

# NCC

## Clicks to bricks 2.0

### Ears to the ground: Mumbai-Nagpur Expressway progressing well

We continue to closely monitor on-ground progress of key ongoing projects of NCC (NJCC IN) post our [Clicks to Bricks](#) report in May 2018. We recently visited the Mumbai-Nagpur Expressway - Package 3 in the Amravati district being executed by NCC for INR 28.5bn (9% of adjusted orderbook of INR 331bn, excluding slow-moving NBCC project of INR 21bn and INR 61bn of Andhra Pradesh projects facing risk of cancellation). The physical progress is 7% & financial of 1% as on May 2019 and expected revenue contribution from the project as per the site manager (name withheld) is INR 12bn in FY20 (9% of our FY20E revenue) and INR 15bn in FY21 (10% of our FY21E revenue). In-house execution, approvals & clearances in place, timely payments by MSRDC and an experienced team of engineers on site (mobilized from the recently completed Agra-Lucknow expressway project) are key positives.

### Straight talk: AP project cancellations is no dampener

The new state government in Andhra Pradesh (AP) has notified to review contracts awarded by the previous government and cancel work orders issued prior to April 1, 2019 but not commenced execution. NCC's total AP exposure is INR 150bn (36% of FY19 orderbook), out of which ~INR 61bn (40% of AP exposure) faces risk of cancellation. In the event of termination, the revised orderbook of INR 352bn would still provide book-to-bill visibility of 3x, which is progressing at a healthy pace (average execution cycle of 2.5 years) and AP exposure will reduce to 25%. Outstanding receivable from AP is ~10% of total INR 30bn as on FY19. The slow-moving NBCC project of INR 20bn is expected to restart construction soon (as per NBCC management) and NCC has been recently qualified to bid for one big ticket housing project from CIDCO (Maharashtra) of INR 40bn; if both materialize, it could help address execution concerns (guidance of flat revenue & EBITDA margin and inflows of INR 150bn in FY20).

### Valuation: reiterate Buy with a revised TP of INR 162

We expect the working capital cycle can get elongated in 1H; however, the receipt of mobilization advances on new inflows, recovery of loans & advances from subsidiaries and clarity on Andhra Pradesh & slow-moving projects could provide some respite in 2H. A presence across housing, metro, defense, airports, irrigation, roads, electrical and expected uptick in order awarding activity in the infrastructure sector would help NCC recoup growth visibility. We remain confident & retain our estimates. We reiterate **Buy** with a new TP of INR 162 from INR 200, valuing construction business at INR 151 on 12x (from 15x) FY21E P/E and investments (including loans & advances) in subsidiaries at INR 11 on 0.5x (unchanged) FY21E P/B.

## Rating: Buy

Target Price: INR 162

Upside: 67%

CMP: INR 97 (as on 10 June 2019)

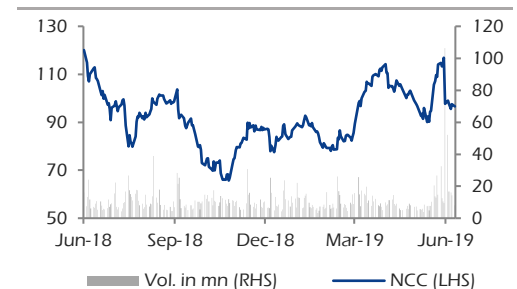
### Key data

Bloomberg /Reuters Code	NJCC IN/NCCLBO
Current /Dil. Shares O/S (mn)	601/601
Mkt Cap (INR bn/USD mn)	58/834
Daily Volume (3M NSE Avg)	11,776,139
Face Value (INR)	2

1 USD = INR 69.6

Note: \* as on 10 June 2019; Source: Bloomberg

### Price & volume



Source: Bloomberg

Shareholding (%)	Q1FY19	Q2FY19	Q3FY19	Q4FY19
Promoter	18.1	18.1	18.1	18.1
Institutional Investors	48.4	46.5	47.7	50.1
Other Investors	12.5	11.5	9.3	7.8
General Public	21.0	23.9	25.0	24.0

Source: BSE

Price performance (%)	3M	6M	12M
Sensex	8.5	13.8	12.2
NCC	(3.3)	24.5	(12.6)

