

NCC

BUY

Rocking performance

### Summary

NCC (NJCC), Q2FY24 adjusted EBITDA came ~40% higher and adjusted PAT came 60% higher than our estimate. Beat is led by better execution and margin uptick. Reported number were impacted from one offs and adjusted EBITDA margin stood at 10.7% in Q2FY24. NJCC 1HFY24 EPS forms 51% of FY24E EPS and there is upside risk to our estimate post Q2FY24 result. However, we maintain our estimate and unchanged TP of Rs185 retain BUY rating. We value NCC at its historical average PER of 12x. In Bull case, valued at 15x we see TP of Rs232. Up-cycle in NCC ordering has continued in FY24E and it has achieved 77% of its FY24 guidance and is driven by building and electrical segment. Stock at PER of 10x FY25E EPS, continue to trade at 20-25% discount to it's infra peers.

### Key Highlights and Investment Rationale

- **Q2FY24 Snapshot:** Revenue increased by 43% YoY driven by strong execution of projects. EBITDA margin was at 6.5% v/s 9.6% decrease by 311bps, during the quarter company had one offs of 2 claim settlements which eventually impacted PAT & Revenue, but Adj EBITDA margins stood at 10.7%. OCF was steady in 1HFY24 and was better than reported in 1HFY23.
- **Sembcorp arbitration, further upside exists:** During Q2FY24, Sembcorp arbitration process was awarded to NCC; the process got completed after 5 years. As per the award, NCC to receive Rs2.8bn versus receivables of Rs6bn+. NCC plans to contest the order and thus further upside is possible.
- **Ordering could again surprise:** Strong ordering which started in FY23, has continued in FY24E also for NJCC. NJCC has abstained from giving bid pipeline and expect to add projects in Smart metering, tunnel, High speed rail, JJM orders in inflow in 2HFY24.

**TP** **Rs185**
**CMP** **Rs153**  
 Potential upside/downside 21%  
 Previous Rating BUY

### Price Performance (%)

	-1m	-3m	-12m
Absolute	0.2	(0.2)	113.0
Rel to Sensex	1.2	1.5	106.6

### V/s Consensus

EPS (Rs)	FY24E	FY25E
IDBI Capital	12	15
Consensus	13	16
% difference	(7.5)	(7.6)

### Key Stock Data

Bloomberg/Reuters	NJCC IN/NCC.LBO
Sector	Infrastructure
Shares o/s (mn)	628
Market cap. (Rs mn)	96,343
3-m daily avg Trd value(Rs mn)	75.3
52-week high / low	Rs177 / 71
Sensex / Nifty	64,905 / 19,425

### Shareholding Pattern (%)

Promoters	22.0
FII	24.2
DII	10.9
Public	42.9

### Financial snapshot

(Rs mn)

Year	FY21	FY22E	FY23	FY24E	FY25E
Revenue	72,560	99,300	133,513	158,881	185,890
Change (yoy, %)	(12)	37	34	19	17
EBITDA	8,554	9,961	13,425	16,390	19,372
Change (yoy, %)	(17)	16	35	22	18
EBITDA Margin(%)	11.8	10.0	10.1	10.3	10.4
Adj.PAT	2,615	3,445	5,692	7,409	9,690
EPS (Rs)	4	6	9	12	15
Change (yoy, %)	(38)	32	63	28	31
PE(x)	36	28	17	13	10
Dividend Yield (%)	1	1	2	2	3
PBV (x)	13	10	8	6	5
RoE (%)	5	6	9	11	13
RoCE (%)	10	12	16	19	21

