

KEY HIGHLIGHTS

1. RESULTS OVERVIEW:

- NCC Ltd Q1FY24 consolidated revenues came in at ₹4380 Cr, up by 31.89% YoY and up by % QoQ.
- Op Profit for Q1FY24 stood at ₹409 Cr, up by 33% YoY and down by 12% QoQ.
- Op margins for Q1FY24 came at 9.33% flat YoY and QoQ.
- Net profit for Q1FY24 stood at ₹184Cr up by 34% YoY and down by 9.35% QoQ.

2. MANAGEMENT COMMENTARY:

- The management is confident of achieving its revenue growth guidance of ~20% YoY in FY24 supported by execution of UP Jal Jeevan water project and other projects.
- The company is expecting revenue of ₹5,800-₹6,000 crore from Jal Jeevan project in FY24.
- It expects more than ₹20,000 crore of order inflows during FY24.
- The company expects some improvement in EBITDA and PAT margins going ahead.
- It maintained its capital expenditure guidance of ₹275 crore in FY24.

3. CONCALL SUMMARY

- The company secured orders of ₹8,154 crore during the quarter, i.e., a growth of 83% YoY.
- As on 30th June 2023, the total order book stood at ₹54,110 crore.
- During the quarter, the company witnessed some softening in its input prices.
- During the quarter, the biggest order in the order book, i.e., 'UP Jal Jeevan Water Project' of ₹16,500 crore picked-up pace. The company recognized revenue of ₹1,200 crore during the quarter.

4. OTHER DEVELOPMENTS:

- In July month, the company received new orders of ₹1,919 crore.
- The mobilization advance increased from ₹2,755 crore to ₹3,322 crore during the quarter.
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5. VALUATION AND OUTLOOK:

We believe company will continue to post good results in the coming few quarters on the back of uptick in execution along with rising order inflow.

Management is confident regarding the 20% revenue growth in FY24 along with rise in PAT margins. Asset monetization is also on the cards which will positively impact the future cash flows and improve the balance sheet position.

We give a "BUY" rating on the stock and value the stock at 12x of FY25E earnings to arrive at a target price of Rs. 213

RECOMMENDATION - BUY

CMP – 165

TARGET – 213

UPSIDE – 29%

Industry	Engineering - Construction
NSE CODE	NCC
BSE CODE	500294
Market Cap (₹ Cr)	9923.12
Shares Outstanding (in Cr)	62.78
52 wk High/Low (₹)	176.6 / 68.7
P/E	15.19
P/BV	1.56
Face Value (₹)	2.00
Book Value (₹)	101.12
EPS (FY23) (₹)	9.70
Dividend Yield (%)	2.07
Debt / Equity	0.16
Interest Coverage	2.72

SHAREHOLDING PATTERN

	June-23	Mar-23	Dec-22
Promoters	22.00	22.00	21.99
MF/ DII	9.41	9.51	9.20
FII/FPI	22.46	19.96	15.76
Retail & Others	43.25	45.17	49.90
Promoter Pledging	0.00	3.34	5.45

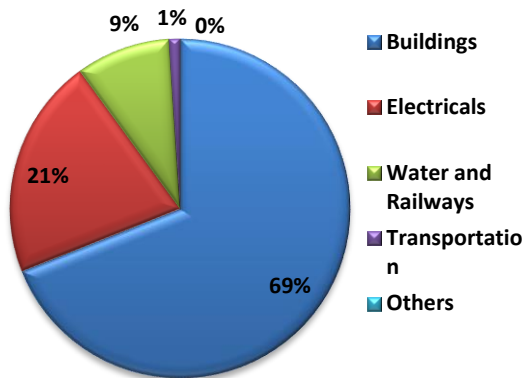
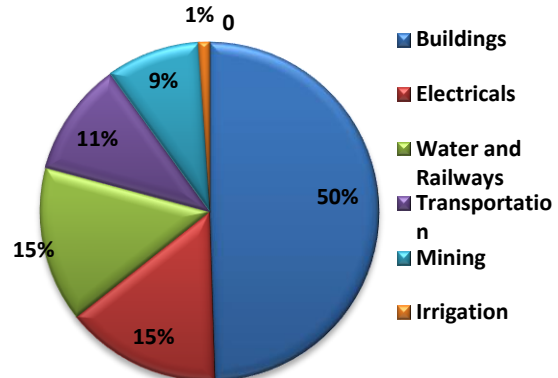
FINANCIAL SNAPSHOT (₹ Cr)