Source: Bloomberg

### Key Financials

YE	Revenue (INR mn)	YoY (%)	EBITDA (INR mn)	EBITDA margin (%)	Adj PAT (INR mn)	YoY (%)	Fully DEPS (INR)	RoE (%)	RoCE (%)	P/E (x)	EV/EBITDA (x)
March											
FY18	75,593	(4.2)	8,549	11.3	3,934	42.6	4.8	9.3	15.4	18.1	8.3
FY19	120,798	59.8	14,230	11.8	6,228	58.3	9.4	13.1	20.6	9.2	5.3
FY20E	132,829	10.0	15,541	11.7	6,825	9.6	11.4	12.9	20.3	7.6	5.0
FY21E	146,454	10.3	17,135	11.7	7,567	10.9	13	13	19.8	6.8	4.6

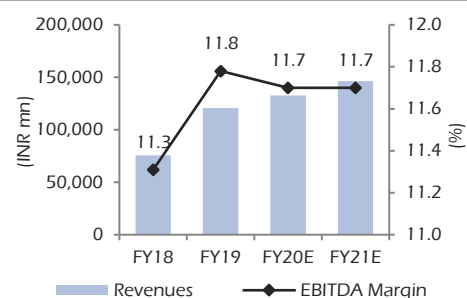
Note: pricing as on 10 June 2019; Source: Company, Elara Securities Estimate

## Standalone Financials (YE March)

Income Statement (INR mn)	FY18	FY19	FY20E	FY21E
Revenues	75,593	120,798	132,829	146,454
<b>EBITDA</b>	<b>8,549</b>	<b>14,230</b>	<b>15,541</b>	<b>17,135</b>
Add:- Non operating Income	1,158	1,183	920	837
OPBIDTA	9,707	15,413	16,461	17,972
Less :- Depreciation & Amortization	1,175	1,494	1,711	1,911
<b>EBIT</b>	<b>8,532</b>	<b>13,919</b>	<b>14,750</b>	<b>16,062</b>
Less:- Interest Expenses	3,789	4,513	4,563	4,767
Less:- Exceptional item	1,066	589	0	0
<b>PBT</b>	<b>3,677</b>	<b>8,817</b>	<b>10,187</b>	<b>11,295</b>
Less :- Taxes	809	3,178	3,362	3,727
<b>Reported PAT</b>	<b>2,868</b>	<b>5,639</b>	<b>6,825</b>	<b>7,567</b>
<b>Adjusted PAT</b>	<b>3,934</b>	<b>6,228</b>	<b>6,825</b>	<b>7,567</b>
Balance Sheet (INR mn)	FY18	FY19	FY20E	FY21E
Share Capital	1,201	1,201	1,201	1,201
Reserves	41,215	46,367	51,590	58,073
<b>Net worth</b>	<b>42,416</b>	<b>47,568</b>	<b>52,791</b>	<b>59,274</b>
Borrowings	13,001	19,930	19,752	21,701
Deferred Tax (Net)	0	0	0	0
Other liabilities	1,394	1,297	1,819	1,913
<b>Total Liabilities</b>	<b>56,811</b>	<b>68,795</b>	<b>74,362</b>	<b>82,889</b>
Net Block	8,081	11,097	11,376	11,966
Add:- Capital work in progress	229	132	132	132
Investments	10,237	11,194	10,694	10,694
Cash & bank balances	659	2,990	502	597
Net Working Capital	27,384	33,210	42,361	50,253
Other Assets	10,221	10,174	9,298	9,248
<b>Total Assets</b>	<b>56,811</b>	<b>68,795</b>	<b>74,362</b>	<b>82,889</b>
Cash Flow Statement (INR mn)	FY18	FY19	FY20E	FY21E
Cash profit adjusted for non cash items	7,661	13,641	15,541	17,135
Add/Less:- Working Capital changes	(4,096)	(7,208)	(11,981)	(11,093)
Operating Cash Flow	3,565	6,432	3,560	6,042
Less:- Capex	3,069	4,412	1,990	2,500
Free Cash Flow	496	2,020	1,570	3,542
Investing Cash Flow	9	(1,455)	1,796	387
Financing Cash Flow	(941)	1,765	(5,854)	(3,834)
<b>Net change in Cash</b>	<b>(436)</b>	<b>2,331</b>	<b>(2,488)</b>	<b>95</b>
Ratio Analysis	FY18	FY19	FY20E	FY21E
<b>Income Statement Ratios (%)</b>				
Revenue Growth	(4.2)	59.8	10.0	10.3
EBITDA Growth	24.8	66.5	9.2	10.3
PAT Growth	27.2	96.6	21.0	10.9
EBITDA Margin	11.3	11.8	11.7	11.7
Net Margin	3.8	4.7	5.1	5.2
<b>Return &amp; Liquidity Ratios (%)</b>				
Net Debt/Equity (x)	0.0	0.0	0.4	0.4
ROE (%)	9.3	13.1	12.9	12.8
ROCE (%)	15.4	20.6	20.3	19.8
<b>Per Share data &amp; Valuation Ratios</b>				
Reported EPS (INR)	4.8	9.4	11.4	12.6
Adjusted EPS (INR)	6.5	10.4	11.4	12.6
EPS Growth (%)	27.2	96.6	21.0	10.9
DPS (INR)	0.4	1.5	1.5	1.5
Core P/E (x)	18.1	9.2	7.6	6.8
EV/EBITDA (x)	8.3	5.3	5.0	4.6
EV/Sales (x)	0.9	0.6	0.6	0.5
Price/Book (x)	1.4	1.2	1.1	1.0
Dividend Yield (%)	0.4	1.5	1.5	1.5

