

Execution better, downgrade to Sell post recent run-up

NCC reported good set of results for 1QFY25 as despite being an election quarter, revenues increased by 23% YoY, 7% ahead of our estimates. Execution remained robust across multiple segments like buildings, JIM and electrical division. Order inflow was weak during the quarter at just Rs4bn but guidance for FY25 remains same at Rs200-220bn. Management expects EBITDA margins of 9.5%-10% in FY25, slightly below historical levels, as the company would prioritize growth by securing large orders; we believe elevated competition will further exert pressure on margins. Post recent election verdict in Andhra, the management expects revival of multiple stalled projects and expects infra development to pick up substantially which will aid order accretion. We have tweaked our estimates to factor in better execution and slightly lower margins as our FY26 EPS estimate is higher by 6%. Our revised TP stands at Rs280 based on 13x (unchanged) FY26E EPS. Given the recent run-up in the stock, we downgrade the stock to Sell from Add.

1QFY25 result highlights

NCC reported good set of results for 1QFY25 as execution remained healthy with 23% YoY growth in revenue despite this being an election quarter. EBITDA at Rs4.4bn is up 15.5% YoY and 1.6% ahead of our estimate. EBITDA margins at 9.3% are down 60bps on YoY basis and 47bps below our expectation. PAT at Rs2bn is up 24% YoY and 4.5% ahead of our expectations. - he company received new orders worth Rs4bn (including change in scope) in this quarter and total OB stands at Rs526bn on consolidated basis. The board has approved Scheme of Arrangement for the Merger of NCC Infrastructure Holdings Limited (NCCIHL) (Wholly Owned Subsidiary) with NCC Limited.

Order inflow guidance of Rs200-220bn for FY25; EBITDA margin guidance of 9.5%-10%

NCC reported closing OB of Rs526bn in June 2024. Despite weak order inflow in 1QFY25, the management reiterated its guidance of Rs200-220bn of order inflow, 15% revenue growth and 9.5-10% margins for FY25. Major orders include 1) Smart meter projects (advanced metering infrastructure) in Maharashtra and Bihar, 2) Tunnel project in Mumbai (JV with J Kumar) and 3) JIM project in UP. Management highlighted that margins might slightly taper down to 9.5%-10% in FY25 as they would pursue growth via larger orders.

Valuation and outlook

We downgrade the stock to Sell from Add as we believe that recent uptick in stock price (up 44% in 6 months and 100% in 1 Year) factors in the growth potential adequately. We expect the company to maintain its execution momentum in near future, however, margins are expected to remain range bound. We are building in Revenue/PAT CAGR of 17%/23% over FY24-FY26E and expect margins to hover at 9.7% in FY26. We continue to value the stock at 13x FY26 EPS to arrive at our revised TP of Rs280 (Rs264 earlier).

Financial and valuation summary

| YE Mar (Rs mn) | 1QFY25A | 1QFY24A | YoY (%) | 4QFY24A | QoQ (%) | FY24A | FY25E | FY26E |
|-------------------|---------|---------|---------|---------|---------|----------|----------|----------|
| Revenues | 47,133 | 38,383 | 22.8 | 54,460 | (13.5) | 1,85,138 | 2,18,463 | 2,53,417 |
| EBITDA | 4,396 | 3,806 | 15.5 | 5,097 | (13.7) | 18,475 | 21,004 | 24,579 |
| EBITDA margin (%) | 9.3 | 9.9 | (5.9) | 9.4 | (0.3) | 10.0 | 9.6 | 9.7 |
| Adj. Net profit | 2,007 | 1,623 | 23.7 | 2,439 | (17.7) | 8,874 | 10,771 | 13,515 |
| Adj. EPS (Rs) | 3.2 | 2.6 | 23.7 | 3.9 | (17.7) | 14.1 | 17.2 | 21.5 |
| EPS growth (%) | | | | | | 55.9 | 21.4 | 25.5 |
| PE (x) | | | | | | 22.0 | 18.1 | 14.4 |
| EV/EBITDA (x) | | | | | | 10.5 | 9.5 | 8.0 |
| PBV (x) | | | | | | 2.9 | 2.5 | 2.2 |
| RoE (%) | | | | | | 13.5 | 14.8 | 16.1 |
| RoCE (%) | | | | | | 13.3 | 13.5 | 13.8 |

