

**NOT
RATED**
NCC

| Construction

| 25 July 2019

Management call takeaways – A tough FY20; better times ahead

We spoke with Y D Murthy, Executive Vice President – Finance, of NCC Ltd (NJCC) for an update on Andhra work orders. Following are the key takeaways:

New AP govt. cancels work orders: On 29 May, the Andhra Pradesh (AP) chief secretary ordered all state departments to cancel construction & engineering contracts issued by the previous government prior to 1 Apr 2019 where work was yet to commence (estimated at ~Rs 400bn). Also, projects with <25% execution will be reviewed afresh and no payments made sans approval from relevant authorities (these may be allowed to continue or move into rebid-reverse bids).

NJCC's ~40% AP exposure in jeopardy: NJCC's Mar'19 standalone order backlog of Rs 392bn includes ~Rs 158bn from AP. Of this: (i) ~Rs 61bn are new orders likely to be cancelled as work has not begun (cancellation letter received for ~Rs 20bn worth of projects), (ii) ~Rs 10bn of orders are <25% complete and hence stalled pending review by the authorities, (iii) the balance projects are >25% complete but also stuck due to payment/other issues.

The stalled works are mainly affordable housing projects under PMAY (~Rs 50bn), Amaravati capital city projects (~Rs 47bn) and irrigation works. Outstanding receivables from AP stand at ~Rs 7bn (Rs 54bn for FY19). NJCC expects clarity from the government in 2-3 months and estimates that revenue share from AP could halve to Rs 15bn-20bn in FY20 from ~Rs 45bn in FY19.

Non-AP govt. works progressing well: Execution of the balance order backlog of Rs 234bn (non-AP projects) is going smoothly. Management expects revenue of ~Rs 110bn from these contracts in FY20 vs. ~Rs 76bn in FY19. Also, the pace of execution on Mumbai-Nagpur Expressway has picked up and management pegs revenue at ~Rs 10bn/~Rs 12bn in FY20/FY21. The project is scheduled for completion in FY22 and could earn an early completion bonus.

FY20 guidance: NJCC has guided for revenue of Rs 125bn-130bn (incl. AP projects), EBITDA margins of 11.5% and order inflow of Rs 150bn-160bn.

Our view: We believe the company's working capital levels will get stretched due to delays in receivables from AP state projects, in turn pushing up leverage. Execution is likely to remain muted in FY20 but should revive in FY21 as more clarity emerges from the AP government. The stock is trading at 7x/6.1x FY20E/FY21E standalone EPS (consensus). We do not have a rating on NJCC.

Jiten Rushi

research@bobcaps.in

Ticker/Price	NJCC IN/Rs 75
Market cap	US\$ 656.5mn
Shares o/s	601mn
3M ADV	US\$ 17.7mn
52wk high/low	Rs 119/Rs 63
Promoter/FPI/DII	18%/21%/26%

Source: NSE | Price as on 24 Jul 2019

KEY FINANCIALS (STANDALONE)

Y/E 31 Mar	FY17A	FY18A	FY19A
Adj. PAT (Rs mn)	2,525	3,971	6,228
Adj. EPS (Rs)	4.5	7.0	10.4
Adj. EPS growth (%)	(13.5)	54.1	48.1
ROE (%)	7.5	10.3	13.8
P/E (x)	16.5	10.7	7.2
Core EV/EBITDA (x)	6.7	5.5	3.7

Source: Company, BOBCAPS Research

STOCK PERFORMANCE



Source: NSE



Disclaimer

Recommendations and Absolute returns (%) over 12 months

BUY – Expected return >+15%

ADD – Expected return from >+5% to +15%

REDUCE – Expected return from -5% to +5%

SELL – Expected return <-5%

Note: Recommendation structure changed with effect from 1 January 2018 (Hold rating discontinued and replaced by Add / Reduce)

Rating distribution

As of 30 June 2019, out of 76 rated stocks in the BOB Capital Markets Limited (BOBCAPS) coverage universe, 43 have BUY ratings, 15 are rated ADD, 10 are rated REDUCE and 8 are rated SELL. None of these companies have been investment banking clients in the last 12 months.

Analyst certification

The research analyst(s) authoring this report hereby certifies that (1) all of the views expressed in this research report accurately reflect his/her personal views about the subject company or companies and its or their securities, and (2) no part of his/her compensation was, is, or will be, directly or indirectly, related to the specific recommendation(s) or view(s) in this report. Analysts are not registered as research analysts by FINRA and are not associated persons of BOBCAPS.

General disclaimers

BOBCAPS is engaged in the business of Institutional Stock Broking and Investment Banking. BOBCAPS is a member of the National Stock Exchange of India Limited and BSE Limited and is also a SEBI-registered Category I Merchant Banker. BOBCAPS is a wholly owned subsidiary of Bank of Baroda which has its various subsidiaries engaged in the businesses of stock broking, lending, asset management, life insurance, health insurance, wealth management and portfolio management, among others.

BOBCAPS's activities have neither been suspended nor has it defaulted with any stock exchange authority with whom it has been registered in the last five years. BOBCAPS has not been debarred from doing business by any stock exchange or SEBI or any other authority. No disciplinary action has been taken by any regulatory authority against BOBCAPS affecting its equity research analysis activities.

