget that it will

build 2 cr affordable houses in next 5 years. Expenditure on roads, bridges and infra has been increased in the past 3 years and the budget foresees an increase in capex by another 11%. All these may have a positive impact on NCC.
The management has increased the revenue guidance from 20% to 30-35% for FY24 and aims to achieve over 15% revenue growth in the long run. Softening of raw materials are likely to improve margins going ahead. The company expects 10-20bps improvement in EBITDA margin and a 30-50bps improvement in net profit margin in FY24. Current order book contains more projects with an escalation clause, which insulates against any escalation in the input prices. We expect revenue/EBITDA/PAT to grow at CAGR of 19.9%/20.8%/26.9% over FY23-26E. **We think the base case fair value of the stock is Rs 248 (13x FY26E EPS) and the bull case fair value is Rs 267 (14x FY26E EPS) over the next two-three quarters. Investors can buy the stock in the band of Rs 223-228 and add more on dips to Rs 198-202 band (10.5x FY26E EPS). At CMP, the stock trades at 11.83x FY26E EPS.**

Financial Summary

Particulars (Rs cr)	Q3FY24	Q3FY23	YoY-%	Q2FY24	QoQ-%	FY22	FY23	FY24E	FY25E	FY26E
Total Operating Income	4747	3373	41	4483	5.9	9930	13351	18011	20442	22998
EBITDA	479	349	37	478	0.3	996	1343	1844	2106	2369
PAT	213	150	42	218	-2.5	490	569	821	986	1163
Adjusted PAT	213	150	42	69	208.2	346	569	672	986	1163
Diluted EPS (Rs)	3.5	2.5	42.0	1.1	208.3	5.7	9.3	11.0	16.2	19.1
RoE-%						6.2	9.4	10.1	13.2	13.7
P/E (x)						39.8	24.2	20.5	14	11.8
EV/EBITDA (x)						14.4	10.5	7.9	6.8	6

(Source: Company, HDFC sec)

Q3FY24 Result Review

NCC Ltd delivered strong topline growth of 41% YoY to Rs 4747 cr on account robust execution led by the building and electrical divisions. Healthy execution in Jal Jeevan Mission (JJM) projects in Q3FY24 supported revenue growth. EBITDA during the quarter was at Rs 479 cr, (+37/0.3% YoY/QoQ). PAT reported was Rs.212 cr (+42/-2.5% YoY). At consolidated level, the company clocked topline of Rs 5288 cr (+33% YoY) and posted EBITDA of 505 cr(+34% YoY). PAT stood at 221 cr (+40% YoY).

Concall Highlights:

- Revenue & Margin Guidance: The management has increased the revenue growth guidance from 20% to 30-35% for FY24 and aims to achieve over 15% revenue growth in the long run. Softening of raw materials are likely to improve margins going ahead. The company expects 10-20bps improvement in EBITDA margin and a 30-50bps improvement in net profit margin in FY24. Company expects a good execution in some of the large projects in FY24-25 as certain pre-execution proceedings including the finance closure which would take some time in the current year. Projects secured during covid/pre-covid are dragging the margin to some extent due to cost overruns/ delays in execution. The company stated that the current order book contains more projects with an escalation clause, which insulates against any escalation in the input prices.

- Order Book & Order Pipeline: NCC's order book stands at Rs 57,440 cr as at Dec'23, that translates to of 4.3x FY23 revenue. The company secured orders of Rs 796 cr during Q3FY24 and an overall inflow of Rs 21,239 cr in 9MFY24.
- The biggest order in the Order Book "UP Jal Jeevan Water Project" has picked-up good progress, contributed more revenue in Q3 of FY24 and continue its more contribution in the remaining quarters of the year.
- Capex: The company plans to incur capex of Rs 275-300 cr; In Q3FY24 it spent Rs 36 cr. By the year end the capex would be below Rs 200cr.
- Debt: The company expects the debt to stand around Rs 1300cr to Rs 1500cr by the year end.
- Status about Pending litigation: SembCorp arbitration proceedings have concluded. The matter was referred to outside legal firm to identify the grounds if any available to ascertain further legal proceedings. Sembcorp has paid Rs 147 cr till now and for Rs 50 cr it has challenged NCC.
- Debt and Equity Mobilization: For 2 SPVs in Maharashtra and 1 project in Bihar, discussions are in advanced stages facilitating about Rs 987 cr. This is expected to be completed by March 2024, whereby institutions have been identified and are ready to invest. It will divest a 50% stake to a partner at a premium, retaining Rs 100 cr of equity investment on its books
- Jal Jeevan projects: There is a good volume of turnover and a good progress in execution of Jal Jeevan projects in UP. Out of the total amount of Rs 16,900 crores, company has executed about 43% up to December '23. In the next quarter, it expects to complete another 10%. So it may take another 1 year to complete the total Jal Jeevan projects, both second phase and third phase.