Source: IDBI Capital Research, Company

### Vishal Periwal

 vishal.periwal@idbicapital.com  
 +91-22-2217 1814

### Shubham Shelar

 Shubham.shelar@idbicapital.com  
 +91-22-2217 1859

**Conference call takeaways:**

- During Q2FY24, Sembcorp arbitration process was awarded to NCC; the process got completed after 5 years, accounting to Rs2.8bn which will get credited in books of NCC. Second claim settlement of NHA1 which had impact on Revenue & PAT was of Rs1.5bn.
- Q2FY24 Order book stood at Rs618bn Standalone orders stood at Rs540bn & Subsidiary orders stood at Rs77bn (Out of the total order book, buildings/ roads/ water & railways/ electricity/ irrigation/ mining/ others/ international stood at Rs253 bn/ Rs99bn/ Rs135bn/ Rs6.1bn/ Rs4.9bn/ Rs43bn.
- Order inflow at Rs123bn (incl. L1 orders of MSEDCL & Tunneling project orders). For this projects company is forming 3 SPV's. 1 for Tunneling project & 2 for MSEDCL projects.
- Order Inflow guidance for FY24 was Rs260bn of which Rs200bn is secured, company expects to achieve the guidance before time, so the management expects more Rs40-50bn order to secure above the guidance level.
- Company maintains the Revenue guidance at 20% for FY24, till H1FY24, the revenue has exceeded the guidance by 5% & company is confident enough to achieve the 20% guidance.
- Standalone Gross Debt stood at Rs14.7bn in Q2FY24 vs. Rs13.1bn in Q1FY24. Net Debt stood at Rs12.2bn in Q2FY24 vs. Rs5.9bn in Q1FY24. During the quarter the debt collection was lower.
- Capex for Q2FY24 increased by Rs900mn, for Tunneling project the Capex will increase next year for Tunneling projects which will cost upto Rs3bn.
- Inventories/ Unbilled Revenue/ Receivables/ Mobilization advance stood at Rs13.3bn/ Rs36.5bn/ Rs31.2bn / Rs33.2bn in Q2FY24, Receivable days stood at 70 days.
- For Smart metering Projects, The EPC part is included in the Order book currently, once the EPC part is completed (which is expected in 3 years) the O&M part of the smart meter projects will include in order book after 3 years.

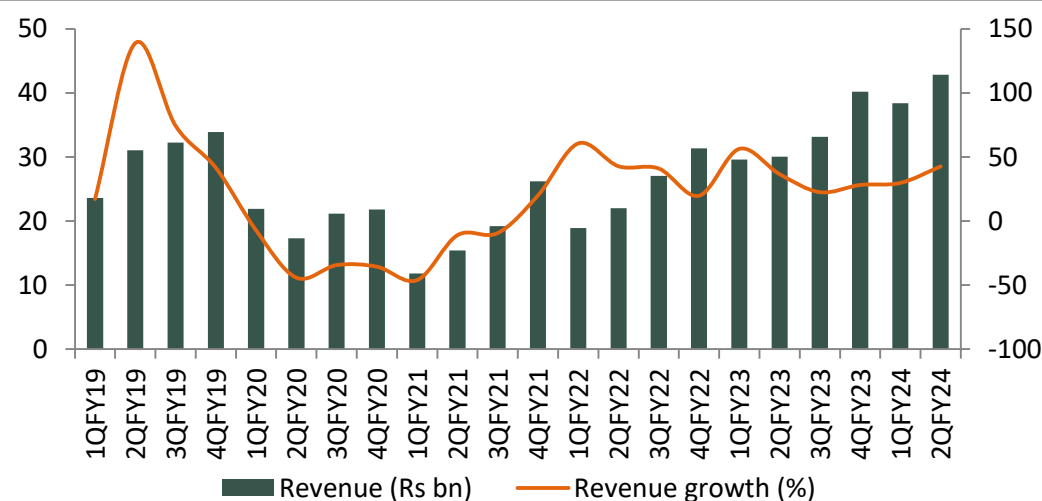
Exhibit 1: Financial snapshot

(Rs mn)