Y/E March	2023A	2024E	2025E
Crоре			
Sales	15553	18088	20317
Sales Gr. (%)	39.64	16.3	12.32
EBITDA	1459	1809	2133
EBITDA %	9	10	10.5
PAT	646	891	1108
EPS (₹)	10.28	14.18	17.75
EPS Gr. (%)	22.62	37.93	24.24
BV/Sh. (₹)	98.2	107	117
Ratios			
RoE (%)	9.99	14.44	16.5
RoCE (%)	18.7	22.40	26
Valuation			
P/E (x)	15.4	11.63	9.3
P/BV (x)	1.68	1.54	1.41

Historical & Industrial Val Ratios

Historical P/E	15.19
Industry P/E	36.23
Historical P/B	1.56
Industry P/B	4.03

Q1FY24 Order Inflow and Order Book composition

Order Inflow – Rs 8154 cr

Order Book – 54110 cr


QUARTERLY PERFORMANCE (CONSOLIDATED)

(₹ Cr)

Y/E March	FY22		FY23				FY24			FY24E*
	Q3	Q4	Q1	Q2	Q3	Q4	Q1	Q2E	FY23	
Net sales	3,015	3,477	3,321	3,373	3,910	4,949	4,380	4664	15553	18088
YoY change (%)	41.75%	23.46%	60.89%	30.68%	29.67%	42.32%	31.89%	38.27	39.64%	16.3
Total Expenditures	2,739	3,208	3,013	3,063	3,533	4,484	3,971	4221	14094	1628
EBITDA	276	269	308	310	376	465	409	443	1459	1809
Margins (%)	9%	8%	9%	9%	10%	9%	9%	9.5%	9%	10%
Depreciation	47	46	48	50	52	53	53	53	203	218
Interest	121	127	111	123	138	143	132	135	515	520
Other income	18	187	32	32	56	24	28	28	144	150
PBT	126	283	181	169	242	293	252	283	885	1221
Rate (%)	33%	17%	24%	19%	30%	31%	27%	27%	27%	27%
Adjusted PAT	84	234	137	138	168	203	184	207	646	891
EPS in Rs	1.25	3.97	2.09	2.09	2.51	3.04	2.76	3.28	9.70	14.18

Key Performance Indicators

RM cost (% of revenue)	28.9%	35.09%	38.3%	35.4%	30.8%	25.3%	36.5%	36%	32%	33%
Employee cost (% of revenue)	4.01%	3.50%	3.72%	4.05%	3.56%	2.95%	3.25%	3%	4%	3.5%
EBITDA Margins%	9%	8%	9%	9%	10%	9%	9%	9.5%	9%	10%
PAT Margins %	2.8%	6.7%	4.1%	4.1%	4.3%	4.1%	4.2%	4.4%	4.2%	4.9%

Source: Company, Hem Securities Research.

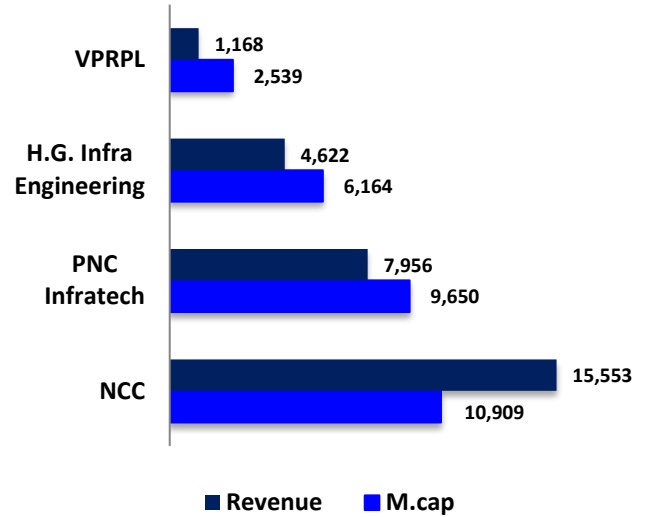
*Insights into the assumptions:

- We expect revenues to grow at a rate of 16-17% YoY
- Operating margins are expected to improve.

