

Execution to recover; land sale to infuse liquidity

NCC's Q1FY22 results remained impacted by Covid 2nd wave impact on execution. Also, margins were lower due to lower execution and higher input costs. PAT at Rs517m was in line with estimate of Rs492m, with the impact of lower margins being offset by interest cost savings. YTD FY22 order inflow of Rs48.5bn has been strong. Order backlog of ~Rs375bn (4.7x TTM revenue) provides strong execution visibility and we expect a strong recovery in revenue run rate, going forward. Deal contours for Vizag land sale are crystallized and NCC expects total consideration of Rs3.75bn. The stock trades at 12.4x/8.1x FY22E/FY23E earnings. Maintain BUY with price target of Rs126.

Execution/margins remain impacted; lower interest cost offsets impact

Revenue grew 82% YoY to Rs18.9bn (down 28% QoQ; estimate: Rs18.3bn) and EBITDA grew 73% YoY to Rs2bn (estimate: Rs2.1bn). EBITDA margins expanded 80bp YoY to 10.6% but were below estimate of 11.3% due to lower execution levels and higher input costs. Gross debt increased by Rs1.5bn QoQ to Rs19.4bn due to some payment delays in electrification projects in UP and Jharkhand. Interest costs declined 10.5% YoY to Rs1.04bn due to reduction in interest rates (below 9% currently). NCC did not give a specific guidance but has indicated revenue growth of at least 20-25% YoY in FY22 and we believe that there is potential to beat this guidance. NCC expects margins to recover from current levels and has guided for 11.5-11.75% range in FY22.

Monetization of Vizag land to release material liquidity

NCC has signed agreement for sale of its Vizag land for a total consideration of Rs3.75bn (Rs3.14bn by Mar-22 and Rs610m in Q1FY23). NCC has also received necessary approvals from the AP government (including for conversion to freehold land). The registration charges and revenue share of Rs1.8bn will be borne by the incoming investor. NWC exposure from AP stands at Rs8.5bn as on June 2021 (ongoing projects – Rs5.9bn and Capital City projects – Rs2.6bn; Rs7.1bn in March 2021). AP government plans to raise debt of Rs30bn for restarting works and clearing o/s dues of contractors, which should help unwind at least part of this exposure. Balance AP backlog stands at Rs52.4bn.

Order inflows strong at Rs48.5bn in YTD FY22; strong execution visibility of the backlog

NCC has won order inflows of Rs48.5bn YTD FY22. Standalone order backlog at ~Rs375bn (4.7x TTM revenues) provides strong execution visibility, especially with no non-moving orders in the backlog. Large orders like Mumbai-Nagpur, Karwar (naval base), NBCC-Nauroji Nagar and AIIMS hospitals are witnessing good progress. Execution on the UP JJM orders worth Rs62bn is yet to commence but is guided to take off soon. NCC has also discussed its intention to bid for HAM projects though it may target only a few.

Growth revival and de-leveraging to aid re-rating; return ratios set to recover

Backed by a strong order backlog of ~Rs375bn, we expect revenue of Rs100bn/Rs130bn and estimate an EPS of Rs6.8/Rs10.5 for NCC in FY22/FY23. We expect ROE to climb back to 10.8% in FY23 from 6.9% in FY20 without building in the sale of Vizag land. Land monetization, unwinding of AP exposure and favorable outcome of arbitration with Sembcorp remain key stock triggers. Maintain BUY with a PT of Rs126 (12x FY23E EPS).

Financial and valuation summary

YE Mar (Rs mn)	1QFY22A	1QFY21A	YoY (%)	4QFY21A	QoQ (%)	FY21A	FY22E	FY23E
Revenues	18,926	11,787	60.6	26,177	(27.7)	72,557	100,128	130,167
EBITDA	1,997	1,156	72.8	2,897	(31.1)	8,545	11,271	14,984
EBITDA margin (%)	10.6	9.8		11.1		11.8	11.3	11.5
Adj. Net profit	517	169	206.5	1,155	(55.3)	2,611	4,260	6,601
Adj. EPS (Rs)	0.8	0.3	197.7	1.9	(56.5)	4.3	6.8	10.5
EPS growth (%)						(23.6)	58.5	55.0
PE (x)						10.4	12.8	8.2
EV/EBITDA (x)						4.8	6.0	4.6
PBV (x)						0.5	0.9	0.8
RoE (%)						5.0	7.6	10.8
RoCE (%)						7.3	8.7	10.8

