

### Set for strong rebound; AP recoveries key trigger

#### Strong pick-up in ordering and tendering activity

Tendering and ordering activity are witnessing steady recovery leading to both reaching the average monthly levels seen historically (refer Exhibits 1 & 2). YTD tendering has been driven by water and highways sector with ordering being driven by transportation infra (highways, metro, HSR, etc.), water and effluent treatment, coal mining, buildings and factories. NHAI has ordered 1330km highways worth Rs472bn in H1FY21.

#### Covid relief measures provide adequate liquidity to accelerate execution in H2FY21

Covid relief measures announced and implemented by the Government – early release of retention money and performance guarantees, faster payments, Covid relief loans, amongst others have been instrumental to ensure that the liquidity position of contractors remains sound. Even in case of state government projects, e.g. Mumbai-Nagpur e-way and e-way projects of UPEIDA, the payments have kept pace with work. This, along with an almost normalised labour availability provides a solid foundation for construction companies to accelerate their execution in H2FY21.

#### NCC's order inflows YTD beat expectations; all set to report a stellar inflow in FY21

NCC received robust order inflows of Rs103bn in YTD FY21, surpassing its annual guidance of Rs100bn. Standalone order backlog was ~Rs280bn in Sept-20 and present unadjusted backlog stands at Rs328bn (4.7x TTM revenues). Quality of order inflows is largely good with only the Rayalaseema LIS order of Rs9.6bn (NCC's share) at risk of delayed start. With an L1 position of ~Rs7.5bn and peak activity season ahead of us, we expect NCC to end FY21 with a stellar order inflow of ~Rs130-150bn.

#### Start of unwinding of AP receivables provides liquidity boost; to support execution

NCC had outstanding receivables of ~Rs12bn from AP in June-20 of which it recovered Rs1.6bn in Q2FY21 and is on track to recover another ~Rs2bn by Dec-20. NCC's liquidity position was in any case benign and these recoveries provide boost to accelerate execution in H2FY21 (expect 8.8% yoy growth in H2 vis-à-vis 30.6% yoy decline in H1). Gross debt was Rs20bn in Sept-20 (Rs19.1bn in Mar-20) with net D/E being 0.3x.

#### Set for strong execution scale up; recoveries of past dues to act as key stock triggers

Led by a robust order backlog, we expect a strong execution scale up for NCC in H2FY21 and FY22/FY23. Meanwhile NCC's margins have remained resilient and liquidity position has improved. We estimate Revenue/EPS of Rs98.4bn/Rs6.5, up 33%/48.5% yoy in FY22 and Revenue/EPS of Rs118bn/Rs9.5 in FY23. Having generated revenue of Rs121bn in FY19 (on opening order backlog of Rs300bn) NCC possesses capability to scale back to similar levels in FY23 (Sept-20 OB: Rs280bn). Stock trades at 8.5x/5.8x FY22/FY23 earnings and provides adequate room for upside. As such, the stock does not factor any material recovery of AP receivables or from the Sembcorp arbitration award and any incremental inflows will be upside triggers. We value NCC at 10x FY23 core EPS of Rs8.2 (without other income; 10x FY22 earlier) with Mar-22 PT of Rs82. Maintain Buy. Key risk – an adverse outcome of dispute with Sembcorp which results in cash outflow for NCC.

#### Financial and valuation summary

YE Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Revenues	120,798	82,188	73,969	98,379	118,055
EBITDA	14,230	10,302	8,903	11,610	13,695
EBITDA margin (%)	11.8	12.5	12.0	11.8	11.6
Adj. Net profit	6,228	3,419	2,693	4,000	5,809
Adj. EPS (Rs)	10.2	5.6	4.4	6.6	9.5
EPS growth (%)	54.5	(45.1)	(21.2)	48.5	45.2
PE (x)	5.4	9.9	12.6	8.5	5.8
EV/EBITDA (x)	3.6	4.8	5.6	4.4	3.6
PBV (x)	0.7	0.7	0.6	0.6	0.5
RoE (%)	13.8	6.9	5.2	7.3	9.8
RoCE (%)	15.0	10.3	8.9	10.0	12.0