Particulars	Q2FY24	Q2FY23	YoY Chg (%)	Q1FY24	QoQ Chg (%)
<b>Net Sales</b>	<b>42,832</b>	<b>30,037</b>	<b>43</b>	<b>38,383</b>	<b>12</b>
<b>EBITDA</b>	<b>2,785</b>	<b>2,886</b>	<b>-4</b>	<b>3,806</b>	<b>-27</b>
<i>EBITDA margin (%)</i>	<i>6.50</i>	<i>9.6</i>	<i>-311bps</i>	<i>9.9</i>	<i>-341bps</i>
Other income	285	328	-13	277	3
<b>PBITD</b>	<b>3,070</b>	<b>3,214</b>	<b>-4</b>	<b>4,083</b>	<b>-25</b>
Depreciation	525	490	7	521	1
Interest	1,538	1,223	26	1,323	16
Exceptional items	-	-	-	-	-
<b>Adj. pre-tax profit</b>	<b>1,007</b>	<b>1,501</b>	<b>-33</b>	<b>2,239</b>	<b>-55</b>
Tax	317	285	11	616	-49
<b>Reported PAT</b>	<b>690</b>	<b>1,216</b>	<b>-43</b>	<b>1,623</b>	<b>-57</b>

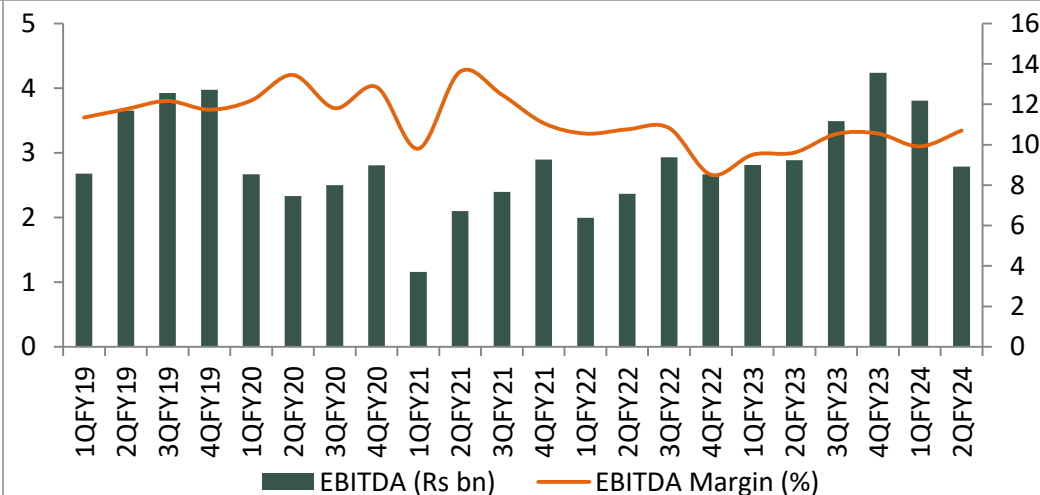
Source: Company

Exhibit 2: Q2FY24 Revenue stood at Rs43bn +43% Yoy growth

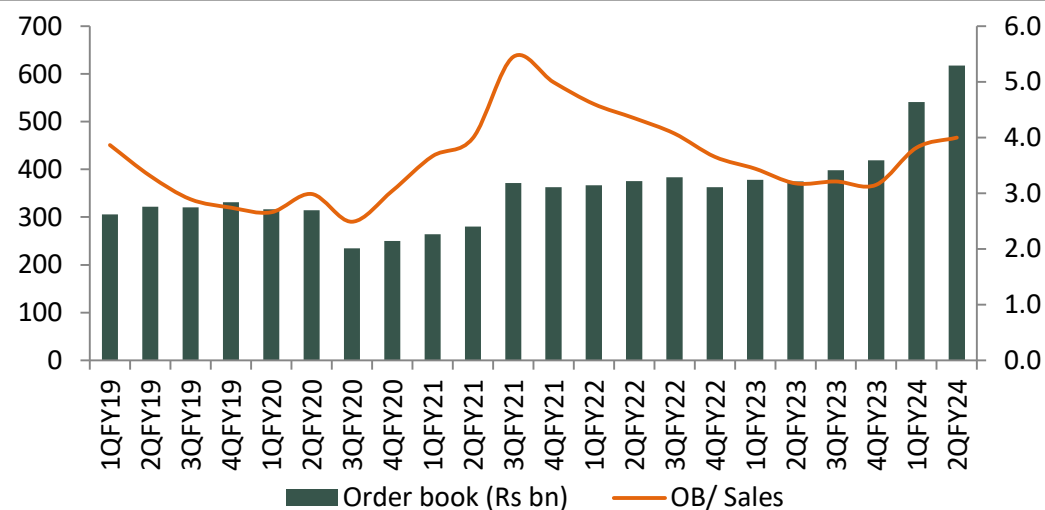


Source : Company, IDBI Capital Research

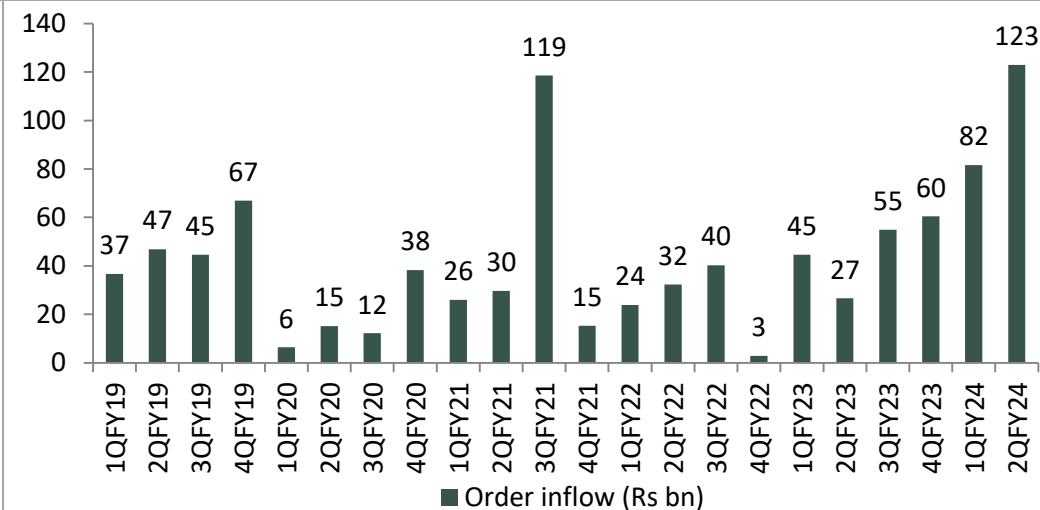
Exhibit 3: Q2FY24 EBITDA at Rs2.7bn EBITDA margin at 6.5%