Source: Company, Centrum Broking

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Result Update

India I Infrastructure

05 August, 2021

BUY

Price: Rs89

Target Price: Rs126

Forecast return: 41%

Institutional Research

Market Data

Bloomberg:	NJCC IN
52 week H/L:	100/30
Market cap:	Rs54.4bn
Shares Outstanding:	609.8mn
Free float:	80.3%
Avg. daily vol. 3mth:	6,452,069
Source: Bloomberg	

Changes in the report

Rating:	Unchanged
Target price:	Unchanged
EPS:	FY22E: -5.9%; FY23E: +0.4%
Source: Centrum Broking	

Shareholding pattern

	Jun-21	Mar-21	Dec-20	Sep-20
Promoter	19.7	19.7	19.7	19.7
FII	13.4	13.1	10.3	9.8
DII	12.0	12.1	11.3	12.2
Public/other	54.9	55.2	58.7	58.3

Source: BSE

Centrum estimates vs Actual results

YE Mar (Rs mn)	Centrum Q1FY22	Actual Q1FY22	Variance (%)
Revenue	18,324	18,926	3.3
EBITDA	2,077	1,997	(3.8)
EBITDA margin	11.3	10.6	
PBT	658	705	7.2
Adjusted PAT	492	517	5.0

Source: Bloomberg, Centrum Broking



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Infrastructure

Thesis Snapshot

Estimate revision

Rsm	FY22E New	FY22E Old	% chg	FY23E New	FY23E Old	% chg
Net Sales	1,00,128	1,05,207	(4.8)	1,30,167	1,30,457	(0.2)
EBITDA	11,271	11,936	(5.6)	14,984	15,033	(0.3)
EBITDA margin %	11.3	11.3		11.5	11.5	
Adj. PAT	4,260	4,527	(5.9)	6,601	6,574	0.4
Diluted EPS	6.8	7.2	(5.9)	10.5	10.5	0.4

Source: Centrum Broking

NCC versus NIFTY Midcap 100

	1m	6m	1 year
NJCC IN	(1.5)	7.6	185.5
NSE Midcap 100	2.8	24.5	77.6

Source: Bloomberg, NSE

Key assumptions

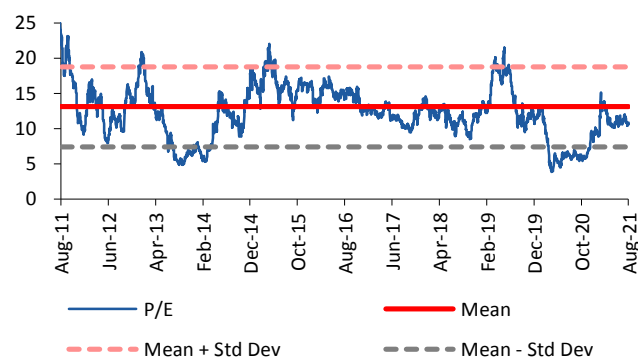
Rsm	FY20	FY21	FY22E	FY23E
Order backlog	2,50,100	3,62,390	4,22,262	4,52,095
Order inflows	72,030	1,89,430	1,60,000	1,60,000
EBITDA Margins (%)	12.5	11.8	11.3	11.5
Capex	779	2,069	2,000	2,000

Source: Centrum Broking

Valuations

We value NCC based on 12x FY23E EPS of Rs10.5 and arrive at TP of Rs126. We maintain Buy recommendation on the stock.

P/E mean and standard deviation



Peer comparison

Company	Mkt Cap (Rsm)	EPS CAGR (FY21-23E) (%)	PE (x)			P/Bv (x)			EV/EBITDA (x)			RoE (%)
			FY21	FY22E	FY23E	FY21	FY22E	FY23E	FY21	FY22E	FY23E	
NCC	54,459	56.7	10.4	12.8	8.2	0.5	0.9	0.8	4.8	6.0	4.6	5.0
Ahluwalia Contracts	25,321	70.0	20.5	14.7	11.3	1.8	2.4	2.0	7.6	7.7	5.8	9.2
JMC Projects*	19,947	62.8	28.0	15.8	10.6	2.0	1.8	1.5	7.4	5.7	4.6	7.2

Source: Company, Centrum Broking, *: Bloomberg Consensus estimates

Exhibit 1: Detailed quarterly results (Standalone)