Source: Bloomberg, Centrum Broking

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#### Company Update

India I Infrastructure

08 December, 2020

**BUY**

Price: Rs55

Target Price: Rs82

Forecast return: 49%

Institutional Research

#### Market Data

Bloomberg:	NJCC IN
52 week H/L:	61/16
Market cap:	Rs34.8bn
Shares Outstanding:	609.8mn
Free float:	80.3%
Avg. daily vol. 3mth:	9,067,644

Source: Bloomberg

#### Changes in the report

Rating:	Unchanged
Target price:	Changed to Rs82 from Rs48
EPS:	FY21E: 0%; FY22E: +8.6%

Source: Centrum Broking

#### NJCC relative to Nifty Midcap 100



Source: Bloomberg

#### Shareholding pattern

	Sep-20	Jun-20	Mar-20	Dec-19
Promoter	19.7	19.3	19.6	18.1
FII	9.8	11.4	14.7	17.7
DII	12.2	13.4	18.4	22.3
Public/other	58.3	55.9	47.3	41.8

Source: BSE



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## Thesis Snapshot

### Estimate revision

	FY21E New	FY21E Old	% chg	FY22E New	FY22E Old	% chg
Net Sales	73,969	73,969	0.0	98,379	93,201	5.6
EBITDA	8,903	8,903	0.0	11,610	11,037	5.2
EBITDA margin %	12.0	12.0		11.8	11.8	
Adj. PAT	2,693	2,693	0.0	4,000	3,685	8.6
Diluted EPS	4.4	4.4	0.0	6.6	6.0	8.6

Source: Centrum Broking

### NCC versus NIFTY Midcap 100

	1m	6m	1 year
NJCC IN	48.4	70.2	(1.4)
NSE Midcap 100	14.4	43.8	21.7

Source: Bloomberg, NSE

### Key assumptions

Key assumptions	FY21E	FY22E	FY23E
Order backlog (Rsm)	3,07,834	3,09,455	2,91,400
Order backlog to revenue (x)	4.2	3.1	2.5
Order inflows (Rsm)	1,30,000	1,00,000	1,00,000
EBITDA Margins	12.0	11.8	11.6

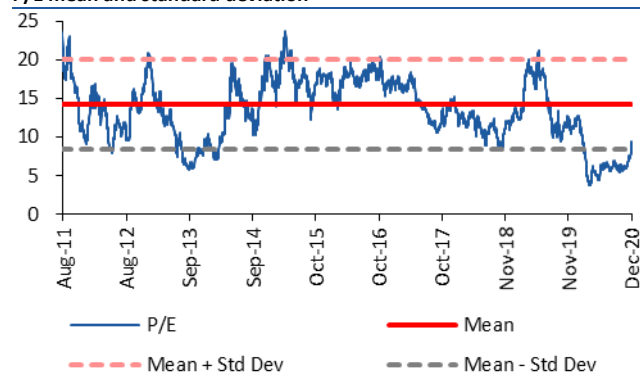
Source: Centrum Broking

### Valuations

We value NCC at 10x FY23E core EPS (ex of other income) of Rs8.2 (vis-à-vis reported FY23E EPS of Rs9.5) and arrive at Mar-22 based TP of Rs82. Maintain Buy.

In Rs	FY21E	FY22E	FY23E
Adjusted EPS	4.4	6.6	9.5
Core EPS (ex-other income)	2.9	5.3	8.2
Core P/E (x)	19.3	10.4	6.7

