

Arbitration order ends a saga; INR 2bn cash inflow a positive

NCC has received arbitration order in the Sembcorp dispute which gives a net award of INR 2bn in its favour. Though the award amount is below management's expectations of INR 6-7bn it is nevertheless positive for the stock as no cash inflow expectations are built-into the stock price in our view. Following are the details:-

- NCC and Sembcorp (Indian arm of Singapore based utility) have been involved in an arbitration for many years in respect of delays in commissioning of Sembcorp's power plant in AP whose EPC was being done by NCC.
- NCC had raised claims of INR 14.5bn against Sembcorp (for unpaid dues and BG encashment) and Sembcorp had a counter claim of INR 10.7bn against NCC for delays in commissioning and loss of profits.
- The arbitration panel has allowed NCC's claims related to BG encashment and on some other counts including accrued interest. However it did not allow NCC's claim related to recovery of retention payments withheld by Sembcorp. The arbitration panel allowed Sembcorp's claim of LD against NCC besides allowing it to forfeit the retention money among other things.
- Overall, as against net receivables from Sembcorp of INR 6.1bn in NCC's books (net of provisions already made) NCC has been allowed consideration of INR 2bn.
- If Sembcorp challenges the award (90 days to decide), it will need to deposit INR 1bn (50% of the total amount) with the court, which can be drawn by NCC against a BG.
- NCC may also separately decide to pursue its claim of c.INR 3.5bn towards retention money withheld (without staying the implementation of the current order).
- **Implications:** Positive implication: At least, a partial vindication of NCC's stand on the matter and cash inflow of INR 2bn. Negative implication: Potential provision/write-off of up to INR 4bn of net receivables (Net receivables of INR 6.1bn - claims allowed of INR 2bn). This would be 6.3% of NCC had standalone network of INR 63.2bn as on Mar-23.
- **Stock not factoring any cash receipts from arbitration; cash inflow of INR 2bn a positive; Upgrade to BUY:** The prolonged arbitration with Sembcorp has been an overhang on the stock and an unrequired distraction which shadows the impressive turnaround in the company's operating performance. In our view the stock does not factor any expectation of cash inflow from this arbitration. Hence a cash inflow of INR 2bn, though lower than the management's expectation of INR 6-7bn, is still a positive. The potential write-off of up to INR 4bn (to be decided based on legal opinions received and view of auditors) will be a one-time impact and should marginally improve return ratios by removing unproductive capital from the balance sheet. In our view the arbitration outcome should be taken positively. Stock trades at 12.4x/11.1x FY24E/25E earnings and valuations have room to improve with the overhang over Sembcorp arbitration addressed. We upgrade to BUY with price target of INR 180 based on 14x Sept-25E core EPS.

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Recommendation and Price Target

Current Reco.	BUY
Previous Reco.	HOLD
Current Price Target (12M)	180
Upside/(Downside)	23.9%
Previous Price Target	155
Change	16.0%

Key Data – NJCC IN

Current Market Price	INR145
Market cap (bn)	INR91.3/US\$1.1
Free Float	78%
Shares in issue (mn)	609.9
Diluted share (mn)	627.9
3-mon avg daily val (mn)	INR837.5/US\$10.1
52-week range	177/66
Sensex/Nifty	67,839/20,192
INR/US\$	83.2

Price Performance

%	1M	6M	12M
Absolute	-7.3	42.9	105.3
Relative*	-11.3	22.1	78.1

* To the BSE Sensex

Financial Summary					(INR mn)
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E
Net Sales	99,300	133,513	160,216	184,248	208,200
Sales Growth (%)	36.9	34.5	20.0	15.0	13.0
EBITDA	9,961	13,425	16,558	19,010	21,106
EBITDA Margin (%)	10.0	10.1	10.3	10.3	10.1
Adjusted Net Profit	3,472	5,692	7,336	8,238	9,339
Diluted EPS (INR)	5.7	9.2	11.7	13.1	14.9
Diluted EPS Growth (%)	32.9	61.5	27.0	12.3	13.4
ROIC (%)	7.7	9.7	10.9	11.1	11.5
ROE (%)	6.2	9.4	11.0	11.2	11.5
P/E (x)	13.5	8.2	12.4	11.1	9.7
P/B (x)	0.8	0.7	1.3	1.2	1.1
EV/EBITDA (x)	5.3	3.8	6.0	5.3	4.7
Dividend Yield (%)	2.6	1.2	0.8	0.9	1.0