INDUSTRY OVERVIEW

- The Centre has budgeted for a strong capex of ` 10 lakh crore in FY24, 37% higher than the revised estimate for FY23. The Centre's capex (adjusted for defense capex) to GDP ratio is budgeted to rise to 2.7% in FY24 from 2.1% in FY23 and 1.1% in the pre-pandemic period of FY19.
- The AMRUT 2.0 envisages to provide tap water connection to every household and sewerage/ septage services in 500 cities at an outlay of ` 2.99 lakh crore. The timeline for this scheme is five years (FY22-26).
- Jal Jeevan Mission, to provide a Functional Household Tap Connection (FHTC) to every rural household in the country by FY24. The outlay for this scheme is ` 3.6 lakh crore between FY20-24.
- Capital outlay for Road Transport and Highways increased to ` 2.59 lakh crore in FY24.
- The outlay for Railways has been increased by 51% to ` 2.4 lakh crore in FY24.
- 50 additional airports, heliports, water aerodromes and advance landing grounds will be revived for improving regional air connectivity.
- 100 critical transport infrastructure projects, for last mile connectivity for ports, coal, steel, fertilizer, and food grains sectors have been identified and will be taken up on priority with investment of ` 75,000 crore, including ` 15,000 crore from private sources.

KEY PLAYERS



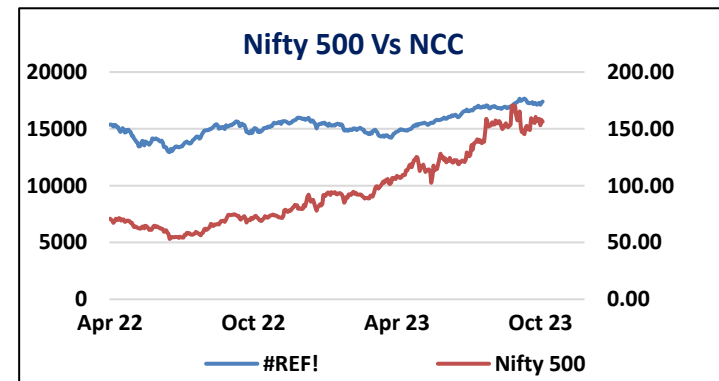
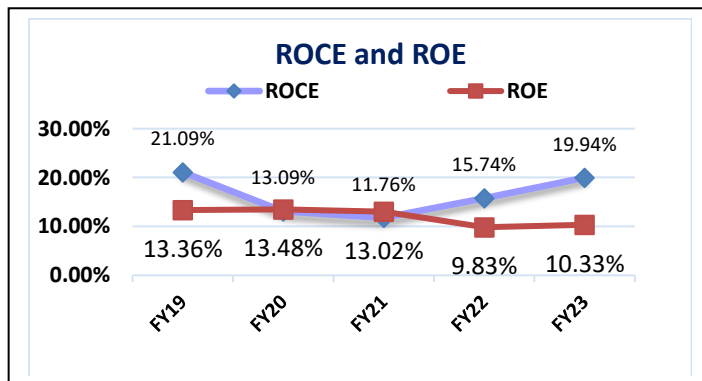
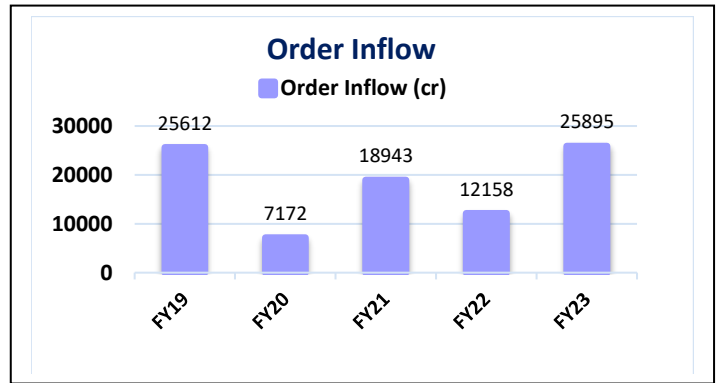
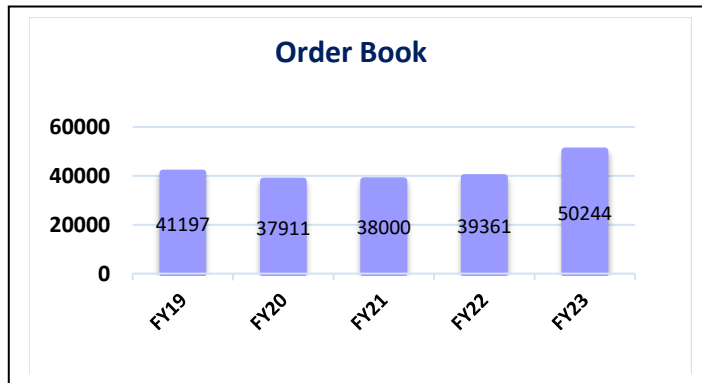
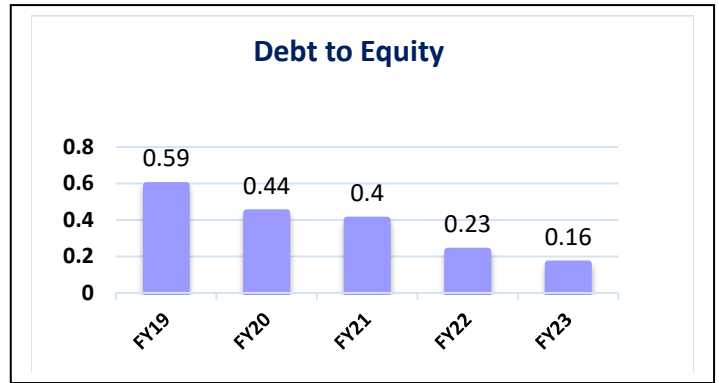
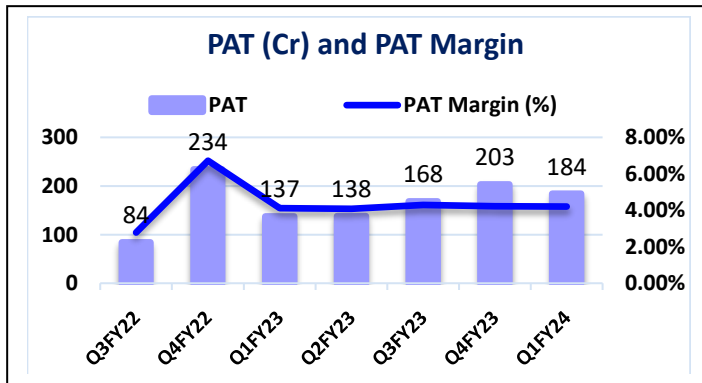
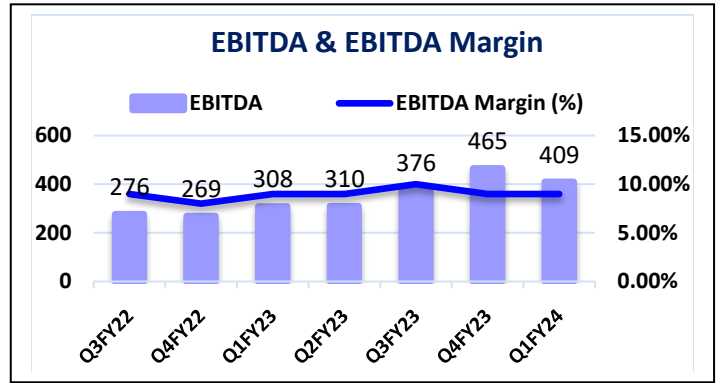
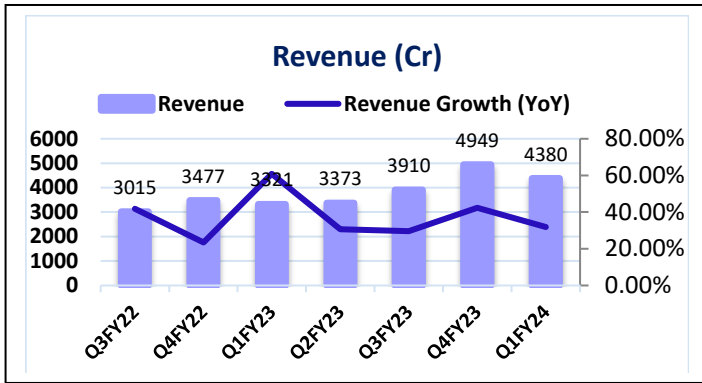
PEER PERFORMANCE