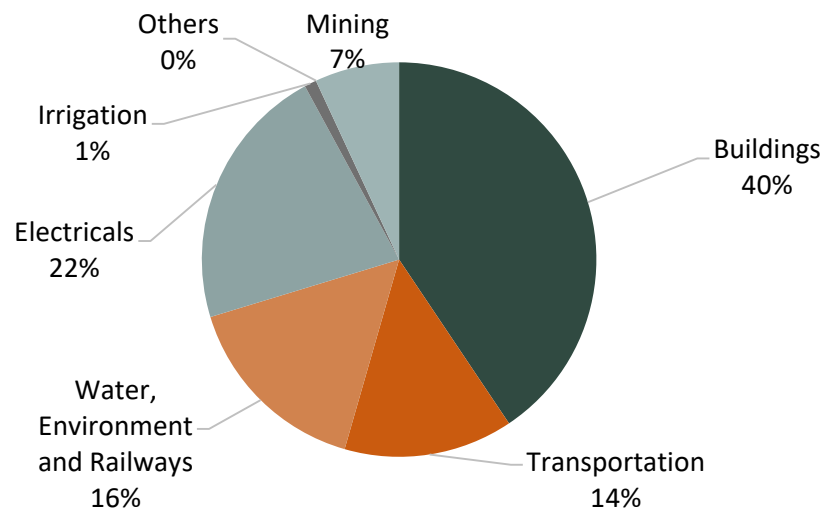
Source : Company, IDBI Capital Research

**Exhibit 4: Order book of Rs618bn as on Q2FY24**

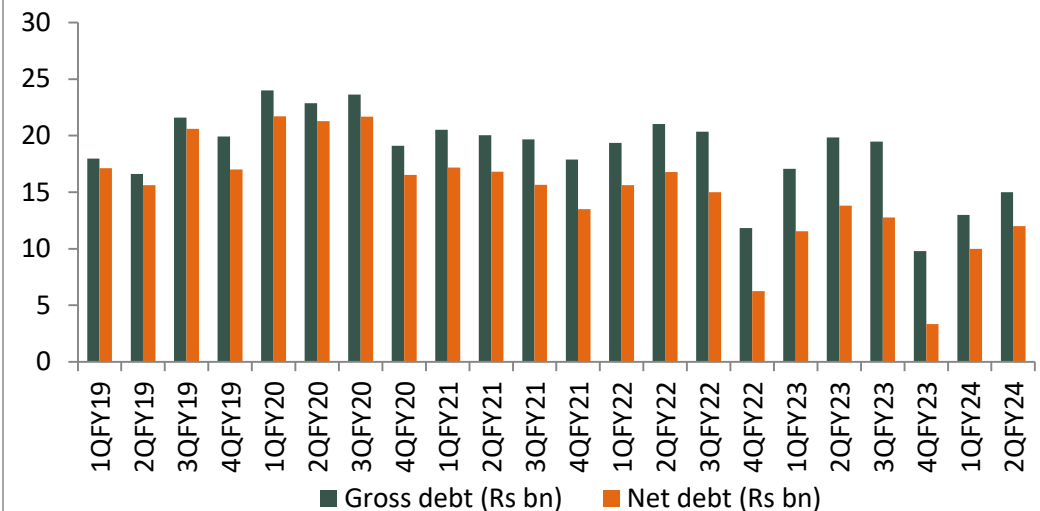
Source : Company

**Exhibit 5: Q2FY24 order inflow of Rs123bn**

Source : Company

**Exhibit 6: Largest order book in Buildings segment as on Sep'23**

Source : Company

**Exhibit 7: Gross Debt of Rs15bn & Net Debt of Rs12bn as of Q2FY24**

Source : Company, IDBI Capital Research

## Financial Summary

### Profit & Loss Account

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Net sales</b>	<b>82,188</b>	<b>72,560</b>	<b>99,300</b>	<b>133,513</b>	<b>158,881</b>	<b>185,890</b>
<i>Change (yoy, %)</i>	<i>(32.0)</i>	<i>(12)</i>	<i>37</i>	<i>34</i>	<i>19</i>	<i>17</i>
Operating expenses	(71,887)	(64,007)	(89,339)	(120,088)	(142,490)	(166,519)
<b>EBITDA</b>	<b>10,302</b>	<b>8,554</b>	<b>9,961</b>	<b>13,425</b>	<b>16,390</b>	<b>19,372</b>
<i>Change (yoy, %)</i>	<i>-27.6</i>	<i>(17)</i>	<i>16</i>	<i>35</i>	<i>22</i>	<i>18</i>
<i>Margin (%)</i>	<i>12.5</i>	<i>11.8</i>	<i>10.0</i>	<i>10.1</i>	<i>10.3</i>	<i>10.4</i>
Depreciation	(1,775)	(1,741)	(1,823)	(1,998)	(2,239)	(2,450)
<b>EBIT</b>	<b>8,526</b>	<b>6,813</b>	<b>8,138</b>	<b>11,427</b>	<b>14,151</b>	<b>16,922</b>
Interest paid	(5,179)	(4,578)	(4,596)	(5,100)	(5,322)	(5,066)
Other income	1,513	1,156	1,082	1,523	1,073	1,094
<b>Pre-tax profit</b>	<b>4,534</b>	<b>3,391</b>	<b>6,080</b>	<b>7,850</b>	<b>9,901</b>	<b>12,949</b>
Tax	(713)	(776)	(1,179)	(2,158)	(2,492)	(3,259)
<i>Effective tax rate (%)</i>	<i>15.7</i>	<i>22.9</i>	<i>19.4</i>	<i>27.5</i>	<i>25.2</i>	<i>25.2</i>
Minority Interest	-	-	-	-	-	-
<b>Net profit</b>	<b>3,820</b>	<b>2,615</b>	<b>4,901</b>	<b>5,692</b>	<b>7,409</b>	<b>9,690</b>
Exceptional items	(327)	-	1,456	-	-	-
<b>Adjusted net profit</b>	<b>4,147</b>	<b>2,615</b>	<b>3,445</b>	<b>5,692</b>	<b>7,409</b>	<b>9,690</b>
<i>Change (yoy, %)</i>	<i>(33.4)</i>	<i>(37)</i>	<i>32</i>	<i>65</i>	<i>30</i>	<i>31</i>
EPS	6.9	4.3	5.6	9.2	11.8	15.4
Dividend per sh	0.2	0.8	2.0	2.5	3.2	4.2
<i>Dividend Payout %</i>	<i>2.9</i>	<i>18.7</i>	<i>35.4</i>	<i>27</i>	<i>27</i>	<i>27</i>