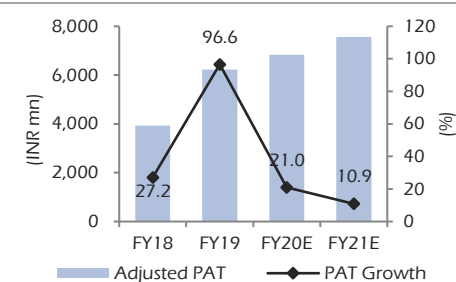
Note: pricing as on 10 June 2019; Source: Company, Elara Securities Estimate

## Revenue & margin growth trend



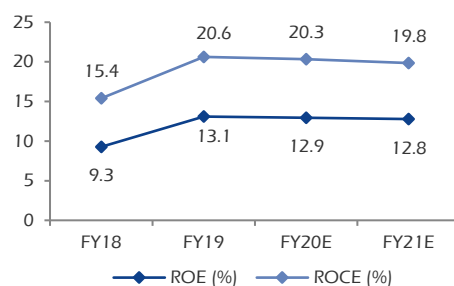
Source: Company, Elara Securities Estimate

## Adjusted net profit growth trend



Source: Company, Elara Securities Estimate

## Return ratios



Source: Company, Elara Securities Estimate

**Exhibit 1: Orderbook available for execution in FY20**

Particulars	(INR bn)
Closing orderbook as on 31 March 2019	413
Less: AP orders with 0% execution faces cancellation risk	61
<b>Revised orderbook available for execution in FY20</b>	<b>352</b>
Book-to-bill visibility (x)	2.9
<b>Key projects in revised orderbook</b>	
AP projects with 25-75% execution in progress	79
Mumbai Nagpur expressway project	29
NBCC - Nauroji Nagar project	21
<b>Total</b>	<b>129</b>
<b>Key projects as a % of revised orderbook (%)</b>	<b>37</b>

Source: Company, Elara Securities Research

**Site visit highlights**

**Mumbai-Nagpur Expressway – Package 3**

This is the company's biggest project in terms of value worth INR 29bn in the roads segment. NCC is executing package 3 awarded by Maharashtra State Road Development Corporation (MSRDC) for 73km in the Amravati district. This is the biggest package in the entire project alignment of 700km which has been divided into 16 packages, translating into NCC share of 10% in this marquee eight-lane Greenfield project for the state government. The project is funded by MSRDC through a consortium of banks and payment to contractors is on a monthly basis. Total value of the project for NCC is INR 29bn to be executed in 30 months (910 days) from the date of commencement on 25 January 2019. This big-ticket project further deepens the company's presence in Maharashtra's geography with other marquee projects under execution, including Mumbai metro line 7, Pune metro and Nagpur metro.

**Project progress and contribution over FY20-22**

The project is progressing as per schedule and has achieved physical progress of 7% and financial of 1% as on May 2019. A majority of land clearances are in place except 1.8km pending as on May 2019. The site is well mobilized with in-house execution with owned equipment & labor. The experienced project managers, which executed the Agra-Lucknow Expressway, are in-charge of this project. The entire project is divided into three sections for better monitoring and control. As per the site manager (name withheld) the project is expected to execute INR 12.2bn in FY20 (~43% project completion), INR 14.6bn in FY21 (~94% project completion) and INR 1.7bn in FY22 (100% project completion). Based on the speedy on-ground progress, the possibility of an early completion cannot be ruled out.