Key Triggers:

Diversified and Robust order Book:

NCC is one the few players in the construction industry which has the skill sets and capabilities to cater needs of diverse segments, diverse geographies and diverse clients. The company has presence in multiple growth segment - buildings & housing, roads, water & environment, irrigation, electrical, metals, mining and railways. Diversified presence gives the company multiple growth levers and makes it better positioned to offset the impact of slowdown in any particular segment. It has a pan India presence including key states like Maharashtra, Andhra Pradesh, Telangana, Karnataka, Gujarat, UP, West Bengal and Tamil Nadu with regional offices in 13 cities. NCC has been a preferred vendor for marquee clients in building segments such as UP Housing Development Board, AAI, AIIMS, NBCC, BMRCL and MMRDA. Most of the orders are from the central government/ state government and central government sponsored schemes.

Diversified capabilities and wider geographic presence further enhances its addressable opportunities. Company's order book has remained resilient, providing revenue visibility for 2-3 years. NCC saw sharp growth of 37% in order book to Rs 57,440 cr as at Dec'23, aided by robust order inflows to the tune of Rs 21,239 cr in 9MFY24. The order book is well diversified across sectors - building/transportation/water & railways/electrical/mining/ irrigation contributing 41/14/16/22/6/1%. Target orders for the current year is Rs.26000 cr. It also has a L1 order of 4000 cr, giving management a confidence of achieving its target. Also going forward the management expects order inflows to gain momentum given the strong emphasis in affordable housing, Jal Jeevan mission, electricals (RTSS scheme), roads & expressway and metro & railway segment. The management expects order inflows to the tune of ~Rs 26,000 cr in FY24E. In terms of execution, the company has given a long term topline guidance at ~15% YoY.

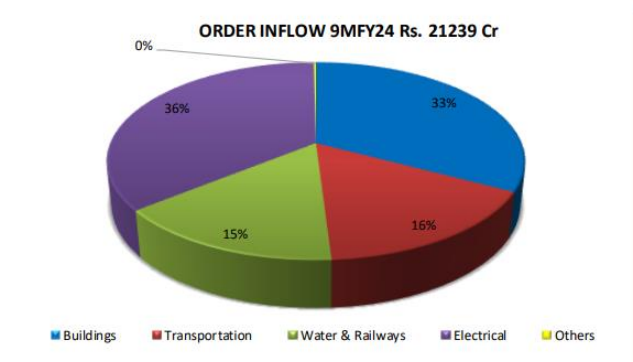
Major Projects under execution:

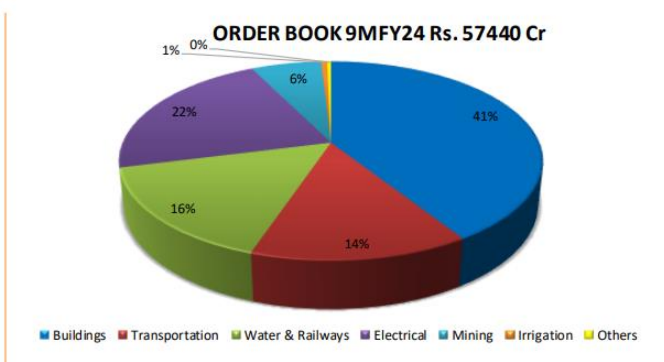
Design, supply, install & commission Advance Metering Infrastructure (AMI) in Maharashtra	5,756 Cr	Construction of Viaduct & Stations for Bangalore Metro Rail, Bangalore	2,167 Cr
Construction of One of the Largest Waste water treatment plants in Malad, Mumbai	3,833 Cr	International Trade Towers, Nauroji Nagar, New Delhi	1,652 Cr
Construction of twin tunnel from Goregaon to Khindipada, Mulund in Mumbai.	3,214 Cr	All India Institute of Medical Sciences at Awantipora, Jammu & Kashmir	1,649 Cr
Develop India International Horticulture Market at Ganaur, Sonepat, Haryana	2,595 Cr	Survey, Design, Drawings & Construction of multi group of villages water supply scheme in Agra	1,635 Cr
Residential Buildings/ Towers & Townships including O&M at Karwar, Karnataka	2,467 Cr	Integrated passenger terminal building at CCS International Airport, Lucknow	1,398 Cr
Design, supply, install & commission Advance Metering Infrastructure (AMI) in Bihar	2,324 Cr	Mine Development & Operation at Pachhwara North Coal Block in Jharkhand	3,043 Cr*