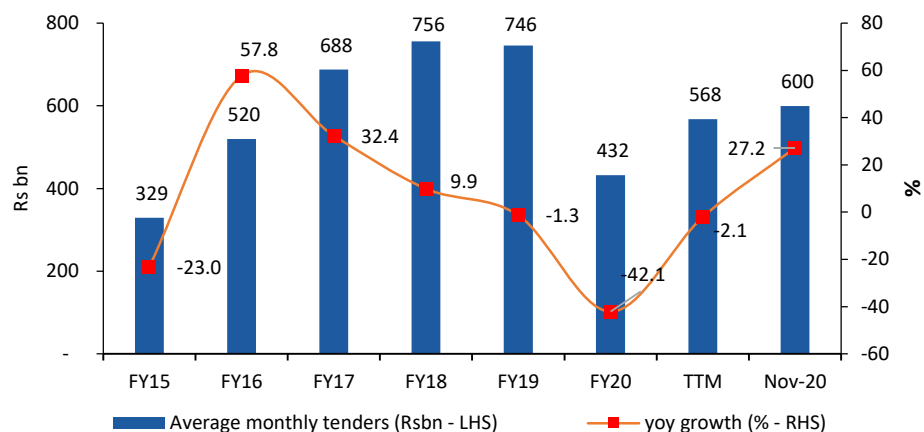
#### P/E mean and standard deviation



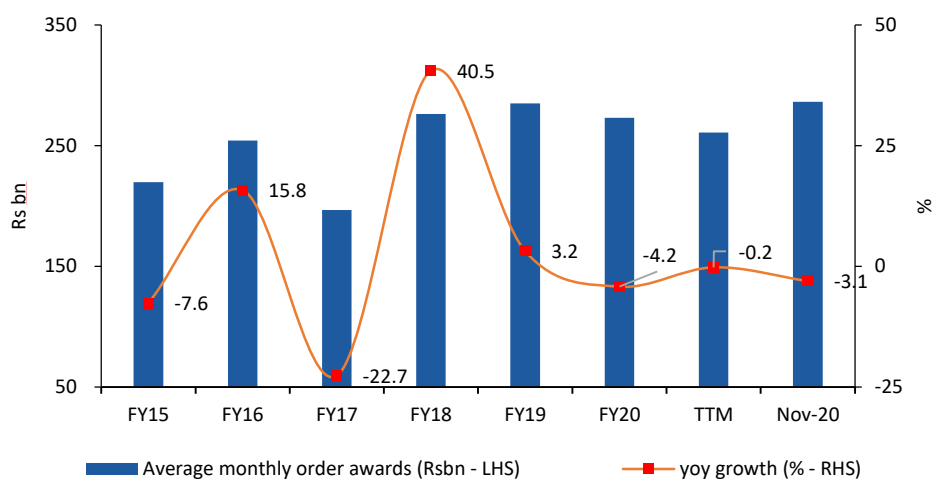
### Peer comparison

Company	Mkt Cap	EPS CAGR (FY20-22E)	PE (x)			P/Bv (x)			EV/EBITDA (x)			RoE (%)
	(Rsm)	(%)	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20	FY21E	FY22E	FY20
NCC	34,761	7.4	9.9	12.6	8.5	0.6	0.6	0.6	0.8	0.6	0.6	6.9
Ahluwalia Contracts	17,685	54.9	31.6	21.9	11.4	2.5	2.0	1.7	0.2	0.2	0.2	8.4
Ashoka Buildcon	26,613	-2.7	7.9	6.7	7.3	1.2	0.9	0.8	3.0	3.1	3.1	16.1
HG Infra	14,768	11.1	9.3	8.6	6.9	1.9	1.4	1.2	5.3	4.6	3.8	22.4
PNC Infratech	47,331	7.5	14.1	14.4	12.5	1.8	1.7	1.5	6.4	7.7	6.3	14.1
KNR Constructions	44,287	22.0	17.3	18.2	14.6	2.2	2.4	2.1	8.0	8.9	7.3	13.5