**Exhibit 2: Land filling in progress and in the next 2-3 months concreting of roads may start**



Source: Company, Elara Securities Research

**Exhibit 3: Preparation of bar bending schedule (BBS) for steel is needed in various structures**



Source: Company, Elara Securities Research

**Exhibit 4: Plant for pre-casting utility blocks**



Source: Company, Elara Securities Research

**Exhibit 5: Stone crusher**



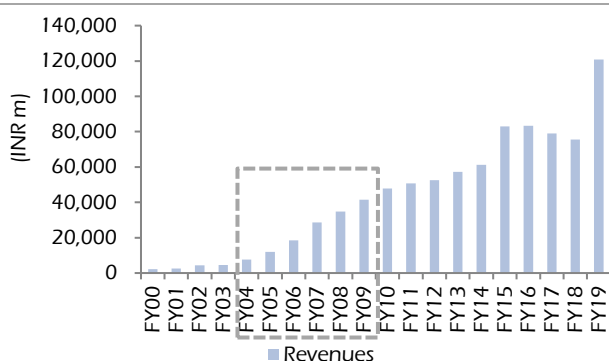
Source: Company, Elara Securities Research

## AP project cancellation is no dampener

### NCC performance during previous governments

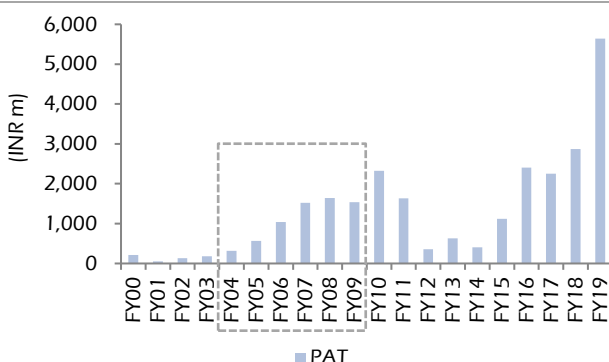
With four decades of experience, NCC, a Andhra Pradesh headquartered company with pan-India operations has worked with different governments and we believe risk of change in government is only short term and unlikely to affect its long-term prospects. We also checked the company's performance during the FY04-09 tenure of Andhra Pradesh Chief Minister R Rajasekhara Reddy (father of incumbent Andhra Pradesh Chief Minister YS Jagan Mohan Reddy).

#### Exhibit 6: Revenue CAGR of 40% over FY04-09



Source: Company, Elara Securities Research

#### Exhibit 7: PAT CAGR of 37% over FY04-09



Source: Company, Elara Securities Research

#### Exhibit 8: Key focus area of current AP government

##### Key highlights of YSRCP manifesto 2019

- Under the *Jalayagnam* scheme, work on irrigation projects
- Completion of the Polavaram project on a war footing
- Build 2.5mn houses for the poor
- Government hospitals to get a facelift

Source: YSRCP manifesto 2019, Elara Securities Research

## AP's new government cancels projects

Andhra Pradesh Chief Secretary LV Subramanyam has issued orders to all state departments on 29 May 2019 to cancel contracts where there has been no execution as on April 1, 2019. In instances where works are grounded but execution is less than 25%, they will be reviewed afresh but no payments would be made until fresh approvals are received from concerned authorities. Our channel checks suggest infrastructure projects worth ~INR 400bn could be cancelled due to this order.

#### Exhibit 9: Andhra Pradesh government order

**GOVERNMENT OF ANDHRA PRADESH  
FINANCE (FMU-WR.I) DEPARTMENT**

U.O.No.FIN01-FMUQASD(WR1)/80/2019 (Comp No:898809) Dated:29-05-2019

Sub: Finance Department – Certain instructions on continuation of works already sanctioned and clearing of bills – regarding.

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It is noted that number of engineering works were sanctioned earlier even by relaxation of FRBM norms resulting in huge burden on the state exchequer. There is also a case for thorough review of ongoing projects as priorities have not been followed. Thin spread of resources is proving to be financially unwise. It is, therefore, decided that all the Departments concerned will first halt works and do the following.

