

NCC Ltd.

₹ 87

Growing in Leaps & Bounds!**Buy**

Sep 16, 2016

Company Background

NCC Limited is engaged in the construction/project activities in the infrastructure sector. The Company is involved in the construction of industrial and commercial buildings, roads, bridges and flyovers, water supply and environment projects, housing, power transmission lines, irrigation and hydrothermal power projects and real estate development. Its geographic segments include Within India and Outside India. Its business divisions include buildings and housing, roads, electrical, water and environment, irrigation, railways, power, metals, mining and international. The Company also has a presence in the Middle East where it undertakes works in roads, buildings, and water segments. Its portfolio includes housing projects, shopping malls, hospitals, highways, project electrification, river intake works, water treatment plants, pumping stations, electromechanical works, lift irrigation schemes, sewage pumping stations and treatment plants, water pipelines and transportation of coal.

Key Highlights

- ➔ The opportunity landscape remains robust in roads, water and urban infrastructure. We expect good order inflows a glimpse of which is already seen in FY16 to continue even later. We anticipate substantial order booking on the back of strong set of opportunities emerging nationally.
- ➔ The Company is very focused on bringing down the finance cost. For this it working on two fronts. Number one is the debt reduction. The other important aspect is finance cost reduction. Whatever asset monetisation is taking place, bulk of it will go towards debt reduction and the company is expecting to reduce its debt by around Rs 200 crore and expects to bring down finance cost by Rs 90 crore in this fiscal.
- ➔ The government recently announced a package to revive the construction sector, putting in place a mechanism to release funds stuck in arbitration awards to revive stalled projects, and promised a scheme to address stressed loans in the sector. Under the new arrangement Government agencies would pay 75 per cent of the arbitral award amount to an escrow account against margin free bank guarantee in those cases where the award is challenged.

Key Financials

Year Ended 31 st	Mar 14	Mar 15	Mar 16
Revenue (INR mn)	62,708.3	84,920.1	85,216.6
Rev. growth (%)	7.18	35.42	0.35
EBITDA (INR mn)	5,967.9	5,583.9	8,444.2
Net profit (INR mn)	405.2	1,117.9	2,228.5
Shares outstanding (mn)	256.6	556.0	556.0
EPS (INR)	1.6	1.9	3.9
EPS growth (%)	(35.15)	24.52	101.55
P/E (x)	13.97	58.03	19.50
RONW (%)	1.38	3.28	6.74
ROCE (%)	9.21	13.67	15.11

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Info Codes

Reuters	: NCCL.BO
Bloomberg	: NJCC:IN
NSE	: NCC
BSE	: 500294

Market Data

52 Wk Range (₹)	: 56 / 90
Shares in Issue (mn)	: 556.0
Mkt. Cap (₹ bn)	: 48.73
BSE 2 Wk Avg Vol	: 1255000

Share Holding Pattern (%)

Promoters Holding	: 20.24
Corporate Holding	: 10.14
Domestic Institution	: 14.07
Foreign Institution	: 32.06
Public & Others	: 23.50

Investment Theme

On paper, current Government has set big target for investment in infrastructure. The total investment in infrastructure is proposed to be increased to more than 10.5% of GDP by the end of the plan period. However since the previous government was hit by a series of scams the decision making was largely stalled which could not be accelerated for the last two years or so even by the present Government. If even three-fourths of this planned investment is actually realised, it can propel India's economic growth back to a higher trajectory and, with it, significantly improve the fortunes of infrastructure Companies. After a great deal of stalling for all infra Co's, the current government approach and new policies seems to give new hope. We feel NCC would be among the few others whose results and profits would be highly altered in the next two years.