Source: Company, Centrum Broking

**Exhibit 1: Strong tendering activity in YTD FY21 (up 55.5% yoy) led by Highways & Water**

Source: Company, Centrum Broking

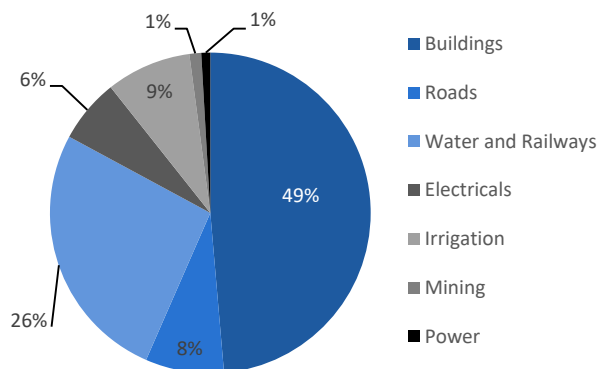
**Exhibit 2: Strong pick-up in order awards witnessed in last few months**

Source: Company, Centrum Broking

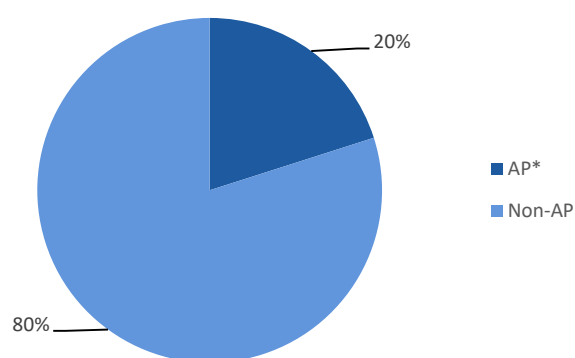
**Exhibit 3: Order backlog and order inflow details**

In Rsm	2Q20	3Q20	4Q20	FY20	1Q21	2Q21
<b>Consolidated</b>						
Order backlog	3,31,730	2,50,490	2,65,720	2,65,720	2,79,160	2,93,617
Order booking	15,180	12,170	38,320	72,030	25,920	29,622
<b>Standalone</b>						
Order backlog	3,17,400	2,34,560	2,50,100	2,50,100	2,64,340	2,80,150
Order booking	15,180	12,170	38,320	72,030	25,920	29,622
Book -to- bill (x)	3.0	2.5	3.0	3.0	3.7	4.0
<b>% growth yoy</b>						
Order backlog	(1.3)	(26.7)	(24.3)	(20.7)	(15.8)	17.2
Order booking	(67.6)	(72.7)	(70.1)	(63.1)	70.8	143.4

Source: Company, Centrum Broking

**Exhibit 4: Sept-20 standalone OB stands at Rs280bn**

Source: Company, Centrum Broking

**Exhibit 5: AP accounts for 20%\* of the standalone OB**

Source: Company, Centrum Broking \*also includes newly won orders in AP

**Exhibit 6: Key order wins in YTD FY21****Order awards**

AIIMS Srinagar

Water division order in UP under Centre's flagship drinking water supply scheme

Intermodal terminal in Nagpur from NHAI

Pilgrim centre in Odisha

Rayalaseema Irrigation project

Source: Company, Centrum Broking

**Exhibit 7: Revenue estimate has adequate margin of safety**

Revenue break-up (Rsm)	Order backlog	FY21E	FY22E	FY23E
<b>Revenue from:</b>				
a) Non-AP Mar-20 OB	2,07,100	68,349	69,646	59,326
b) FY21 order inflows	1,30,000	4,594	27,938	37,304
c) AP orders (Mar-20)	43,000	2,523	9,916	8,656
d) FY22 order inflows	1,00,000	-	-	18,000
<b>Total Revenues from computation</b>		<b>75,465</b>	<b>1,07,499</b>	<b>1,23,285</b>
Our revenue estimate		73,969	98,379	1,18,055
<b>Margin of safety</b>		<b>1,496</b>	<b>9,120</b>	<b>5,230</b>