* The value represents projected turnover for next 3 years

(Source: Company, HDFC)

Order book Diversification:





Strong order prospects to support growth:

NCC is well placed to capitalize on huge infrastructure pipeline and continued momentum in awarding activities which translates into healthy order inflows. Strong order book and its track record of execution would support heathy topline growth with margins stable at ~10%. The management has maintained guidance of order inflows to the tune of ~Rs 26,000 Cr in FY24E, which is likely to be exceeded. Healthy traction is expected in the water projects, Jal Jeevan Mission, and opportunities in affordable housing, roads & expressway and metro & railway. The recent budget was focused more on capital spending and could see pick-up in order momentum and improve prospects in NCC's core segments. The National Infrastructure Pipeline (NIP) envisions investments of Rs 142 lakh crore during 2020-2025 to provide world-class infrastructure across the country. Under the NIP, projects worth Rs 142 trillion (US$ 1.8 trillion) are currently at different stages of implementation. Budget 2023 saw the FM stepping the pedal on capex with major thrust on National Infrastructure Pipeline (NIP) targets. The Recent Budget 2024 clearly focused more on capex spending with the government's plans to provide a significant thrust to the country's infrastructure development. The capital investment outlay for FY25E has been increased by 11.1% to Rs 11.11 trillion which is 3.4% of the GDP. Increase in capital outlay was led by sectors like railways, roads, defence, housing, water (Jal Jeevan), metro and logistic infra projects. Major schemes like Pradhan Mantri Awas Yojana saw 49% increase in FY25BE compared to FY24RE. and Jal Jeewan Mission saw a 27% increase in FY25BE compared to FY23RE. The government's re-energised focus on water will enhance opportunities for NCC in water transport, distribution and storage. The company is actively participating in upcoming airport bids, while data centre projects are under evaluation. The management has set target to grow at 15% annually in the long run.

Focus on debt reduction:

The company has brought down the debt levels below Rs 1,000 cr mark, lowest in last one and a half decade. Standalone Gross Debt stood at Rs 980 cr as of Mar'23 vs Rs 1184 cr as of Mar'22. The debt stood to Rs 1473 cr as of Dec'23. This likely to normalize to lower levels in the coming quarters and will still remain close to ~Rs 1,000 cr by FY25. Improvement in collection and receipt of mobilization advance brought down the debt levels. Moreover, positive development from NCC Vizag Urban deal has resulted in cash inflow of Rs 52cr from GRPL as a second instalment with remaining instalments to be paid by Mar-May-24.

Key Concerns:

Project execution risk: Infrastructure projects involve complex design and engineering, significant procurement of equipment and supplies, extensive construction management, and other activities conducted over extended periods, sometimes in remote locations. This could lead to cost and time overruns, thereby impacting its profitability. Also it faces the risk of being blacklisted due to quality or delay issues.

Contractual Risk: Contractual obligations for quality, timeliness and other specific terms and conditions are crucial for orders. Inability to adhere to them could attract legal actions.

Raw materials price risk: The price of key raw materials such as cement, bricks, sand, and steel constantly fluctuates with the changing demand-supply dynamics which may lead to a rise in input cost, which in turn, put pressure on the company's margins and profitability.

Litigation: Over the last few years, NCC has been caught up in multiple litigations. With respect to TAQA arbitrations, In this quarter, there is good progress settlement. Company has worked out on a scheme of payments if its accepted by both the senior top level management. Company does not see any further major liability apart from interest liability for this year.

Political Risk / State Elections: Typically, when there is change in the political party in a state; infrastructure works & projects awarded by the old party is questioned and could face problem of termination.