New Policies, Newer Hopes

Financial Statements

Income Statement

(₹ mn)

Year end	Mar 14	Mar 15	% Chg	Mar 16	% Chg
Net Sales	61,173.0	82,969.4	35.6	83,251.6	0.3
Other Income	1,535.3	1,950.7	27.1	1,965.0	0.7
Change in Stocks	2,593.6	1,029.1	(60.3)	(389.6)	(137.9)
Raw Material Con.	28,682.8	45,558.5	58.8	38,619.4	(15.2)
Employee Exp.	2,403.9	2,647.0	10.1	3,010.5	13.7
Indirect Taxes	0.0	0.0	#DIV/0!	0.0	#DIV/0!
Other Exp.	28,631.4	29,299.6	2.3	34,061.6	16.3
Operating Exp.	59,718.1	77,505.1	29.8	75,691.5	(2.3)
Operating Profit	5,583.8	8,444.1	51.2	9,135.5	8.2
Total Interest	4,659.9	5,735.6	23.1	5,076.0	(11.5)
Gross Profit	923.9	2,708.5	193.2	4,059.5	49.9
Net Dep.	895.0	1,118.2	24.9	1,099.6	(1.7)
Total Taxation	(376.3)	472.4	(225.5)	731.4	54.8
Net Profit/Loss	405.2	1,117.9	175.9	2,228.5	99.3

4 Years Balance Sheet

(₹ mn)

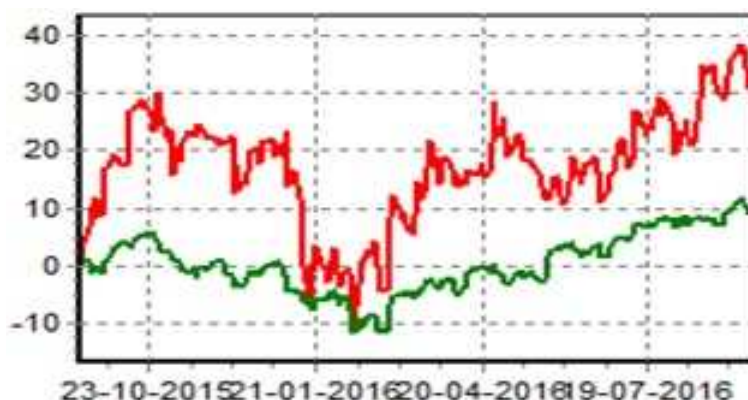
Balance Sheet as on 31 st	Mar 13	Mar 14	Mar 15	Mar 16
SOURCES OF FUNDS	47,650.4	50,778.1	52,741.1	53,649.4
Equity Share capital	513.2	513.2	1,111.9	1,111.9
Equity Application Money	0.0	0.0	0.0	0.0
Equity Share Warrants	0.0	0.0	0.0	0.0
Reserves & Surplus	24,167.2	24,689.6	30,932.4	32,976.4
Secured Loans	16,882.0	22,008.0	19,451.3	18,585.7
Unsecured Loans	6,088.0	3,567.3	1,245.5	975.4
USES OF FUNDS	47,650.4	50,778.1	52,741.1	53,649.4
Gross Block	11,073.1	11,548.8	12,020.7	12,681.9
Less : Revaluation Reserves	0.0	0.0	0.0	0.0
Less : Accumulated Depreciation	3,887.7	4,632.4	5,697.9	6,484.4
Net Block	7,185.4	6,916.4	6,322.8	6,197.5
Capital Work in Progress	61.2	103.6	78.5	76.4
Investments	12,536.3	11,643.1	11,567.8	10,313.1
Current Assets	56,782.7	68,859.8	73,487.5	75,421.0
Less : Current Liabilities	33,392.1	40,371.7	41,448.2	40,795.5
Total Net Current Assets	23,390.6	28,488.1	32,039.3	34,625.5
Misc. Expenses not writtenoff	4,476.9	3,626.9	2,732.7	2,436.9
NOTE				
Book Value of Unquoted Investments	12,536.3	11,643.1	11,567.8	10,313.1
Market Value of Quoted Investments	7.7	3.3	0.0	0.0
Contingent Liabilities	18,182.6	17,424.7	20,971.5	17,637.4
Dividend (%)	30.0	10.0	20.0	30.0

Quarterly Income Sheets

(₹ mn)