Source: Company, Centrum Broking

Result Update

India I Infrastructure

07 August, 2024

SELL

Price: Rs311

Target Price: Rs280

Forecast return: -10%

Institutional Research

Market Data

| | |
|-----------------------|-----------|
| Bloomberg: | NJCC IN |
| 52 week H/L: | 365/137 |
| Market cap: | Rs195.4bn |
| Shares Outstanding: | 627.8mn |
| Free float: | 64.4% |
| Avg. daily vol. 3mth: | 93,72,758 |

Source: Bloomberg

Changes in the report

| | |
|---------------|----------------------------|
| Rating: | Downgrade to Sell from Add |
| Target price: | +6% from Rs264 to Rs280 |
| EPS: | FY25: +7.5%; FY26: +6.0% |

Source: Centrum Broking

Shareholding pattern

| | Jun-24 | Mar-24 | Dec-23 | Sep-23 |
|--------------|--------|--------|--------|--------|
| Promoter | 22.0 | 22.0 | 22.0 | 22.0 |
| FIIs | 23.7 | 27.3 | 23.9 | 24.2 |
| DIIIs | 11.4 | 10.6 | 10.5 | 11.0 |
| Public/other | 43.0 | 40.0 | 43.6 | 42.8 |

Source: BSE

Centrum estimates vs Actual results

| YE Mar (Rs mn) | Centrum Q4FY24 | Actual Q4FY24 | Variance (%) |
|----------------|----------------|---------------|--------------|
| Revenue | 44,140 | 47,133 | 6.8 |
| EBITDA | 4,326 | 4,396 | 1.6 |
| EBITDA margin | 9.8 | 9.3 | (4.7) |
| Adj. PAT | 1,921 | 2,007 | 4.5 |

Source: Bloomberg, Centrum Broking



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Infrastructure

Thesis Snapshot

Estimate revision

| YE Mar (Rs mn) | FY25E New | FY25E Old | % chg | FY26E New | FY26E Old | % chg |
|------------------|-----------|-----------|-------|-----------|-----------|-------|
| Revenue | 2,18,463 | 2,12,909 | 2.6 | 2,53,417 | 2,44,845 | 3.5 |
| EBITDA | 21,004 | 20,778 | 1.1 | 24,579 | 25,087 | (2.0) |
| EBITDA margin | 9.6 | 9.8 | | 9.7 | 10.2 | |
| Adj. PAT | 10,771 | 10,017 | 7.5 | 13,515 | 12,753 | 6.0 |
| Diluted EPS (Rs) | 17.2 | 16.0 | 7.2 | 21.5 | 20.3 | 6.0 |

Source: Centrum Broking

NCC versus NIFTY Midcap 100

| | 1m | 6m | 1 year |
|------------------|-------|------|--------|
| NJCC IN | (4.9) | 44.9 | 104.9 |
| NIFTY Midcap 100 | (0.4) | 15.2 | 50.4 |

Source: Bloomberg, NSE

Key assumptions

| Y/E Mar | FY25E | FY26E |
|---------------------|----------|----------|
| Order inflows (Rsm) | 2,00,000 | 2,30,000 |
| EBITDA Margins | 9.6 | 9.7 |
| Capex (Rsm) | 3,601 | 4,100 |