Source: Company, Centrum Broking

**Exhibit 8: Build-in only partial reversion in working capital cycle**

Rsm	FY18	FY19	FY20	FY21E	FY22E	FY23E
Working capital cycle days (ex-cash & L&A to subsidiaries)	137	108	167	203	173	160
FCF (net of interest)	(2,817)	(3,513)	334	311	(415)	1,467
Net debt	12,341	16,940	15,932	16,025	16,966	16,147
Net debt/ equity (x)	0.3	0.4	0.3	0.3	0.3	0.3
Net Debt/ EBITDA (x)	1.4	1.2	1.5	1.8	1.5	1.2
(Net Debt + Mob adv) / EBITDA (x)	3.1	2.3	2.8	2.9	2.6	2.2
RoE	10.3%	13.8%	6.9%	5.2%	7.3%	9.8%
RoCE	12.1%	14.1%	9.0%	7.8%	13.3%	15.1%

Source: Company, Centrum Broking

P&L (Standalone)					
YE Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Revenues</b>	<b>120,798</b>	<b>82,188</b>	<b>73,969</b>	<b>98,379</b>	<b>118,055</b>
Operating Expense	99,305	64,949	59,213	80,238	96,876
Employee cost	4,393	4,352	3,525	3,878	4,460
Others	2,870	2,586	2,327	2,653	3,024
<b>EBITDA</b>	<b>14,230</b>	<b>10,302</b>	<b>8,903</b>	<b>11,610</b>	<b>13,695</b>
Depreciation & Amortisation	1,494	1,772	1,823	1,916	1,999
<b>EBIT</b>	<b>12,736</b>	<b>8,529</b>	<b>7,080</b>	<b>9,694</b>	<b>11,696</b>
Interest expenses	4,513	5,179	4,808	5,038	4,979
Other income	1,183	1,513	1,218	1,058	1,046
<b>PBT</b>	<b>9,406</b>	<b>4,863</b>	<b>3,489</b>	<b>5,714</b>	<b>7,763</b>
Taxes	3,178	1,444	797	1,714	1,954
Effective tax rate (%)	33.8	29.7	22.8	30.0	25.2
<b>PAT</b>	<b>6,228</b>	<b>3,419</b>	<b>2,693</b>	<b>4,000</b>	<b>5,809</b>
Minority/Associates	0	0	0	0	0
<b>Recurring PAT</b>	<b>6,228</b>	<b>3,419</b>	<b>2,693</b>	<b>4,000</b>	<b>5,809</b>
Extraordinary items	(589)	403	0	0	0
<b>Reported PAT</b>	<b>5,639</b>	<b>3,823</b>	<b>2,693</b>	<b>4,000</b>	<b>5,809</b>
Ratios					
YE Mar	FY19A	FY20A	FY21E	FY22E	FY23E
<b>Growth (%)</b>					
Revenue	59.8	(32.0)	(10.0)	33.0	20.0
EBITDA	66.5	(27.6)	(13.6)	30.4	18.0
Adj. EPS	54.5	(45.1)	(21.2)	48.5	45.2
<b>Margins (%)</b>					
Gross	17.8	21.0	19.9	18.4	17.9
EBITDA	11.8	12.5	12.0	11.8	11.6
EBIT	10.5	10.4	9.6	9.9	9.9
Adjusted PAT	5.2	4.2	3.6	4.1	4.9
<b>Returns (%)</b>					
ROE	13.8	6.9	5.2	7.3	9.8
ROCE	15.0	10.3	8.9	10.0	12.0
ROIC	14.6	9.4	8.3	9.5	11.5
<b>Turnover (days)</b>					
Gross block turnover ratio (x)	5.5	3.6	3.2	4.1	4.7
Debtors	118	128	128	100	94
Inventory	41	29	31	23	21
Creditors	147	238	211	148	153
Net working capital	131	206	251	205	190
<b>Solvency (x)</b>					
Net debt-equity	0.4	0.3	0.3	0.3	0.3
Interest coverage ratio	3.2	2.0	1.9	2.3	2.8
Net debt/EBITDA	1.2	1.5	1.8	1.5	1.2
<b>Per share (Rs)</b>					
Adjusted EPS	10.2	5.6	4.4	6.6	9.5
BVPS	78.0	83.7	87.5	93.2	101.6
CEPS	12.9	8.6	7.4	9.7	12.8
DPS	1.5	0.2	0.7	0.9	1.1
Dividend payout (%)	16.0	3.2	15.0	13.1	11.2
<b>Valuation (x)</b>					
P/E	5.4	9.9	12.6	8.5	5.8
P/BV	0.7	0.7	0.6	0.6	0.5
EV/EBITDA	3.6	4.8	5.6	4.4	3.6
Dividend yield (%)	2.7	0.4	1.2	1.6	1.9