In Rsm	1Q21	2Q21	3Q21	4Q21	FY21	1Q22	FY22E	Comments
Net sales	11,787	15,408	19,184	26,177	72,557	18,926	1,00,128	Impacted due to Covid disruption
EBIDTA	1,156	2,098	2,393	2,897	8,545	1,997	11,271	
EBIDTA Margin (%)	9.8	13.6	12.5	11.1	11.8	10.6	11.3	Impacted due to higher input costs
Other Income	326	373	245	212	1,156	193	824	
Interest	1,159	1,177	1,065	1,177	4,578	1,037	4,512	Lower interest costs due to reduction in interest rates
Depreciation	435	434	439	433	1,741	447	1,891	
PBT	(112)	860	1,134	1,499	3,382	705	5,693	
Tax	(280)	276	431	344	771	188	1,433	
Recurring PAT	169	584	703	1,155	2,611	517	4,260	
Extra-ordinary items	-	-	-	-	-	-	-	
Reported PAT	169	584	703	1,155	2,611	517	4,260	
yoy growth (%)								
Net sales	(46.1)	(11.0)	(9.4)	20.0	(11.7)	60.6	38.0	
EBITDA	(56.7)	(10.0)	(4.3)	3.3	(17.1)	72.8	31.9	
Other income	30.5	(46.9)	(23.2)	(12.1)	(23.6)	(40.9)	(28.7)	
Interest	(7.9)	(10.0)	(24.9)	(1.5)	(11.6)	(10.5)	(1.4)	
Depreciation	(0.5)	(3.3)	(2.5)	(1.4)	(1.8)	2.9	8.6	
PBT	NM	(32.6)	19.3	6.2	(30.5)	NM	68.3	
Recurring PAT	(79.3)	(39.5)	16.8	11.4	(23.6)	206.5	63.1	
Reported PAT	(79.3)	(27.0)	(36.3)	4.6	(31.7)	206.5	63.1	

Source: Company, Centrum Broking

Exhibit 2: Quarterly results (Consolidated)

In Rsm	1Q21	2Q21	3Q21	4Q21	FY21	1Q22
Net sales	12,976	17,083	21,269	28,166	79,494	20,643
EBIDTA	1,248	2,324	2,562	3,057	9,191	2,113
EBIDTA Margin (%)	9.6	13.6	12.0	10.9	11.6	10.2
Other Income	311	353	238	257	1,159	189
Interest	1,220	1,229	1,122	1,228	4,799	1,097
Depreciation	458	455	454	445	1,813	459
PBT	(119)	993	1,223	1,641	3,738	745
Tax	(290)	296	458	330	795	214
PAT	171	697	765	1,310	2,944	532
Minority interest	(13)	(51)	(67)	(16)	(147)	(40)
Profit from associates	(1)	(0)	14	0	13	8
Consolidated PAT	157	646	712	1,294	2,809	500
Extra-ordinary items	-	-	-	(126)	(126)	-
Reported PAT	157	646	712	1,168	2,683	500

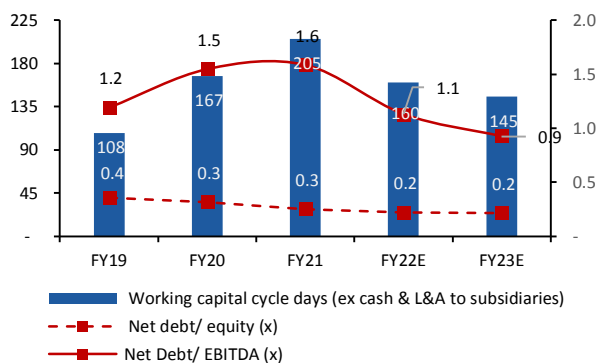
Source: Company, Centrum Broking

Exhibit 3: Order backlog details

In Rsm	1Q21	2Q21	3Q21	4Q21	FY21	1Q22
Consolidated						
Order backlog	2,79,160	2,93,617	3,91,820	3,79,110	3,79,110	3,90,870
Order booking	25,920	29,622	1,18,610	15,278	1,89,430	31,710
Standalone						
Order backlog	2,64,340	2,80,150	3,79,576	3,62,390	3,62,390	3,74,840
Order booking	25,920	29,622	1,18,610*	15,278	1,89,430*	31,710^
Book -to- bill (x)	3.7	4.0	5.6	5.0	5.0	4.7
% growth yoy						
Order backlog	(17.4)	(11.7)	61.8	44.9	(1.9)	41.8
Order booking	307.5	95.1	874.6	(60.1)	163.0	22.3