Source: Company data, JM Financial. Note: Valuations as of 15/Sep/2023

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Exhibit 1. Arbitration tribunal has passed award of INR 2bn in favour of NCC

Sembcorp arbitration details	INR mn
Claims filed by NCC	14,467
Counter-claims filed by Sembcorp	10,736
Net award to NCC	1,979
NCC's net receivables in books	6,062
Potential write-off in books	(4,084)

Source: Company, JM Financial

Exhibit 2. Key assumptions (standalone basis)

INR mn	FY21	FY22	FY23	FY24E	FY25E	FY26E
Order inflows	189,430	99,220	227,320	200,000	230,000	264,500
EBITDA Margins	11.8	10.0	10.1	10.3	10.3	10.1
NWC days*	222	153	119	125	125	125
Capex	2,068	1,744	3,760	2,750	3,250	3,500

Source: Company, JM Financial; *: ex-free cash & Loans & Advances to subsidiaries

Exhibit 3. NCC: Key indicators

	FY22	FY23	FY24E	FY25E	FY26E
Adjusted EPS	5.7	9.1	11.7	13.1	14.9
Core EPS (ex of other income)	4.4	7.5	10.2	11.6	13.5
Core P/E	17.7	10.0	14.3	12.5	10.7

Source: Company, JM Financial

Exhibit 4. SoTP based price target of INR 180

Business (INR mn)	Basis of valuation	Valuation driver	Equity value	Share (%)	INR/share
EPC business	14x Sept-25 Core PAT	7,886	110,404	100%	176
MDO business (51% share)	10x FY23 PAT	525	5250	51%	4
Target Price					180

Source: Company, JM Financial; *: Core PAT = [(PBT less of other income)*(1-tax rate)]

Financial Tables (Standalone)

Income Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Sales	99,300	133,513	160,216	184,248	208,200	
Sales Growth	36.9%	34.5%	20.0%	15.0%	13.0%	
Other Operating Income	0	0	0	0	0	
Total Revenue	99,300	133,513	160,216	184,248	208,200	
Cost of Goods Sold/Op. Exp	82,722	111,816	134,044	154,335	174,773	
Personnel Cost	4,291	5,204	6,089	6,850	7,741	
Other Expenses	2,326	3,068	3,525	4,053	4,580	
EBITDA	9,961	13,425	16,558	19,010	21,106	
EBITDA Margin	10.0%	10.1%	10.3%	10.3%	10.1%	
EBITDA Growth	16.6%	34.8%	23.3%	14.8%	11.0%	
Depn. & Amort.	1,823	1,998	2,279	2,504	2,757	
EBIT	8,138	11,427	14,279	16,506	18,349	
Other Income	1,082	1,523	1,277	1,261	1,151	
Finance Cost	4,596	5,100	5,753	6,759	7,020	
PBT before Excep. & Forex	4,624	7,850	9,803	11,008	12,481	
Excep. & Forex Inc./Loss(-)	0	0	0	0	0	
PBT	4,624	7,850	9,803	11,008	12,481	
Taxes	1,151	2,158	2,467	2,771	3,141	
Extraordinary Inc./Loss(-)	1,429	0	0	0	0	
Assoc. Profit/Min. Int.(-)	0	0	0	0	0	
Reported Net Profit	4,901	5,692	7,336	8,238	9,339	
Adjusted Net Profit	3,472	5,692	7,336	8,238	9,339	
Net Margin	3.5%	4.3%	4.6%	4.5%	4.5%	
Diluted Share Cap. (mn)	609.9	618.9	627.9	627.9	627.9	
Diluted EPS (INR)	5.7	9.2	11.7	13.1	14.9	
Diluted EPS Growth	32.9%	61.5%	27.0%	12.3%	13.4%	
Total Dividend + Tax	1,220	577	734	824	934	
Dividend Per Share (INR)	2.0	0.9	1.2	1.3	1.5	