Quarter Ended	Sep 15	Dec 15	Mar 16	Jun 16
Net Sales	20,665.2	20,527.9	24,461.8	18,899.9
Cost Of Sales	19,120.2	18,686.4	22,633.7	17,354.0
Operating Profit	1,545.0	1,841.5	1,828.1	1,545.9
Other Income	814.6	427.3	574.4	397.7
Adjusted PBDIT	2,359.6	2,268.8	2,402.5	1,943.6
Financial Expenses	1,310.7	1,199.3	1,302.6	939.8
Depreciation	279.8	274.0	274.7	277.4
Other Write Offs	0.0	0.0	0.0	0.0
Adjusted PBT	769.1	795.5	825.2	726.4
Tax Charges	219.6	229.1	124.7	203.0
Reported Profit	549.5	566.4	700.5	523.4
Extra Ordinary Items	0.0	0.0	(172.5)	0.0
Other Non Cash Adjust	0.0	0.0	0.0	0.0
Adjusted Net Profit	549.5	566.4	873.0	523.4

52 Week Index Relative Percentage Appreciation



NCC vs SENSEX

Risks Associated

Though the Government has spurred its Planned Expenditure in the Infrastructure segment, Implementation of the same may still remains a big stumbling block for many of the projects. In fact, the critical segments of infrastructure including roads, railways and ports, have under-achieved their planned investment targets in the last 5 years on an average. The story of poor execution and delivery may get worse in the years to come. The status report of major central-sector projects shows that less than 10% are on schedule while most of them have been delayed with respect to their latest scheduled date of completion. Issues like delays in land acquisition, municipal permission, supply of materials, award of work and operational failures continued to drag down implementation of these projects. This is bundled with a severe problem of liquidity in both the Government share and the Private investment. These funding pressures have created a major cash crunch across the entire infrastructure development supply chain. Apart from the problem of liquidity, the sector is facing a major problem of lack of decision making. In light of the revelation of several scams in the last few years, there is an environment of mistrust within government agencies and the agencies have responded by freezing decision making to avoid taking any responsibility. Since much of the infrastructure space relies on the government or its agencies as direct developers or regulators, such inertia in decision making impacts implementation across projects. Though the scenario appears to be changing slowly however on a general note problems may still persist in the overall Infrastructure development atmosphere.

In a Nutshell

NCC is essentially an construction and engineering company well diversified into all segments of Infrastructure. Its building and Housing division caters to a portfolio of Industrial buildings, Commercial buildings, Housing projects, IT parks, Shopping malls, Sports complexes, Hospitals, Stadia, etc. Its road division has a record of executing large scale contracts within tight schedules in many countries. It also has many Indian Highways, Bridges and Flyovers to its credit. The Electrical division caters to Design, engineering, erection testing and commissioning of transmission lines and sub-stations as well as project electrification. In the field of Water & Environment it has created various Water supply projects for drinking water, comprising of water pipeline laying, Water treatment plants, etc. It also has to its credit erection of various Dams & Reservoirs, Canals, Spillways and even Hydroelectric power projects. The company is also active in the area of Railways, Power, Metals, Oil and Gas Projects and Mining. During the year ended FY16 the company has bettered its topline and significantly improved the margins. The EBDITA margin has improved to 8.8% in FY 16 compared to 7.8% in the previous year. More importantly the net profit (PAT) increased by 100% to Rs.222.8 crore. The company has reported an EPS of Rs.4.01 as against Rs.2.56 in the previous year. With the Government turning out a skew of measures in stalled projects and Infrastructure and Housing being the major part of Governments agends we expect the company to better these figures in years to come.

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Rating Interpretation

Buy : Expected to appreciate 20% or more over 12-months

Accumulate : Expected to appreciate 10% to 20% over 12-months

Trade Buy : Expected to appreciate more than 10% over 45-days

Reduce : Expected to depreciate up to 10% over 12-months

Sell : Expected to depreciate 10% or more over 12-months

Trade Sell : Expected to depreciate more than 10% over 45-days

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