- Departments are advised to be prudent in this regard.
  - First, works sanctioned prior to 01-04-2019 but not grounded are cancelled
  - Works grounded but expenditure is less than 25% of originally estimated value shall be reviewed afresh. No payment will be done in this regard before obtaining orders afresh from appropriate authorities
- The Government desires to be regarded as "pro-poor with zero tolerance for corruption". Secretaries are requested to adhere to the above motto and clearly state that they have undertaken a thorough review of works and procedures in vogue. If Business Rules have been moderated or sacrificed, steps are to be initiated for obtaining orders from appropriate authorities afresh.
- The Director of Works Accounts is requested to issue instructions to all the Pay & Accounts Officers / Asst. Pay & Accounts officers to clear the bills subject to certifying the bills as per the above guidelines by the DDOs concerned. The Director, Treasures & Accounts and Pay and Accounts Officer shall take necessary action accordingly.

L.V.SUBRAHMANYAM,  
CHIEF SECRETARY TO GOVERNMENT

To  
All the Administrative Departments of Secretariat, A.P., Amaravati.  
All the Heads of Departments,  
The Director of Works and Accounts, Andhra Pradesh, Ibrahimpatnam,  
The Director of Treasuries & Accounts, A.P., Ibrahimpatnam,  
The Pay and Accounts Officer, A.P., Ibrahimpatnam.

Copy to:  
The P.S. to Chief Secretary to Government.  
All Officers in Finance Department.

//FORWARDED :: BY ORDER //

N. Sankha y.  
SECTION OFFICER

Source: AP government circular, Elara Securities Research

#### Exhibit 10: NCC AP project status

AP projects	(INR bn)	Status
<b>Total exposure</b>	<b>150</b>	<b>36% of FY19 orderbook of INR 413bn</b>
0% work done	61	Likely to be cancelled
0-25% work done	10	To be reviewed, could lead to rise in working capital due to delayed payment
25% + work done	79	Unlikely to be affected as it includes PMAY projects, which are Centre funded and also include Asian Development Bank (ADB) funded projects

Source: Company, Elara Securities Research

Our management interactions reveal the company as on date has not received an official communication from government departments on cancellation or stopping work on the projects.

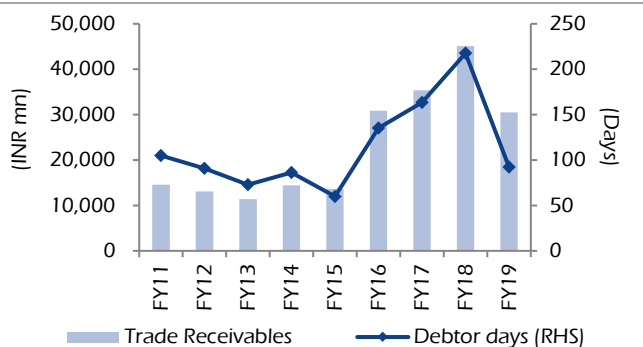
**Silver lining in the event of cancellation**

Termination of INR 61bn of projects (primarily drinking water sanitation projects) would reduce the company's AP exposure to 25% from 36%. It also would receive bank guarantees and security deposits given for projects cancelled. Also, the opportunity remains for participating in rebidding of contracts after careful selection of projects where funding is tied up. Balance orderbook of INR 352bn provides book-to-bill visibility of 3x, which is progressing well with an average execution cycle of 2.5 years.

**Not-so-bright side in the event of cancellation**

We believe the working capital cycle can elongate in the near term, owing to government review of the ongoing projects in AP, recovery of mobilization advances by clients on projects in advanced stages of execution and slowdown in receipt of new mobilization advances due to muted order inflows (no orders received in 1Q to date). Out of total receivables as on 31 March 2019 of INR 30bn, outstanding from AP projects is only ~10% and most collections for the ongoing projects happened in March 2019, leading to improvement in debtor days in FY19.

**Exhibit 11: Trade receivables improve in FY19**



Source: Company, Elara Securities Research

**A case in point**

At the start of FY19, stoppage of work on NBCC project valued at INR 21bn (7% of opening orderbook of FY19) did not queer execution of the company during the year and reported 60% revenue growth vs guidance of 45%. While the current risk of order cancellation is on 15% of opening orderbook of FY20 and guidance for current fiscal is YoY flat revenues.