Source: Company, JM Financial

Cash Flow Statement		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Profit before Tax	6,053	7,850	9,803	11,008	12,481	
Depn. & Amort.	1,823	1,998	2,279	2,504	2,757	
Net Interest Exp. / Inc. (-)	4,596	5,100	5,753	6,759	7,020	
Inc (-) / Dec in WCcap.	3,147	-1,058	-11,010	-7,933	-7,585	
Others	0	0	0	0	0	
Taxes Paid	-1,302	-2,158	-2,467	-2,771	-3,141	
Operating Cash Flow	14,317	11,732	4,357	9,567	11,532	
Capex	-1,744	-3,760	-2,750	-3,250	-3,500	
Free Cash Flow	12,573	7,972	1,607	6,317	8,032	
Inc (-) / Dec in Investments	-149	483	0	0	1,000	
Others	411	103	0	0	0	
Investing Cash Flow	-1,482	-3,174	-2,750	-3,250	-2,500	
Inc / Dec (-) in Capital	266	36	0	0	0	
Dividend + Tax thereon	-1,220	-577	-734	-824	-934	
Inc / Dec (-) in Loans	-6,048	-2,045	5,500	2,000	0	
Others	-4,596	-5,100	-5,753	-6,759	-7,020	
Financing Cash Flow	-11,599	-7,687	-987	-5,582	-7,954	
Inc / Dec (-) in Cash	1,236	871	620	734	1,078	
Opening Cash Balance	4,349	5,585	6,456	7,077	7,811	
Closing Cash Balance	5,585	6,456	7,077	7,811	8,889	

Source: Company, JM Financial

Balance Sheet		(INR mn)				
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Shareholders' Fund	58,032	63,219	69,821	77,235	85,640	
Share Capital	1,220	1,256	1,256	1,256	1,256	
Reserves & Surplus	56,812	61,963	68,565	75,979	84,385	
Preference Share Capital	0	0	0	0	0	
Minority Interest	0	0	0	0	0	
Total Loans	11,841	9,796	15,296	17,296	17,296	
Def. Tax Liab. / Assets (-)	-541	-475	-475	-475	-475	
Total - Equity & Liab.	69,331	72,539	84,642	94,055	102,461	
Net Fixed Assets	12,313	14,075	14,546	15,293	16,036	
Gross Fixed Assets	25,325	29,008	31,758	35,008	38,508	
Intangible Assets	0	0	0	0	0	
Less: Depn. & Amort.	13,082	15,080	17,359	19,862	22,619	
Capital WIP	70	147	147	147	147	
Investments	8,934	8,745	8,745	8,745	8,745	
Current Assets	116,480	132,701	160,690	184,715	200,559	
Inventories	8,913	10,778	16,680	20,696	21,676	
Sundry Debtors	24,922	29,451	35,280	39,389	43,929	
Cash & Bank Balances	5,585	6,456	7,077	7,811	8,889	
Loans & Advances	4,011	3,717	3,717	3,717	2,717	
Other Current Assets	73,049	82,298	97,936	113,102	123,349	
Current Liab. & Prov.	68,397	82,982	99,340	114,698	122,880	
Current Liabilities	42,607	48,227	58,741	68,007	82,506	
Provisions & Others	25,790	34,755	40,600	46,691	40,373	
Net Current Assets	48,084	49,719	61,350	70,017	77,680	
Total - Assets	69,331	72,539	84,642	94,055	102,461	

Source: Company, JM Financial

Dupont Analysis						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
Net Margin	3.5%	4.3%	4.6%	4.5%	4.5%	
Asset Turnover (x)	1.4	1.9	2.0	2.1	2.1	
Leverage Factor (x)	1.3	1.2	1.2	1.2	1.2	
RoE	6.2%	9.4%	11.0%	11.2%	11.5%	

Key Ratios						
Y/E March	FY22A	FY23A	FY24E	FY25E	FY26E	
BV/Share (INR)	95.2	100.7	111.2	123.0	136.4	
ROIC	7.7%	9.7%	10.9%	11.1%	11.5%	
ROE	6.2%	9.4%	11.0%	11.2%	11.5%	
Net Debt/Equity (x)	0.1	0.1	0.1	0.1	0.1	
P/E (x)	13.5	8.2	12.4	11.1	9.7	
P/B (x)	0.8	0.7	1.3	1.2	1.1	
EV/EBITDA (x)	5.3	3.8	6.0	5.3	4.7	
EV/Sales (x)	0.5	0.4	0.6	0.5	0.5	
Debtor days	92	81	80	78	77	
Inventory days	33	29	38	41	38	
Creditor days	174	147	149	150	161	

Source: Company, JM Financial

History of Recommendation and Target Price

Date	Recommendation	Target Price	% Chg.
20-Jul-23	Hold	150	
14-Aug-23	Hold	155	3.2

Recommendation History



APPENDIX I

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