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Equity share capital	1,201	1,220	1,220	1,220	1,220
Reserves & surplus	46,367	49,837	52,125	55,600	60,761
Shareholders fund	47,568	51,056	53,345	56,819	61,981
Minority Interest	0	0	0	0	0
Total debt	19,930	19,101	20,001	20,001	20,001
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	(1,726)	(2,055)	(1,985)	(1,985)	(1,985)
<b>Total liabilities</b>	<b>65,771</b>	<b>68,102</b>	<b>71,361</b>	<b>74,835</b>	<b>79,997</b>
Gross block	21,802	22,565	23,265	24,265	25,265
Less: acc. Depreciation	(8,705)	(9,968)	(11,791)	(13,707)	(15,706)
Net block	13,098	12,597	11,474	10,558	9,559
Capital WIP	132	148	148	148	148
Net fixed assets	13,229	12,745	11,622	10,706	9,707
Non Current Assets	0	0	0	0	0
Investments	9,193	8,887	8,779	8,779	8,779
Inventories	5,129	5,148	4,985	5,300	5,830
Sundry debtors	31,542	26,180	25,778	28,089	32,401
Cash & Cash Equivalents	2,990	3,169	3,976	3,035	3,854
Loans & advances	4,965	5,947	5,947	5,947	5,947
Other current assets	62,812	63,574	53,201	67,351	77,577
Trade payables	44,923	39,830	28,783	36,416	44,645
Other current liab.	18,548	16,860	13,765	17,480	18,882
Provisions	617	857	378	475	572
Net current assets	43,349	46,470	50,960	55,351	61,511
<b>Total assets</b>	<b>65,771</b>	<b>68,102</b>	<b>71,361</b>	<b>74,835</b>	<b>79,997</b>
Cashflow					
YE Mar (Rs mn)	FY19A	FY20A	FY21E	FY22E	FY23E
Profit Before Tax	8,817	5,267	3,489	5,714	7,763
Depreciation & Amortisation	1,494	1,772	1,823	1,916	1,999
Net Interest	4,513	5,179	4,808	5,038	4,979
Net Change – WC	(7,985)	(1,952)	(3,683)	(5,331)	(5,342)
Direct taxes	(3,087)	(1,731)	(727)	(1,714)	(1,954)
<b>Net cash from operations</b>	<b>3,751</b>	<b>8,534</b>	<b>5,711</b>	<b>5,623</b>	<b>7,445</b>
Capital expenditure	(5,638)	(1,288)	(700)	(1,000)	(1,000)
Acquisitions, net	0	0	0	0	0
Investments	2,313	(684)	108	0	0
Others	574	(1,049)	0	0	0
<b>Net cash from investing</b>	<b>(2,751)</b>	<b>(3,021)</b>	<b>(592)</b>	<b>(1,000)</b>	<b>(1,000)</b>
<b>FCF</b>	<b>1,000</b>	<b>5,513</b>	<b>5,119</b>	<b>4,623</b>	<b>6,445</b>
Issue of share capital	0	1,098	0	0	0
Increase/(decrease) in debt	6,930	(829)	900	0	0
Dividend paid	(1,086)	(147)	(404)	(526)	(648)
Interest paid	(4,513)	(5,179)	(4,808)	(5,038)	(4,979)
Others	0	0	0	0	0
<b>Net cash from financing</b>	<b>1,331</b>	<b>(5,057)</b>	<b>(4,312)</b>	<b>(5,563)</b>	<b>(5,626)</b>
Net change in Cash	2,331	456	807	(940)	819

Source: Company, Centrum Broking

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Source: Bloomberg

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