About the company:

NCC Limited (NCC), erstwhile Nagarjuna Construction Company Ltd, is one of the largest well diversified construction companies in India with a strong foothold in every segment of construction sector. It has presence across varied verticals of infrastructure space and undertakes civil construction for buildings & housing, roads, water & environment, mining, electrical, power among others. It also has exposure to the real estate development space and owns land bank in various cities in South India.
NCC, through its subsidiary, NCC Urban takes up urban infrastructure projects such as development of residential & commercial complexes, serviced apartments, SEZs, integrated townships and complexes with advanced building techniques. The company also undertakes the development of infrastructure projects through Government concessions (road and energy projects); which are long term infrastructure projects that offer stable revenue stream. The company has also created a niche in infrastructure markets of the GCC through its subsidiaries with key focus on roads, building and water network.

The company has well diversified order book, robust execution capabilities and strong focus on debt reduction and improvement of working capital.

Peer comparison (9MFY24)

Particulars (In cr)	Mcap	Revenue	EBITDA	PAT	EBITDA margins(%)	PAT margins(%)	P/E (X)
NCC	14161	14441	1218	472	8%	3%	24.2
PNC Infratech Ltd	10609	5357	712	447	13%	8%	16.1
IRB Infrastructure Developers	40750	2077	978	187	47%	9%	74.1

Note: P/E annualized

Financials

Income Statement

(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Net Revenues	9930	13351	18011	20442	22998
Growth (%)	37	30	35	14	13
Operating Expenses	8934	12009	16167	18337	20629
EBITDA	996	1343	1844	2106	2369
Growth (%)	16.5	34.8	37.4	14.2	12.5
EBITDA Margin (%)	10.0	10.1	10.2	10.3	10.3
Depreciation	182	200	211	222	238
EBIT	814	1143	1634	1883	2131
Other Income	108	152	107	111	114
Interest expenses	460	510	593	644	652
PBT	462	785	1147	1351	1593
Tax	118	216	326	365	430
RPAT	490	569	821	986	1163
APAT	346	569	672	986	1163
Growth (%)	32	65	18	47	18
EPS	5.7	9.3	11.0	16.2	19.1

Balance Sheet

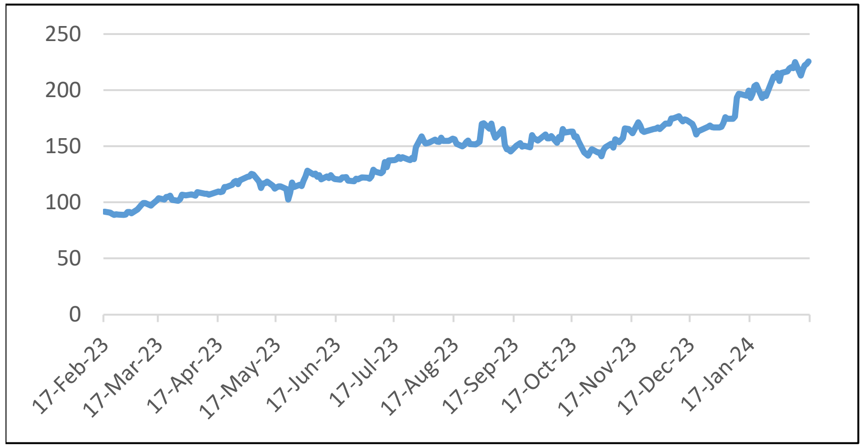
As at March (Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
SOURCE OF FUNDS					
Share Capital	122	126	126	126	126
Reserves	5681	6196	6840	7798	8932
Shareholders' Funds	**5803**	**6322**	**6966**	**7923**	**9058**
Long Term Debt	82	83	83	83	83
Net Deferred Taxes	-54	-48	-41	-41	-41
Long Term Provisions & Others	72	78	78	78	78
Total Source of Funds	**5903**	**6436**	**7086**	**8043**	**9178**
APPLICATION OF FUNDS					
Net Block & Goodwill	1224	1171	1271	1351	1430
CWIP	110	15	15	15	15
Other Non-Current Assets	1722	2146	1971	2047	2085
Total Non-Current Assets	**3057**	**3331**	**3256**	**3412**	**3530**
Current Investments					
Inventories	788	1078	1234	1400	1449
Trade Receivables	2384	2788	3405	3920	4285
Cash & Equivalents	559	646	206	259	323
Other Current Assets	6985	7709	8635	8905	9892
Total Current Assets	**10716**	**12221**	**13479**	**14485**	**15948**
Short-Term Borrowings	1102	896	866	836	786
Trade Payables	4261	4801	6069	6217	6364
Other Current Liab & Provisions	2506	3419	2714	2800	3150
Total Current Liabilities	**7869**	**9116**	**9650**	**9854**	**10301**
Net Current Assets	2847	3105	3830	4631	5648
Total Application of Funds	**5903**	**6436**	**7086**	**8043**	**9178**

NCC Ltd.