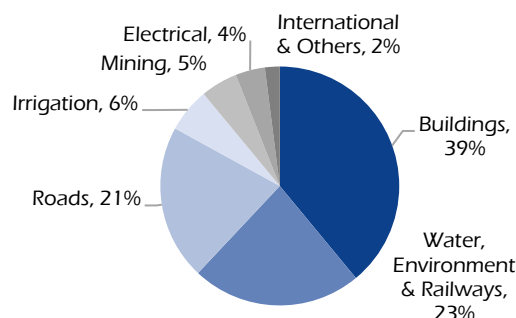
**Outlook positive, awaiting clarity**

**Key beneficiary of infrastructure spending**

NCC is the second-largest infrastructure company in terms of execution and has a diversified presence across 11 business segments with pan-India operations. With a stable government in place and expected pickup in new order awarding activity, we expect order inflows to be healthy. Management target is INR 150-160bn of fresh order intake in FY20. The strategy is with – 1) no bidding for HAM or BOT projects and only preference for EPC

projects, 2) prefer complex projects, which due to higher pre-qualification criterion keeps competitive intensity low and 3) careful selection of state government projects where funding is tied up.

**Exhibit 12: Orderbook across 11 business segments**



Note: as on 31 March 2019; Source: Company, Elara Securities Research

**Scope for improvement in revenue visibility**

The company is recently qualified to bid for City and Industrial Development Corporation of Maharashtra (CIDCO) affordable housing project worth INR 160bn to construct 80,000 homes. The project is divided into four packages of INR 40bn each and NCC is expected to participate in the bidding for one package this month. Also as per NBCC management, resolution on the Nauroji Nagar project is expected soon as the next hearing is on 11 July 2019 in Delhi High Court. If these materializes, it could help improve growth visibility vs guidance of flat execution and EBITDA margin in FY20.

**Maintain estimates while factoring in risks**

We retain our estimates over FY20-21. We expect a FY19-21E revenue CAGR of 10% and PAT CAGR of 16%. We reiterate **Buy** with a revised target price of INR 162 from INR 200 as we value the construction business at INR 151 based on 12x (from 15x) FY21E P/E to factor in risks & delays in arbitration process and value of investments in subsidiaries at INR 11 based on 0.5x (unchanged) FY21E P/B.

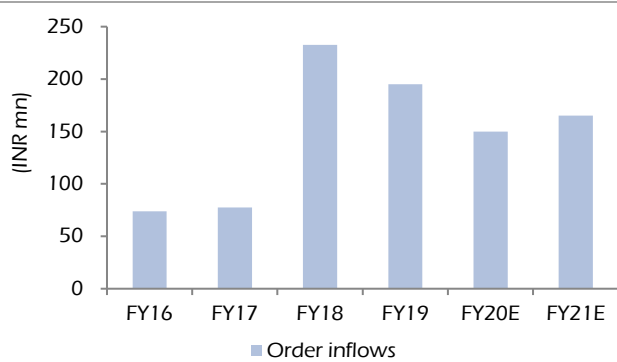
**Exhibit 13: Valuation**

(INR mn)	FY21E
<b>Construction</b>	
PAT	7,567
Target P/E (x)	12
Value of construction business (A)	90,808
<b>Subsidiaries</b>	
Investments	12,874
Target P/B (x)	0.5
Value of subsidiaries (B)	6,437
SOTP (A+B)	97,245
No of shares (mn)	601
<b>Target price (INR)</b>	<b>162</b>
Upside (%)	67

