

NCC Ltd (NAGCON)

₹ 94

Rating upgrade to result in interest cost saving

Credit ratings upgraded to 'IND A-'...

Recently, India Ratings & Research (Ind-Ra) has upgraded NCC's long term issuer rating to 'IND A-' from 'IND BBB+' and maintained a stable outlook. Going forward, this should help the company reduce the cost of borrowing leading to interest cost savings, which could improve its profitability. The blended borrowing cost for NCC as of Q3FY17 was at ~11.3% vs. 11.8% in Q2FY17. Also, the company expects to bring down its debt to ~₹ 1900 crore by FY17 end from ₹ 2042.7 crore in Q3FY17 with improvement in working capital and money to be received from its subsidiaries (₹ 90 - ₹ 100 crore).

Witnesses order inflows worth ₹ 9312 crore...

NCC has witnessed robust order inflows (OI) worth ₹ 9312 crore in 9MFY17 taking its orderbook to ~₹ 20466 crore (includes ₹ 3050 crore from MDO order). Further, the company is also L1 in orders worth ~₹ 3000 crore, including a patch of Lucknow-Ballia expressway worth ~₹ 2000 crore. Furthermore, NCC has been shortlisted among four players at the RFQ stage for one of the patches in the Pune Metro project. The total project cost for the Pune Metro project was at ₹ 11420 crore, which is being executed by Maha Metro (a Government of India and Maharashtra government JV). Besides this, with strong traction in the road space, NCC would look to bid for hybrid annuity projects as well. With strong opportunities across sectors, the management has guided for topline growth of ~10-12% and EBITDA margin in the range of 9.25-9.5% for FY18E. Consequently, we expect revenues, PAT to grow at 12.6%, 15.8% CAGR to ₹ 10303.4 crore, ₹ 323.2 crore, respectively, with EBITDA margin improving 40 bps to 9.3% over FY17E-19E.

Better placed to capture opportunities ahead; maintain BUY...

We like NCC given its better financial position compared to other players, which would allow it to capture strong opportunities in the infrastructure space, going ahead. Consequently, we expect its bottomline to grow at 15.8% CAGR to ₹ 323.2 crore over FY17E-19E. We maintained our **BUY** recommendation on the stock with a revised target price of ₹ 115/share. We value NCC's domestic construction business at ₹ 129/share (7.5x FY19E EV/EBITDA in line with historical average of Simplex Infrastructure that is also a pure EPC player and implies PE multiple of 15.9x FY19E EPS), international construction business at ₹ 6/share (10x FY19E PE) and the real estate business at ₹ 15/share (0.7x P/BV).

Exhibit 1: SOTP Valuation - NCC

Entity	Value (₹ crore)	Per share (₹)	Comment
Domestic Construction Business	7,197	129	7.5x FY19E EV/EBITDA
International Construction Business	311	6	10x FY19E PE
Investment in real estate	840	15	Value at 0.7x P/BV
Less: Net Debt	(2,060)	(37)	FY19E net debt
Fair Value		113	
Rounded off target price		115	

Source: Company, ICICIdirect.com Research

Rating matrix	
Rating	Buy
Target	₹ 115
Target Period	12-18 months
Potential Upside	22%

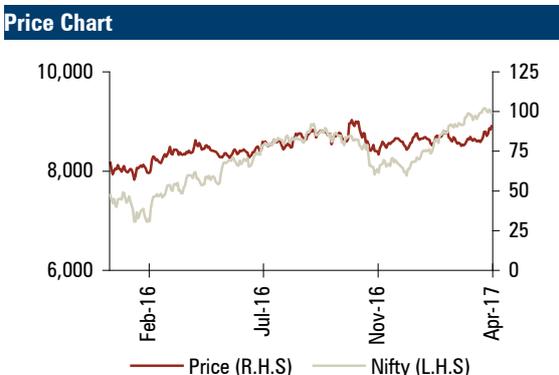
What's changed?	
Target	Changed from ₹ 100 to ₹ 115
EPS FY17E	Unchanged
EPS FY18E	Unchanged
EPS FY19E	Unchanged
Rating	Unchanged

Key financials				
(₹ Crore)	FY16E	FY17E	FY18E	FY19E
Net Sales	8,325.2	8,128.3	9,074.5	10,303.4
EBITDA	737.4	728.6	836.1	959.7
Net Profit	222.8	241.1	273.9	323.2
EPS (₹)	4.0	4.3	4.9	5.8

Valuation summary				
(x)	FY16E	FY17E	FY18E	FY19E
P/E	23.5	21.7	19.1	16.2
Target P/E	28.7	26.5	23.3	19.8
EV / EBITDA	9.3	9.8	8.7	7.6
P/BV	1.5	1.5	1.4	1.3
RoNW (%)	6.5	6.7	7.2	7.9
RoCE (%)	15.5	12.9	13.7	14.5

Stock data	
Particular	Amount
Market Capitalization	5,225.8
Total Debt (₹ crore)	2,042.7
Cash (₹ crore)	85.9
EV (₹ crore)	7,182.6
52 week H/L (₹)	96 / 69
Equity capital	111.2
Face value	2.0

Price performance				
Return %	1M	3M	6M	12M
NCC	15.9	8.9	10.1	23.7
NBCC	4.9	(2.1)	4.4	37.1
Simplex Infra	36.5	30.7	10.7	53.3