Cash Flow Statement

(Rs Cr)	FY22	FY23	FY24E	FY25E	FY26E
Reported PBT	608	785	1147	1054	1222
Non-operating & EO items	-177	-111	-107	-124	-99
Interest Expenses	460	510	593	497	507
Depreciation	182	200	211	203	221
Working Capital Change	396	-235	-895	-874	-550
Tax Paid	-173	-275	-326	-265	-308
OPERATING CASH FLOW (a)	1296	873	623	490	992
Capex	-168	-218	-100	-80	-79
Free Cash Flow	1128	655	523	410	913
Investments	37	86	-43	-34	-55
INVESTING CASH FLOW (b)	-131	-132	-143	-113	-134
Debt Issuance / (Repaid)	-605	-205	-30	-30	-50
Interest Expenses	-446	-498	-487	-497	-507
FCFE	78	-48	6	-117	356
Share Capital Issuance	0	80	0	0	0
Dividend	-49	-126	-28	-28	-28
FINANCING CASH FLOW (c)	-1099	-749	-545	-555	-585
NET CASH FLOW (a+b+c)	66	-8	-65	-179	273

One Year Price Chart



Key Ratios

	FY22	FY23	FY24E	FY25E	FY26E
PROFITABILITY RATIOS (%)					
EBITDA Margin	10.0	10.1	10.2	10.3	10.3
EBIT Margin	8.2	8.6	9.1	9.2	9.3
APAT Margin	3.5	4.3	3.7	4.8	5.1
RoE	6.2	9.4	10.1	13.2	13.7
RoCE	11.9	12.8	15.3	16.1	16.1
SOLVENCY RATIO (x)					
Debt/EBITDA (x)	1.2	0.7	0.5	0.4	0.4
Net D/E (x)	0.1	0.1	0.1	0.1	0.1
PER SHARE DATA (Rs)					
EPS	5.7	9.3	11.0	16.2	19.1
CEPS	11.0	12.6	16.9	19.8	23.0
Dividend	0.6	0.6	0.6	0.6	0.6
BVPS	95.2	103.7	114.2	129.9	148.5
TURNOVER RATIOS (days)					
Debtor days	88	75	69	70	68
Inventory days	29	22	25	25	23
Creditor days	157	135	123	111	101
VALUATION					
P/E (x)	39.8	24.2	20.5	14.0	11.8
P/BV (x)	2.4	2.2	2.0	1.7	1.5
EV/EBITDA (x)	14.4	10.5	7.9	6.8	6.0
EV/Revenue (x)	1.4	1.1	0.8	0.7	0.6
Dividend Yield (%)	0.3	0.3	0.3	0.3	0.3
Dividend Payout (%)	10.6	6.4	5.4	3.7	3.1

RISHAB A JAIN

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HDFC Sec Retail Research Rating description

Green Rating stocks

This rating is given to stocks that represent large and established business having track record of decades and good reputation in the industry. They are industry leaders or have significant market share. They have multiple streams of cash flows and/or strong balance sheet to withstand downturn in economic cycle. These stocks offer moderate returns and at the same time are unlikely to suffer severe drawdown in their stock prices. These stocks can be kept as a part of long term portfolio holding, if so desired. This stocks offer low risk and lower reward and are suitable for beginners. They offer stability to the portfolio.

Yellow Rating stocks

This rating is given to stocks that have strong balance sheet and are from relatively stable industries which are likely to remain relevant for long time and unlikely to be affected much by economic or technological disruptions. These stocks have emerged stronger over time but are yet to reach the level of green rating stocks. They offer medium risk, medium return opportunities. Some of these have the potential to attain green rating over time.

Red Rating stocks

This rating is given to emerging companies which are riskier than their established peers. Their share price tends to be volatile though they offer high growth potential. They are susceptible to severe downturn in their industry or in overall economy. Management of these companies need to prove their mettle in handling cyclicality of their business. If they are successful in navigating challenges, the market rewards their shareholders with handsome gains; otherwise their stock prices can take a severe beating. Overall these stocks offer high risk high return opportunities.

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