Note: pricing as on 10 June 2019; Source: Elara Securities Estimate

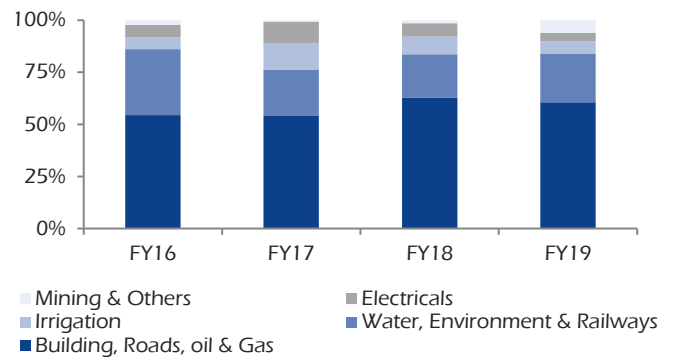
**On track**

**Exhibit 14: Healthy order inflows for past two years**



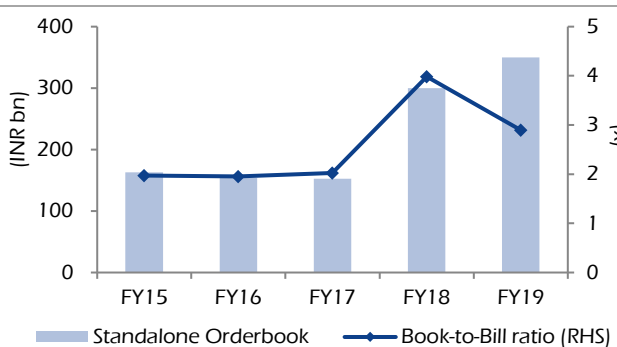
Note: FY19 inflows adjusted for potential order cancellation of INR 61bn; Source: Company, Elara Securities Estimate

**Exhibit 15: Focused orderbook on key segments**



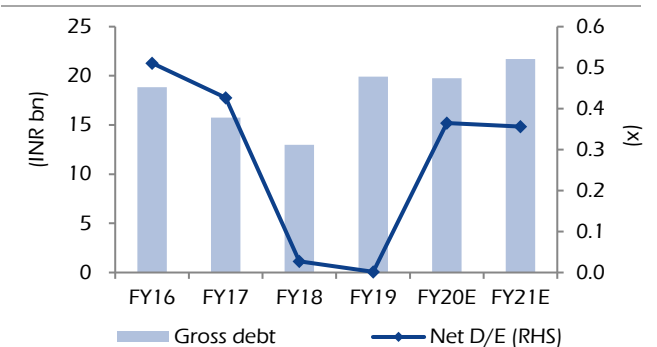
Source: Company, Elara Securities Research

**Exhibit 16: Adjusted orderbook provides healthy visibility**



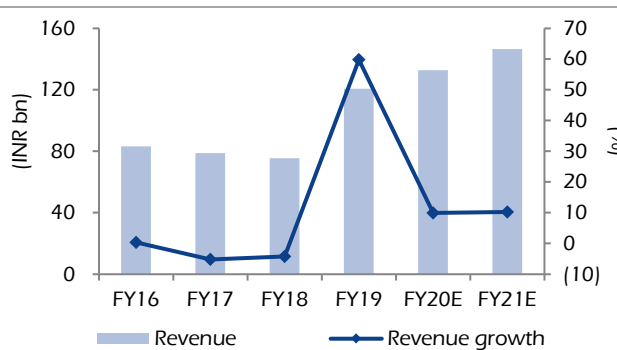
Note: FY19 orderbook adjusted for potential order cancellation of INR 61bn; Source: Company, Elara Securities Research

**Exhibit 17: Leverage to increase**



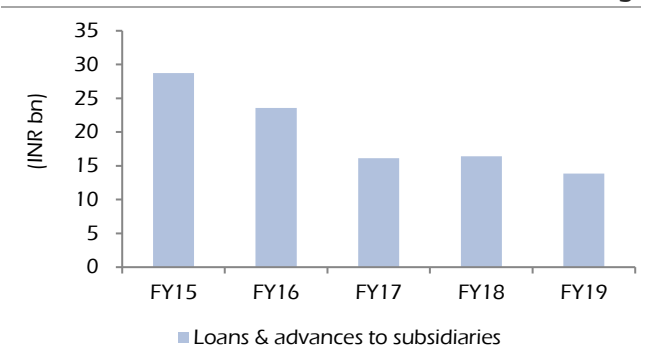
Source: Company, Elara Securities Estimate

**Exhibit 18: Execution CAGR of 10% over FY19-21E**



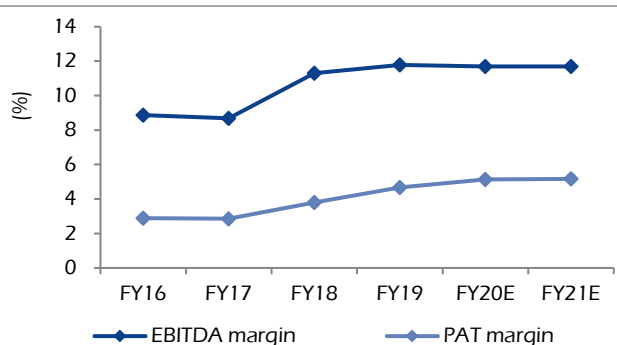
Source: Company, Elara Securities Estimate