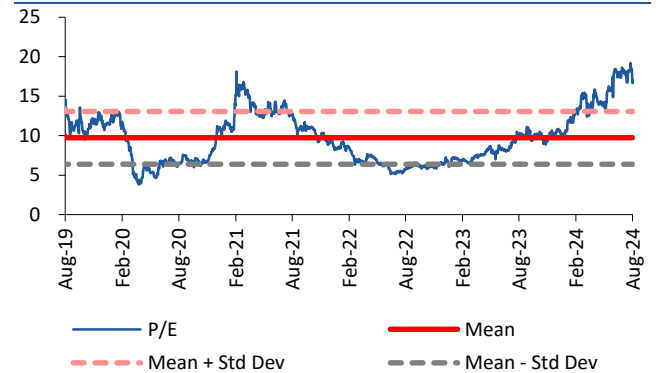
Source: Centrum Broking

Valuations

We are building in Revenue/PAT CAGR of 17%/23% over FY24-FY26E and expect margins to hover at 9.7% in FY26. We continue to value the stock at 13x FY26 EPS to arrive at our revised TP of Rs280 (Rs264 earlier).

| Particulars | Rs mn |
|--------------------------|------------|
| FY26E PAT | 13,515 |
| Target multiple | 13 |
| Equity value | 1,75,699 |
| No of shares (mn) | 628 |
| Target Price (Rs) | 280 |

P/E mean and standard deviation



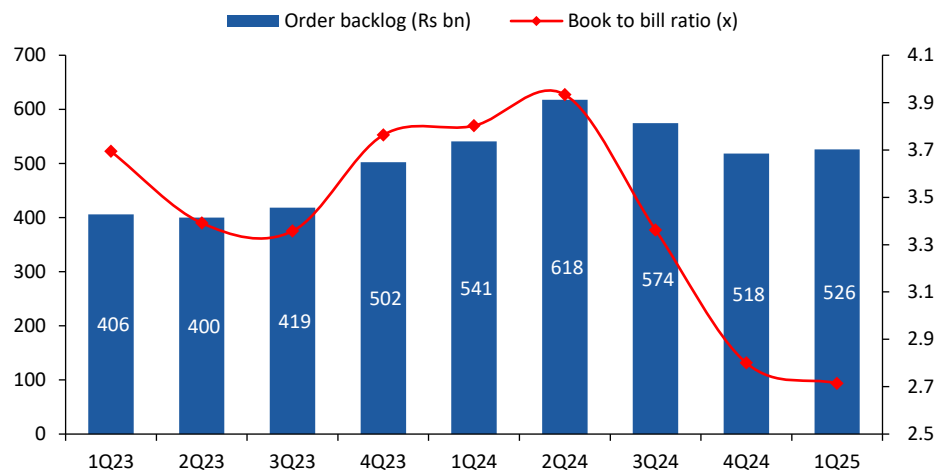
Source: Bloomberg, Centrum Broking

Exhibit 1: Detailed quarterly results (standalone)

| In Rsmn | 1Q24 | 4Q24 | 1Q25 | YoY | QoQ | FY23 | FY24 | YoY |
|----------------------|--------------|--------------|--------------|-------------|---------------|--------------|--------------|-------------|
| Net sales | 38,383 | 54,460 | 47,133 | 22.8 | (13.5) | 1,33,513 | 1,85,138 | 38.7 |
| EBIDTA | 3,806 | 5,097 | 4,396 | 15.5 | (13.7) | 13,425 | 18,475 | 37.6 |
| EBIDTA Margin (%) | 9.9% | 9.4% | 9.3% | -59bps | -3bps | 10.1% | 10.0% | -8bps |
| Other Income | 277 | 417 | 341 | 23.0 | (18.2) | 1,523 | 1,241 | (18.5) |
| Interest | 1,323 | 1,543 | 1,532 | 15.8 | (0.7) | 5,100 | 5,951 | 16.7 |
| Depreciation | 521 | 518 | 531 | 2.0 | 2.6 | 1,998 | 2,092 | 4.7 |
| PBT | 2,239 | 3,453 | 2,674 | 19.4 | (22.6) | 7,850 | 11,673 | 48.7 |
| Tax | 616 | 1,014 | 667 | 8.2 | (34.2) | 2,158 | 2,799 | 29.7 |
| Recurring PAT | 1,623 | 2,439 | 2,007 | 23.7 | (17.7) | 5,692 | 8,874 | 55.9 |
| Extra-ordinary items | - | (566) | - | | | - | (2,559) | |
| Reported PAT | 1,623 | 1,874 | 2,007 | 23.7 | 7.1 | 5,692 | 6,315 | 10.9 |