**Balance Sheet**

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
<b>Shareholders' funds</b>	<b>51,056</b>	<b>53,694</b>	<b>58,032</b>	<b>63,219</b>	<b>68,614</b>	<b>75,670</b>
Share capital	1,220	1,220	1,220	1,256	1,256	1,256
Reserves & surplus	49,837	52,475	56,812	61,963	67,359	74,414
<b>Total Debt</b>	<b>19,101</b>	<b>17,889</b>	<b>11,841</b>	<b>9,796</b>	<b>8,796</b>	<b>6,796</b>
Other liabilities	19,101	17,889	11,841	9,796	8,796	6,796
<b>Curr Liab &amp; prov</b>	<b>58,404</b>	<b>26,602</b>	<b>24,922</b>	<b>29,451</b>	<b>32,848</b>	<b>37,158</b>
Current liabilities	57,547	55,443	68,397	82,982	98,522	115,114
Provisions	857	1,021	1,169	1,290	1,535	1,796
<b>Total liabilities</b>	<b>76,648</b>	<b>73,332</b>	<b>80,237</b>	<b>92,778</b>	<b>107,317</b>	<b>121,910</b>
<b>Total equity &amp; liabilities</b>	<b>127,705</b>	<b>127,026</b>	<b>138,269</b>	<b>155,997</b>	<b>175,931</b>	<b>197,580</b>
Net fixed assets	12,064	12,392	12,313	14,075	14,586	15,135
Investments	8,887	9,841	8,934	8,745	8,745	8,745
Other non-curr assets	2,055	411	541	475	541	541
<b>Current assets</b>	<b>104,699</b>	<b>104,382</b>	<b>116,480</b>	<b>132,701</b>	<b>152,059</b>	<b>173,158</b>
Inventories	5,829	5,949	8,913	10,778	11,753	13,751
Sundry Debtors	26,180	26,602	24,922	29,451	32,848	37,158
Cash and Bank	3,169	4,386	5,585	6,456	9,004	11,163
Loans and advances	5,771	2,956	4,011	3,717	2,717	1,717
<b>Total assets</b>	<b>127,705</b>	<b>127,026</b>	<b>138,269</b>	<b>155,997</b>	<b>175,931</b>	<b>197,580</b>

**Cash Flow Statement**

(Rs mn)