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Financial summary

Profit and loss statement

₹ crore	FY16	FY17E	FY18E	FY19E
Net Sales	8,325.2	8,128.3	9,074.5	10,303.4
Other Income	196.5	117.9	106.1	95.5
Total revenues	8,521.7	8,246.2	9,180.6	10,398.9
Raw Material Expenses	3,900.9	3,722.8	4,133.4	4,682.9
Employee benefit expenses	301.1	346.8	387.1	439.6
Construction expenses	3,174.7	3,124.0	3,487.7	3,960.0
Other Expenses	211.1	206.1	230.1	261.3
Total operating expenses	7,587.8	7,399.7	8,238.4	9,343.8
EBITDA	737.4	728.6	836.1	959.7
Interest	507.6	394.5	416.9	441.7
Depreciation	110.0	114.1	122.6	131.1
PBT	296.0	334.9	402.8	482.4
Taxes	73.1	93.8	128.9	159.2
PAT	222.8	241.1	273.9	323.2
EPS	4.0	4.3	4.9	5.8

Source: Company, ICICIdirect.com Research

Balance sheet

₹ crore	FY16	FY17E	FY18E	FY19E
Equity Capital	111.2	111.2	111.2	111.2
Reserve and Surplus	3,297.6	3,473.6	3,698.2	3,963.2
Total Shareholders funds	3,408.8	3,584.8	3,809.4	4,074.4
Total Debt	1,883.6	2,058.6	2,158.6	2,258.6
Other Non-current Liabilities	49.7	49.7	49.7	49.7
Deferred Tax Liability	(20.8)	(20.8)	(20.8)	(20.8)
Source of Funds	5,321.3	5,672.3	5,996.9	6,361.9
Gross Block	1,255.1	1,342.1	1,442.1	1,542.1
Less: Accumulated Dep	639.1	793.8	916.4	1,047.4
Net Block	619.7	548.3	525.7	494.6
Capital WIP	7.6	7.6	7.6	7.6
Total Fixed Assets	627.4	555.9	533.4	502.3
Investments	1,031.3	1,031.3	1,031.3	1,031.3
Inventory	1,656.8	1,558.9	1,740.3	1,976.0
Sundry Debtors	1,324.5	1,670.2	1,814.9	1,976.0
Loans & Advances	2,847.5	3,059.1	3,344.1	3,647.1
Cash & Bank Balances	215.8	114.8	134.3	198.8
Other Current Assets	1,603.0	1,565.1	1,747.3	1,983.9
Total Current Assets	7,647.6	7,968.1	8,780.9	9,781.8
Trade Payable	2,122.9	2,004.2	2,237.6	2,540.6
Provisions	72.0	70.2	78.4	89.0
Other Current Liabilities	1,907.5	1,925.9	2,150.1	2,441.3
Total Current Liabilities	4,102.4	4,000.4	4,466.1	5,070.9
Net Current Assets	3,545.3	3,967.7	4,314.9	4,710.9
Application of Funds	5,321.3	5,672.3	5,996.9	6,361.9

Source: Company, ICICIdirect.com Research

Cash flow statement

₹ crore	FY16E	FY17E	FY18E	FY19E
Profit after Tax	222.8	241.1	273.9	323.2
Depreciation	110.0	114.1	122.6	131.1
Interest paid	507.6	394.5	416.9	441.7
Cash Flow before wc changes	759.1	789.0	887.8	1,055.2
Net Increase in Current Assets	(55.9)	(421.5)	-	-
Net Increase in Current Liabilities	(67.3)	(102.0)	-	-
Net cash flow from op. activities	50.5	(222.8)	14.4	122.7
(Purchase)/Sale of Fixed Assets	(97.2)	(42.6)	(100.0)	(100.0)
(Purchase)/Sale of Inv	125.5	-	-	-
Net cash flow from inv. activities	182.7	11.8	(45.5)	(100.0)
Proceeds from Secured Borrowings	(86.6)	175.0	100.0	100.0
Proceeds from Unsecured Borrowing	(25.0)	-	-	-
Net cash flow from fin. activities	(130.0)	109.9	50.7	41.8
Net Cash flow	103.1	(101.0)	19.5	64.5
Opening Cash	112.7	215.8	114.8	134.3
Closing Cash	215.8	114.8	134.3	198.8

Source: Company, ICICIdirect.com Research

Key ratios

₹ crore	FY16	FY17E	FY18E	FY19E
Per Share Data				
Reported EPS	4.0	4.3	4.9	5.8
Cash EPS	6.0	6.4	7.1	8.2
BVPS	61.3	64.5	68.5	73.3
Operating Ratios				
EBITDA / Net Sales	8.9	9.0	9.2	9.3
PAT / Net Sales	2.7	3.0	3.0	3.1
Return Ratios				
RoE	6.5	6.7	7.2	7.9
RoCE	15.5	12.9	13.7	14.5
RoIC	12.3	11.1	12.2	13.5
Valuation Ratios				
EV / EBITDA	9.3	9.8	8.7	7.6
P/E	23.5	21.7	19.1	16.2
EV / Net Sales	0.8	0.9	0.8	0.7
Market Cap / Sales	0.6	0.6	0.6	0.5
Price to Book Value	1.5	1.5	1.4	1.3
Turnover Ratios				
Asset turnover	1.6	1.4	1.5	1.6
Debtors Turnover Ratio	6.3	4.9	5.0	5.2
Creditors Turnover Ratio	3.9	4.1	4.1	4.1
Solvency Ratios				
Net Debt / Equity	0.5	0.5	0.5	0.5
Current Ratio	1.8	2.0	1.9	1.9
Quick Ratio	1.4	1.6	1.5	1.5

Source: Company, ICICIdirect.com Research

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Sell: -10% or more;



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