BOBCAPS has obtained registration as a Research Entity under SEBI (Research Analysts) Regulations, 2014, having registration No.: INH000000040 valid till 03 February 2020. BOBCAPS is also a SEBI-registered intermediary for the broking business having SEBI Single Registration Certificate No.: INZ000159332 dated 20 November 2017.

BOBCAPS prohibits its analysts, persons reporting to analysts, and members of their households from maintaining a financial interest in the securities or derivatives of any companies that the analysts cover. Additionally, BOBCAPS prohibits its analysts and persons reporting to analysts from serving as an officer, director, or advisory board member of any companies that the analysts cover.

Our salespeople, traders, and other professionals may provide oral or written market commentary or trading strategies to our clients that reflect opinions contrary to the opinions expressed herein, and our proprietary trading and investing businesses may make investment decisions that are inconsistent with the recommendations expressed herein. In reviewing these materials, you should be aware that any or all of the foregoing, among other things, may give rise to real or potential conflicts of interest. Additionally, other important information regarding our relationships with the company or companies that are the subject of this material is provided herein.

This material should not be construed as an offer to sell or the solicitation of an offer to buy any security in any jurisdiction where such an offer or solicitation would be illegal. We are not soliciting any action based on this material. It is for the general information of BOBCAPS's clients. It does not constitute a personal recommendation or take into account the particular investment objectives, financial situations, or needs of individual clients. Before acting on any advice or recommendation in this material, clients should consider whether it is suitable for their particular circumstances and, if necessary, seek professional advice.

The price and value of the investments referred to in this material and the income from them may go down as well as up, and investors may realize losses on any investments. Past performance is not a guide for future performance, future returns are not guaranteed and a loss of original capital may occur. BOBCAPS does not provide tax advice to its clients, and all investors are strongly advised to consult with their tax advisers regarding any potential investment in certain transactions — including those involving futures, options, and other derivatives as well as non-investment-grade securities — that give rise to substantial risk and are not suitable for all investors. The material is based on information that we consider reliable, but we do not represent that it is accurate or complete, and it should not be relied on as such. Opinions expressed are our current opinions as of the date appearing on this material only. We endeavour to update on a reasonable basis the information discussed in this material, but regulatory, compliance, or other reasons may prevent us from doing so.

We and our affiliates, officers, directors, and employees, including persons involved in the preparation or issuance of this material, may from time to time have “long” or “short” positions in, act as principal in, and buy or sell the securities or derivatives thereof of companies mentioned herein and may from time to time add to or dispose of any such securities (or investment). We and our affiliates may act as market makers or assume an underwriting commitment in the securities of companies discussed in this document (or in related investments), may sell them to or buy them from customers on a principal basis, and may also perform or seek to perform investment banking or advisory services for or relating to these companies and may also be represented in the supervisory board or any other committee of these companies.

For the purpose of calculating whether BOBCAPS and its affiliates hold, beneficially own, or control, including the right to vote for directors, one per cent or more of the equity shares of the subject company, the holdings of the issuer of the research report is also included.

BOBCAPS and its non-US affiliates may, to the extent permissible under applicable laws, have acted on or used this research to the extent that it relates to non-US issuers, prior to or immediately following its publication. Foreign currency denominated securities are subject to fluctuations in exchange rates that could have an adverse effect on the value or price of or income derived from the investment. In addition, investors in securities such as ADRs, the value of which are influenced by foreign currencies, effectively assume currency risk. In addition, options involve risks and are not suitable for all investors. Please ensure that you have read and understood the Risk disclosure document before entering into any derivative transactions.

In the US, this material is only for Qualified Institutional Buyers as defined under rule 144(a) of the Securities Act, 1933. No part of this document may be distributed in Canada or used by private customers in the United Kingdom.

No part of this material may be (1) copied, photocopied, or duplicated in any form by any means or (2) redistributed without BOBCAPS's prior written consent.

Company-specific disclosures under SEBI (Research Analysts) Regulations, 2014

The research analyst(s) or his/her relatives do not have any material conflict of interest at the time of publication of this research report.

BOBCAPS or its research analyst(s) or his/her relatives do not have any financial interest in the subject company. BOBCAPS or its research analyst(s) or his/her relatives do not have actual/beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

The research analyst(s) has not received any compensation from the subject company in the past 12 months. Compensation of the research analyst(s) is not based on any specific merchant banking, investment banking or brokerage service transactions.

BOBCAPS or its research analyst(s) is not engaged in any market making activities for the subject company.

The research analyst(s) has not served as an officer, director or employee of the subject company.

BOBCAPS or its associates may have material conflict of interest at the time of publication of this research report.

BOBCAPS's associates may have financial interest in the subject company. BOBCAPS's associates may hold actual / beneficial ownership of one per cent or more securities in the subject company at the end of the month immediately preceding the date of publication of this report.

BOBCAPS or its associates may have managed or co-managed a public offering of securities for the subject company or may have been mandated by the subject company for any other assignment in the past 12 months.

BOBCAPS may have received compensation from the subject company in the past 12 months. BOBCAPS may from time to time solicit or perform investment banking services for the subject company. BOBCAPS or its associates may have received compensation from the subject company in the past 12 months for services in respect of managing or co-managing public offerings, corporate finance, investment banking or merchant banking, brokerage services or other advisory services in a merger or specific transaction. BOBCAPS or its associates may have received compensation for products or services other than investment banking or merchant banking or brokerage services from the subject company in the past 12 months.