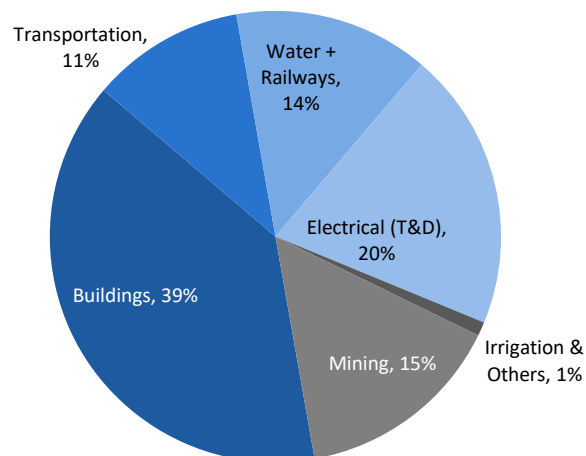
Source: Centrum Broking, Company Data

Exhibit 2: Robust Orderbook at Rs526bn



Source: Centrum Broking, Company Data

Exhibit 3: 1QFY25 Consolidated revenue - segmental breakup of Rs53bn



Source: Centrum Broking, Company Data

Exhibit 4: Valuation summary

| Particulars | Rs mn |
|--------------------------|--------------|
| FY26E PAT | 13,515 |
| Target multiple | 13 |
| Equity value | 1,75,699 |
| No of shares (mn) | 628 |
| Target Price (Rs) | 280 |