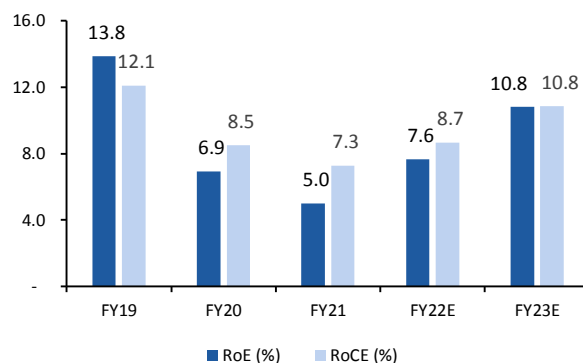
Source: Company, Centrum Broking; *: net of orders worth Rs18.3bn removed in Q3FY21; ^: including change of scope

Exhibit 4: Wcap unwinding to reduce leverage



Source: Company, Centrum Broking

Exhibit 5: Return ratios set to recover



Source: Company, Centrum Broking

Quarterly call and other highlights

- **Order backlog:** Standalone order backlog stands at ~Rs375bn (4.7x TTM revenue). There are no slow-moving orders in the backlog. Only UP Jal Jeevan Mission water supply order worth Rs62bn is yet to commence execution; rest of the backlog is currently under execution.
- **FY22 guidance:** The management did not give any explicit guidance but indicated revenue growth of at least 20-25% YoY (we believe it can be higher); EBITDA margin guidance: 11.5%-11.75%.
- **Debt:** (i) Standalone debt increased by Rs1.5bn QoQ to Rs19.4bn in June 2021; (ii) Some delay in payments for electrification projects in UP and Jharkhand. The management expects debt to reduce to Rs18bn levels by March 2022 (flat YoY). It could reduce further to Rs15-16bn, subject to completion of land monetization of Vizag Urban.

Exhibit 6: Quarterly monitor of management commentary on key variables

Parameters	Q1FY22	Q4FY21	Our Views
Revenue	NCC did not explicitly give guidance but indicated revenue growth of at least 20-25% YoY in FY22.	NCC did not explicitly give guidance; to provide it after Q1FY22.	We believe that the guidance is moderate and have factored revenues of Rs100bn in FY22.
EBITDA Margins	Guided for margins of 11.75% in FY22.	Margin of 11.5% is feasible for FY22 without considering any Covid second wave impact in terms of extra costs/provisions	We expect margins to moderate vs FY21 levels of 11.8%. We have factored margins of 11.3% in FY22.

Source: Company, Centrum Broking

P&L (Standalone)					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Revenues	120,798	82,188	72,557	100,128	130,167
Operating Expense	99,305	64,949	58,725	82,876	108,260
Employee cost	4,393	4,352	3,494	3,738	4,187
Others	2,870	2,586	1,794	2,242	2,736
EBITDA	14,230	10,302	8,545	11,271	14,984
Depreciation & Amortisation	1,494	1,772	1,741	1,891	2,043
EBIT	12,736	8,529	6,804	9,380	12,941
Interest expenses	4,513	5,179	4,578	4,512	5,014
Other income	1,183	1,513	1,156	824	894
PBT	9,406	4,863	3,382	5,693	8,822
Taxes	3,178	1,444	771	1,433	2,220
Effective tax rate (%)	33.8	29.7	22.8	25.2	25.2
PAT	6,228	3,419	2,611	4,260	6,601
Minority/Associates	0	0	0	0	0
Recurring PAT	6,228	3,419	2,611	4,260	6,601
Extraordinary items	(589)	403	0	0	0
Reported PAT	5,639	3,823	2,611	4,260	6,601
Ratios					
YE Mar	FY19A	FY20A	FY21A	FY22E	FY23E
Growth (%)					
Revenue	59.8	(32.0)	(11.7)	38.0	30.0
EBITDA	66.5	(27.6)	(17.1)	31.9	32.9
Adj. EPS	54.5	(45.1)	(23.6)	58.5	55.0
Margins (%)					
Gross	17.8	21.0	19.1	17.2	16.8
EBITDA	11.8	12.5	11.8	11.3	11.5
EBIT	10.5	10.4	9.4	9.4	9.9
Adjusted PAT	5.2	4.2	3.6	4.3	5.1
Returns (%)					
ROE	13.8	6.9	5.0	7.6	10.8
ROCE	12.1	8.5	7.3	8.7	10.8
ROIC	17.3	11.9	9.7	12.3	14.9
Turnover (days)					
Gross block turnover ratio (x)	5.5	3.6	3.0	3.8	4.6
Debtors	118	128	133	106	94
Inventory	41	29	32	25	23
Creditors	147	238	239	186	184
Net working capital	131	206	242	194	168
Solvency (x)					
Net debt-equity	0.4	0.3	0.3	0.2	0.2
Interest coverage ratio	3.2	2.0	1.9	2.5	3.0
Net debt/EBITDA	1.2	1.5	1.6	1.1	0.9
Per share (Rs)					
Adjusted EPS	10.2	5.6	4.3	6.8	10.5
BVPS	78.0	83.7	88.0	92.0	102.7
CEPS	12.9	8.6	7.1	10.1	14.0
DPS	1.5	0.2	0.8	0.8	1.1
Dividend payout (%)	16.0	3.2	18.7	11.5	10.1
Valuation (x)					
P/E	9.2	11.7	10.4	12.8	8.2
P/BV	1.2	0.8	0.5	0.9	0.8
EV/EBITDA	5.2	5.4	4.8	6.0	4.6
Dividend yield (%)	1.6	0.3	1.8	0.9	1.2