**Exhibit 19: Loans & advances to subsidiaries declining**



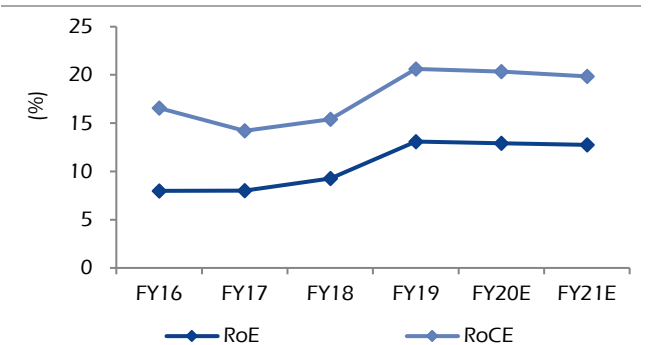
Source: Company, Elara Securities Research

**Exhibit 20: Sustaining improvement in profitability**



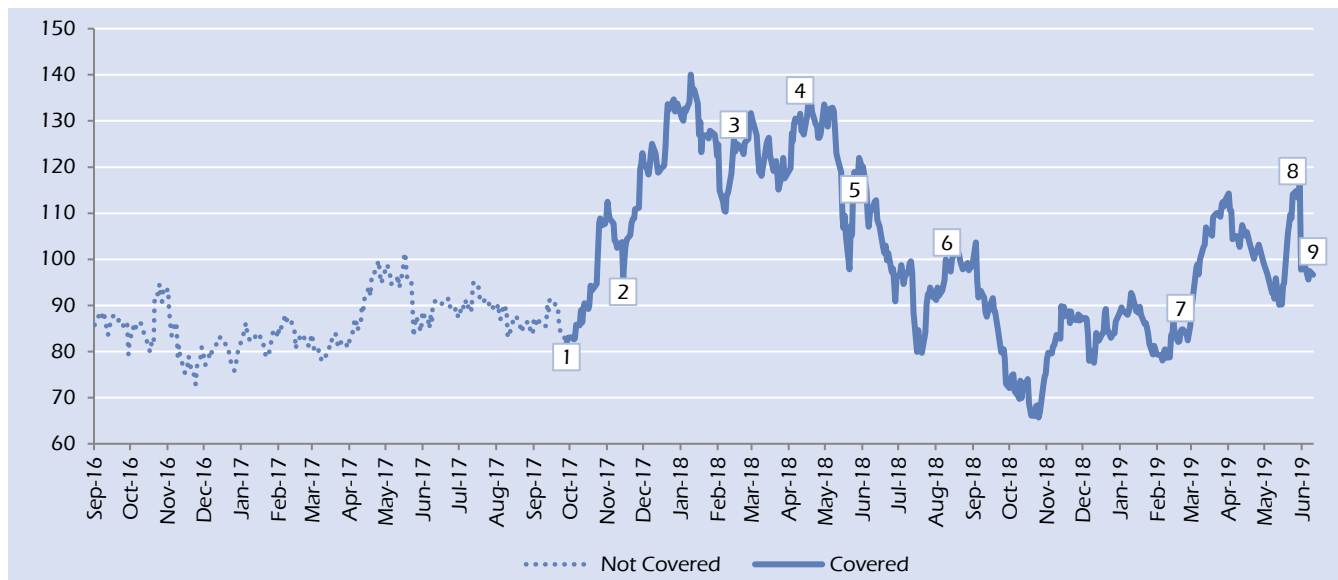
Source: Company, Elara Securities Estimate

**Exhibit 21: Improvement in return ratios in FY19**



Source: Company, Elara Securities Estimate

## Coverage History



	Date	Rating	Target Price	Closing Price
1	25-Sep-2017	Buy	INR 110	INR 84
2	14-Nov-2017	Buy	INR 116	INR 96
3	14-Feb-2018	Buy	INR 153	INR 126
4	10-Apr-2018	Buy	INR 164	INR 132
5	25-May-2018	Buy	INR 168	INR 119
6	10-Aug-2018	Buy	INR 140	INR 100
7	12-Feb-2019	Buy	INR 158	INR 88
8	24-May-2019	Buy	INR 200	INR 114
9	10-June-2019	Buy	INR 162	INR 97

## Guide to Research Rating

<b>BUY</b>	Absolute Return >+20%
<b>ACCUMULATE</b>	Absolute Return +5% to +20%
<b>REDUCE</b>	Absolute Return -5% to +5%
<b>SELL</b>	Absolute Return < -5%

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