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Pre-tax profit	4,534	3,391	6,080	7,850	9,901	12,949
Depreciation	1,775	1,741	1,823	1,998	2,239	2,450
Tax paid	(1,366)	(184)	(1,733)	(2,753)	(2,492)	(3,259)
Chg in working capital	(3,471)	(1,744)	3,959	(2,355)	(2,271)	(3,348)
Other operating activities	4,893	3,893	2,829	3,991	4,249	3,972
<b>Cash flow from operations (a)</b>	<b>6,364</b>	<b>7,097</b>	<b>12,960</b>	<b>8,731</b>	<b>11,627</b>	<b>12,765</b>
Capital expenditure	(1,441)	(1,915)	(2,153)	(3,420)	(2,750)	(3,000)
Chg in investments	(505)	(937)	(1,065)	(439)	-	-
Other investing activities	304	3,491	1,907	2,535	2,073	2,094
<b>Cash flow from investing (b)</b>	<b>(1,642)</b>	<b>639</b>	<b>(1,311)</b>	<b>(1,324)</b>	<b>(678)</b>	<b>(906)</b>
Equity raised/(repaid)	824	266	-	797	-	-
Debt raised/(repaid)	(832)	(1,212)	(6,048)	(2,045)	(1,000)	(2,000)
Dividend (incl. tax)	(1,086)	(122)	(488)	(1,256)	(2,014)	(2,634)
Chg in minorities	-	-	-	-	-	-
Other financing activities	(4,735)	(5,825)	(4,456)	(4,983)	(5,322)	(5,066)
<b>Cash flow from financing (c)</b>	<b>(5,830)</b>	<b>(6,893)</b>	<b>(10,992)</b>	<b>(7,487)</b>	<b>(8,336)</b>	<b>(9,700)</b>
<b>Net chg in cash (a+b+c)</b>	<b>(1,107)</b>	<b>843</b>	<b>657</b>	<b>(80)</b>	<b>2,614</b>	<b>2,159</b>

**Financial Ratios**

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
Book Value (Rs)	84.9	88	95	102	109	121
Adj EPS (Rs)	6.9	4.3	5.6	9.2	11.8	15.4
Adj EPS growth (%)	-33.5	-38	32	63	28	31
EBITDA margin (%)	12.5	11.8	10.0	10.1	10.3	10.4
Pre-tax margin (%)	5.5	4.7	6.1	5.9	6.2	7.0
Net Debt/Equity (x)	0.3	0.3	0.1	0.1	0.0	-0.1
ROCE (%)	12.4	10	12	16	19	21
ROE (%)	8.4	5	6	9	11	13

**DuPont Analysis**

Asset turnover (x)	0.6	0.6	0.7	0.9	1.0	1.0
Leverage factor (x)	2.6	2.4	2.4	2.4	2.5	2.6
Net margin (%)	5.0	3.6	3.5	4.3	4.7	5.2

**Working Capital & Liquidity ratio**

Inventory days	26	30	33	29	27	27
Receivable days	116	134	92	81	75	73
Payable days	202	212	174	134	134	134

**Valuations**

Year-end: March	FY20	FY21	FY22	FY23	FY24E	FY25E
PER (x)	22.6	36.4	27.6	17.0	13.2	10.1
Price/Book value (x)	1.8	1.8	1.6	1.5	1.4	1.3
EV/Net sales (x)	1.4	1.5	1.0	0.8	0.6	0.5
EV/EBITDA (x)	10.8	12.7	10.2	7.5	6.0	4.8
Dividend Yield (%)	0.1	0.5	1.3	1.6	2.1	2.7

Source: Company; IDBI Capital Research





# Notes

Dealing	(91-22) 6836 1111	dealing@idbicapital.com
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**Key to Ratings Stocks:**

**BUY:** 15%+; **HOLD:** -5% to 15%; **SELL:** -5% and below.

**IDBI Capital Markets & Securities Ltd.****Equity Research Desk**

6th Floor, IDBI Tower, WTC Complex, Cuffe Parade, Colaba, Mumbai – 400 005. Phones: (91-22) 2217 1700; Fax: (91-22) 2215 1787; Email: info@idbicapital.com

**SEBI Registration:** BSE & NSE (Cash & FO) – INZ000007237, NSDL – IN-DP-NSDL-12-96, Research – INH000002459, CIN – U65990MH1993GOI075578

**Compliance Officer:** Christina D'souza; Email: compliance@idbicapital.com; Telephone: (91-22) 2217 1907

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