Source: Company, Centrum Broking

Balance sheet					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Equity share capital	1,201	1,220	1,220	1,220	1,256
Reserves & surplus	46,367	49,837	52,475	56,512	63,204
Shareholders fund	47,568	51,056	53,694	57,732	64,460
Minority Interest	0	0	0	0	0
Total debt	19,930	19,101	17,889	18,889	18,889
Non Current Liabilities	0	0	0	0	0
Def tax liab. (net)	(1,726)	(2,055)	(411)	(411)	(411)
Total liabilities	65,771	68,102	71,171	76,209	82,937
Gross block	21,802	22,565	24,567	26,567	28,567
Less: acc. Depreciation	(8,705)	(9,968)	(11,709)	(13,600)	(15,644)
Net block	13,098	12,597	12,858	12,966	12,923
Capital WIP	132	148	215	215	215
Net fixed assets	13,229	12,745	13,073	13,182	13,138
Non Current Assets	0	0	0	0	0
Investments	9,193	8,887	9,907	9,907	9,907
Inventories	5,129	5,148	5,268	5,933	7,702
Sundry debtors	31,542	26,180	26,602	31,330	36,002
Cash & Cash Equivalents	2,990	3,169	4,349	6,151	5,035
Loans & advances	4,965	5,947	3,001	3,001	3,001
Other current assets	62,812	63,574	64,378	74,108	93,876
Trade payables	44,923	39,830	37,134	47,460	61,615
Other current liab.	18,548	16,860	17,252	18,724	22,532
Provisions	617	857	1,021	1,217	1,578
Net current assets	43,349	46,470	48,191	53,120	59,891
Total assets	65,771	68,102	71,171	76,209	82,937

Cashflow					
YE Mar (Rs mn)	FY19A	FY20A	FY21A	FY22E	FY23E
Profit Before Tax	8,817	5,267	3,382	5,693	8,822
Depreciation & Amortisation	1,494	1,772	1,741	1,891	2,043
Net Interest	4,513	5,179	4,578	4,512	5,014
Net Change – WC	(7,985)	(1,952)	(3,311)	(3,127)	(7,887)
Direct taxes	(3,087)	(1,731)	(74)	(1,433)	(2,220)
Net cash from operations	3,751	8,534	6,316	7,535	5,771
Capital expenditure	(5,638)	(1,288)	(1,516)	(2,000)	(2,000)
Acquisitions, net	0	0	0	0	0
Investments	2,313	(684)	1,750	0	0
Others	574	(1,049)	0	0	0
Net cash from investing	(2,751)	(3,021)	234	(2,000)	(2,000)
FCF	1,000	5,513	6,551	5,535	3,771
Issue of share capital	0	1,098	0	266	797
Increase/(decrease) in debt	6,930	(829)	(1,213)	1,000	0
Dividend paid	(1,086)	(147)	(488)	(488)	(670)
Interest paid	(4,513)	(5,179)	(4,578)	(4,512)	(5,014)
Others	0	0	0	0	0
Net cash from financing	1,331	(5,057)	(6,278)	(3,734)	(4,887)
Net change in Cash	2,331	456	272	1,801	(1,116)

Source: Company, Centrum Broking

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Source: Bloomberg

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