Source: Centrum Broking, Company Data

| P&L | | | | | |
|--------------------------------|---------------|-----------------|-----------------|-----------------|-----------------|
| YE Mar (Rs mn) | FY22A | FY23A | FY24A | FY25E | FY26E |
| Revenues | 99,300 | 1,33,513 | 1,85,138 | 2,18,463 | 2,53,417 |
| Operating Expense | 82,722 | 1,11,816 | 1,57,244 | 1,84,820 | 2,14,771 |
| Employee cost | 4,291 | 5,204 | 6,409 | 7,178 | 7,895 |
| Others | 2,326 | 3,068 | 3,010 | 5,462 | 6,172 |
| EBITDA | 9,961 | 13,425 | 18,475 | 21,004 | 24,579 |
| Depreciation & Amortisation | 1,823 | 1,998 | 2,092 | 2,431 | 2,712 |
| EBIT | 8,138 | 11,427 | 16,383 | 18,573 | 21,867 |
| Interest expenses | 4,596 | 5,100 | 5,951 | 5,356 | 4,820 |
| Other income | 1,082 | 1,523 | 1,241 | 1,182 | 1,022 |
| PBT | 4,624 | 7,850 | 11,673 | 14,400 | 18,069 |
| Taxes | 1,151 | 2,158 | 2,799 | 3,629 | 4,553 |
| Effective tax rate (%) | 24.9 | 27.5 | 24.0 | 25.2 | 25.2 |
| PAT | 3,472 | 5,692 | 8,874 | 10,771 | 13,515 |
| Minority/Associates | 0 | 0 | 0 | 0 | 0 |
| Recurring PAT | 3,472 | 5,692 | 8,874 | 10,771 | 13,515 |
| Extraordinary items | 1,429 | 0 | (2,559) | 0 | 0 |
| Reported PAT | 4,901 | 5,692 | 6,315 | 10,771 | 13,515 |
| Ratios | | | | | |
| YE Mar | FY22A | FY23A | FY24A | FY25E | FY26E |
| Growth (%) | | | | | |
| Revenue | 36.9 | 34.5 | 38.7 | 18.0 | 16.0 |
| EBITDA | 16.6 | 34.8 | 37.6 | 13.7 | 17.0 |
| Adj. EPS | 32.9 | 59.2 | 55.9 | 21.4 | 25.5 |
| Margins (%) | | | | | |
| Gross | 16.7 | 16.3 | 15.1 | 15.4 | 15.3 |
| EBITDA | 10.0 | 10.1 | 10.0 | 9.6 | 9.7 |
| EBIT | 8.2 | 8.6 | 8.8 | 8.5 | 8.6 |
| Adjusted PAT | 4.9 | 4.3 | 3.4 | 4.9 | 5.3 |
| Returns (%) | | | | | |
| ROE | 6.2 | 9.4 | 13.5 | 14.8 | 16.1 |
| ROCE | 7.9 | 9.8 | 13.3 | 13.5 | 13.8 |
| ROIC | 8.3 | 10.3 | 15.0 | 15.7 | 16.0 |
| Turnover (days) | | | | | |
| Gross block turnover ratio (x) | 3.9 | 5.1 | 6.0 | 6.4 | 6.6 |
| Debtors | 95 | 74 | 57 | 50 | 50 |
| Inventory | 33 | 34 | 32 | 34 | 36 |
| Creditors | 176 | 148 | 127 | 131 | 132 |
| Net working capital | 177 | 139 | 105 | 104 | 97 |
| Solvency (x) | | | | | |
| Net debt-equity | 0.1 | 0.1 | 0.0 | 0.0 | 0.0 |
| Interest coverage ratio | 2.2 | 2.6 | 3.1 | 3.9 | 5.1 |
| Net debt/EBITDA | 0.6 | 0.2 | 0.0 | 0.2 | 0.0 |
| Per share (Rs) | | | | | |
| Adjusted EPS | 5.7 | 9.1 | 14.1 | 17.2 | 21.5 |
| BVPS | 95.2 | 100.7 | 108.5 | 123.9 | 143.3 |
| CEPS | 8.7 | 12.2 | 17.5 | 21.0 | 25.8 |
| DPS | 2.0 | 1.1 | 1.3 | 1.7 | 2.2 |
| Dividend payout (%) | 24.9 | 12.1 | 12.9 | 10.0 | 10.0 |
| Valuation (x) | | | | | |
| P/E | 13.5 | 8.2 | 22.0 | 18.1 | 14.4 |
| P/BV | 0.8 | 0.7 | 2.9 | 2.5 | 2.2 |
| EV/EBITDA | 5.3 | 3.7 | 10.5 | 9.5 | 8.0 |
| Dividend yield (%) | 2.6 | 1.5 | 0.4 | 0.6 | 0.7 |