(₹ Cr)

Particulars	Peer Companies			
	NCC Ltd	PNC Infratech Ltd	Vishnu Prakash R Punglia Ltd	H.G. Infra Engineering Ltd
Market Cap	9,923.1	9,531.7	2,453.0	6,111.7
Net Sales	15,553.4	7,898.3	1,168.4	4,622.0
EBITDA	1,459.0	1,599.8	156.6	895.4
PAT	609.2	658.5	90.6	493.2
EPS(₹)	9.7	25.7	9.7	75.7
EBITDA MARGIN %	10.3	21.1	13.7	19.8
PAT MARGIN %	4.2	8.3	7.8	10.7
ROCE %	19.9	15.1	33.9	25.4
ROE %	11.0	16.6	38.3	29.4
P/E TTM	15.2	15.8	27.1	11.4
P/B TTM	1.6	2.1	3.8	2.9
MCap/ Sales TTM	1.4	0.1	-	0.1

Source: Company, Hem Securities Research.

STORY IN CHARTS





INVESTMENT RATIONALE:

- Company has guided for a 20% growth in revenue along with 50bps of PAT Margin expansion on the back of higher execution.
- Company has a well diversified order book. They are confident of achieving an order inflow of around 26000 crores.
- Company has started executing the UP Jal Jeevan water project of 16500 crores. The project contributed 30% to the overall topline in Q1FY24.
- With general elections next year, execution in infrastructure activities is expected to rise. Contract awarding activities will also witness uptick and this augurs well for the company.
- Company has shown good growth in last three years and has been growing at a revenue CAGR of 18%. The outlook looks promising as company looks to grow at a rate of 20% in FY24.
- Current order book of the company stands at 54100 crores. This order book is roughly 3.5x of FY23 revenues thus, providing multi-year revenue visibility.

RISK / NEGATIVE FACTORS:

- Economic slowdown.
- Competition in tendering activities.
- Volatility in input prices adversely impacts business profitability and sustainability.

COMPANY RECAP

- NCC is a Hyderabad-based construction company. It is engaged in the construction of roads, buildings, irrigation, water and environment, electrical, metals, mining and railways.
- Apart from executing projects across India, the company has a presence in the Middle East through its subsidiaries in Muscat and Dubai.
- NCC Limited has made a mark in the country as one of the largest listed construction companies in terms of revenue, with well diversified activities comprising buildings, transportation, water & environment, irrigation, electrical (T&D), mining and railways.
- The group has expanded its footprints to have a pan India presence with offices across 9 cities in Ahmedabad, Bengaluru, Chennai, Delhi, Lucknow, Mumbai, Pune, Kolkata, and Patna with headquarters located at Hyderabad.
- NCC Ltd is well-positioned with diversified execution capabilities, evident from the highest-ever order book achieved by the company. Currently, the orders on hand are valued at ` 50,244 crores, with an increase of ` 25,895 crores in FY 2023, showcasing a growth rate of 28%.
- The present Order Book containing more escalation projects which insulate against any escalation in the input prices.
- Company is focusing to enter the new verticals to clinch major orders as a part of Strategic Plan to maintain 20% growth year-on-year.
- The Company achieved a Revenue CAGR of 17% in the last 3 years and Company planning to continue sustainable growth.
- Key Person – Mr. Hemant M Nerukar (Chairman and Independent Director), Mr. A A V Ranga Raju (Managing Director), Mr. A V N Raju (Wholetime Director).

