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NCC

| Construction

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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.

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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%

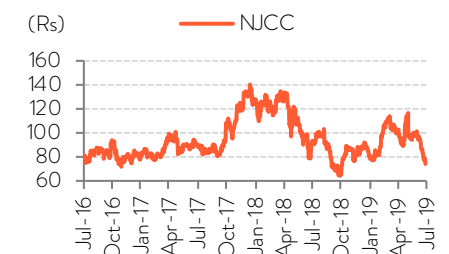
Source: NSE | Price as on 24 Jul 2019

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



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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)

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