Source: Company, Centrum Broking

| Balance sheet | | | | | |
|--------------------------|---------------|---------------|---------------|---------------|---------------|
| YE Mar (Rs mn) | FY22A | FY23A | FY24A | FY25E | FY26E |
| Equity share capital | 1,220 | 1,256 | 1,256 | 1,256 | 1,256 |
| Reserves & surplus | 56,812 | 61,963 | 66,871 | 76,565 | 88,729 |
| Shareholders fund | 58,032 | 63,219 | 68,127 | 77,821 | 89,985 |
| Minority Interest | 0 | 0 | 0 | 0 | 0 |
| Total debt | 11,841 | 9,796 | 10,050 | 12,050 | 8,550 |
| Non Current Liabilities | 0 | 0 | 0 | 0 | 0 |
| Def tax liab. (net) | (541) | (475) | (587) | (587) | (587) |
| Total liabilities | 69,331 | 72,539 | 77,590 | 89,284 | 97,948 |
| Gross block | 25,325 | 26,298 | 30,662 | 34,162 | 38,162 |
| Less: acc. Depreciation | (13,082) | (13,447) | (17,291) | (19,722) | (22,434) |
| Net block | 12,243 | 12,851 | 13,371 | 14,440 | 15,728 |
| Capital WIP | 70 | 147 | 399 | 500 | 600 |
| Net fixed assets | 12,313 | 12,999 | 13,770 | 14,940 | 16,328 |
| Non Current Assets | 0 | 0 | 0 | 0 | 0 |
| Investments | 8,934 | 8,734 | 10,334 | 12,334 | 14,334 |
| Inventories | 8,913 | 11,855 | 15,414 | 19,153 | 23,606 |
| Sundry debtors | 24,922 | 29,451 | 27,911 | 31,722 | 38,186 |
| Cash & Cash Equivalents | 5,585 | 6,456 | 10,441 | 8,202 | 8,188 |
| Loans & advances | 4,011 | 3,717 | 3,688 | 2,388 | 1,388 |
| Other current assets | 73,049 | 82,309 | 91,216 | 1,13,093 | 1,26,453 |
| Trade payables | 42,607 | 48,227 | 61,170 | 71,765 | 83,228 |
| Other current liab. | 24,621 | 33,465 | 32,509 | 37,790 | 43,834 |
| Provisions | 1,169 | 1,290 | 1,504 | 2,993 | 3,471 |
| Net current assets | 48,084 | 50,807 | 53,487 | 62,010 | 67,286 |
| Total assets | 69,331 | 72,539 | 77,590 | 89,284 | 97,948 |

| Cashflow | | | | | |
|---------------------------------|-----------------|----------------|----------------|----------------|----------------|
| YE Mar (Rs mn) | FY22A | FY23A | FY24A | FY25E | FY26E |
| Profit Before Tax | 6,053 | 7,850 | 9,114 | 14,400 | 18,069 |
| Depreciation & Amortisation | 1,823 | 1,998 | 2,092 | 2,431 | 2,712 |
| Net Interest | 4,596 | 5,100 | 5,951 | 5,356 | 4,820 |
| Net Change – WC | 3,147 | (2,146) | 1,276 | (12,063) | (6,290) |
| Direct taxes | (1,302) | (2,158) | (2,799) | (3,629) | (4,553) |
| Net cash from operations | 14,317 | 10,644 | 15,634 | 6,495 | 14,757 |
| Capital expenditure | (1,744) | (2,684) | (2,864) | (3,601) | (4,100) |
| Acquisitions, net | 0 | 0 | 0 | 0 | 0 |
| Investments | (149) | 494 | (1,570) | (700) | (1,000) |
| Others | 411 | (614) | 0 | 0 | 0 |
| Net cash from investing | (1,482) | (2,804) | (4,434) | (4,301) | (5,100) |
| FCF | 12,835 | 7,840 | 11,200 | 2,194 | 9,657 |
| Issue of share capital | 266 | 866 | 0 | 0 | 0 |
| Increase/(decrease) in debt | (6,048) | (2,045) | 255 | 2,000 | (3,500) |
| Dividend paid | (1,220) | (691) | (816) | (1,077) | (1,352) |
| Interest paid | (4,596) | (5,100) | (5,951) | (5,356) | (4,820) |
| Others | 0 | 0 | 0 | 0 | 0 |
| Net cash from financing | (11,599) | (6,969) | (6,513) | (4,433) | (9,672) |
| Net change in Cash | 1,236 | 871 | 4,688 | (2,239) | (14) |

Source: Company, Centrum Broking

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Our ratings denote the following 12-month forecast returns:

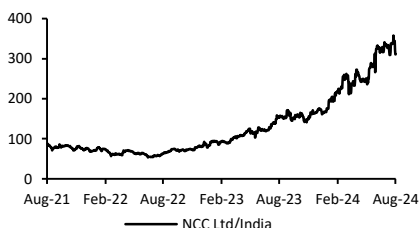
Buy – The stock is expected to return above 15%.

Add – The stock is expected to return 5-15%.

Reduce – The stock is expected to deliver -5--5% returns.

Sell – The stock is expected to deliver <-5% returns.

NCC Ltd



Source: Bloomberg

Disclosure of Interest Statement

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