ANNUAL PERFORMANCE

Financials & Valuations

Income Statement

Y/E March	2019	2020	2021	2022	2023	2024E	2025E
Revenue from operations	12,896	8,901	7,949	11,138	15,553	18088	20317
Growth YoY (%)	53.69	-30.98	-10.69	40.11	39.64	16.3	12.32
Total Expenditure	11,296.47	7,813.85	7,030.34	10,114.16	14,094	16279	18184
(%) of sales	87.60	87.79	88.44	90.81	90.62	90	89.5
EBITDA	1,599.17	1,087.22	919.08	1,023.80	1,459	1809	2133
EBITDA Growth (%)	75.73	-30.36	-13.77	5.75	46.78	23.98	17.9
EBITDA Margin (%)	13.36	13.48	13.02	9.83	10.33	10	10.5
Depreciation	192.53	199.22	181.25	186.74	202.61	218	230
EBIT	1,416.29	940.76	842.43	1,112.75	1,400	1591	1903
EBIT Growth (%)	108.75	-33.58	-10.45	32.09	25.82	13.64	19.61
Net Interest Expenses	521.95	553.85	479.91	478.07	515.22	520	535
Other Income	124.33	113.01	115.91	70.72	147.59	150	150
Earnings before Taxes	894.34	386.91	362.52	634.68	884.85	1221	1518
EBT Margin (%)	6.94	4.35	4.56	5.70	5.69	6.75	7.47
Tax-Total	326.77	72.80	79.48	140.65	238.64	330	410
Rate of tax (%)	36.54	18.82	21.92	22.16	26.97	27	27
Net Profit	567.57	314.11	283.04	494.03	646.21	891	1108
PAT Growth (%)	309.12	-44.66	-9.89	74.54	30.80	37.92	24.35
PAT Margin (%)	4.40	3.53	3.56	4.44	4.15	4.92	5.45
EPS	9.63	5.52	4.40	7.91	10.5	14.27	17.75
EPS Growth (%)	243.17	-42.72	-20.27	79.80	22.66	37	24.24

Balance Sheet

Y/E March	2019	2020	2021	2022	2023
Share Capital	120	122	122	122	126
Reserves	4448	4784	5023	5454	6041
Net Worth	4568	4906	5145	5576	6167
Borrowings	2691	2181	2062	1302	974
Other Liabilities	7401	6724	6333	7579	9409
Total Liabilities & Equity	14660	13812	13540	14458	16550
Fixed Assets	1551	1413	1417	1443	1503
CWIP	13	15	22	7	22
Investments	475	448	440	346	352
Other Assets	12621	11935	11661	12662	14673
Total Assets	14660	13812	13540	14458	16550

Source: Company, Hem Securities Research.



Ratios					
Y/E March (Basic (INR))	2019	2020	2021	2022	2023
Profitability and return ratios					
Net profit margin (%)	7.74	9.03	10.64	9.91	7.58
EBITDA margin (%)	15.81	15.67	18.26	16.52	13.70
EBIT margin (%)	12.64	11.82	14.58	13.53	10.61
ROE (%)	15.72	15.48	17.29	19.21	15.60
ROCE (%)	23.27	18.78	22.23	24.79	20.26
Working Capital & liquidity ratios					
Payables (Days)	92.44	101.07	71.18	65.91	68.31
Inventory (Days)	48.42	59.70	55.67	39.63	41.17
Receivables (Days)	57.15	56.66	52.06	44.64	44.52
Current Ratio (x)	2.00	2.30	2.81	2.20	2.27
Valuations Ratios					
EV/sales (x)	3.13	2.10	5.16	4.29	3.79
EV/EBITDA (x)	19.81	13.39	27.09	24.92	26.53
P/E (x)	41.45	23.45	47.73	42.99	48.71
P/BV (x)	5.99	3.50	7.88	7.64	7.24
Dividend Yield (%)	0.51	0.80	1.08	1.08	0.85
Leverage Ratio					
Debt/Equity (x)	0.08	0.07	0.05	0.06	0.09

Cash Flow Statement					
Y/E March	2019	2020	2021	2022	2023
CF from Operating activities (A)	673	931	842	1416	1100
CF from Investing Activities (B)	-619	11	-207	-66	-192
CF from Financing Activities (C)	89	-1047	-558	-1275	-893
Net Cash Flow	143	-105	77	75	16
Add: Opening Bal.	76	219	114	191	267
Closing Balance	219	114	191	267	282

Source: Company, Hem Securities Research.

RATING CRITERIA

INVESTMENT RATING	EXPECTED RETURN
BUY	>=15%
ACCUMULATE	5% to 15%
HOLD	0 to 5%
REDUCE	-5% to 0
SELL	<-5%

RECOMMENDATION SUMMARY

DATE	RATING	TARGET
12th October	Buy	213

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Name of the Research Analyst: MUDIT JAIN

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10.	Research Analyst or HSL has been engaged in market making activity for the subject company(ies)	No

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