

NCC LTD.

A Fundamental Story by Alok Daiya's Trading Desk

Report Date: 8/12/2020 Price: ₹60.60

Recommendation Date : 23/9/2020

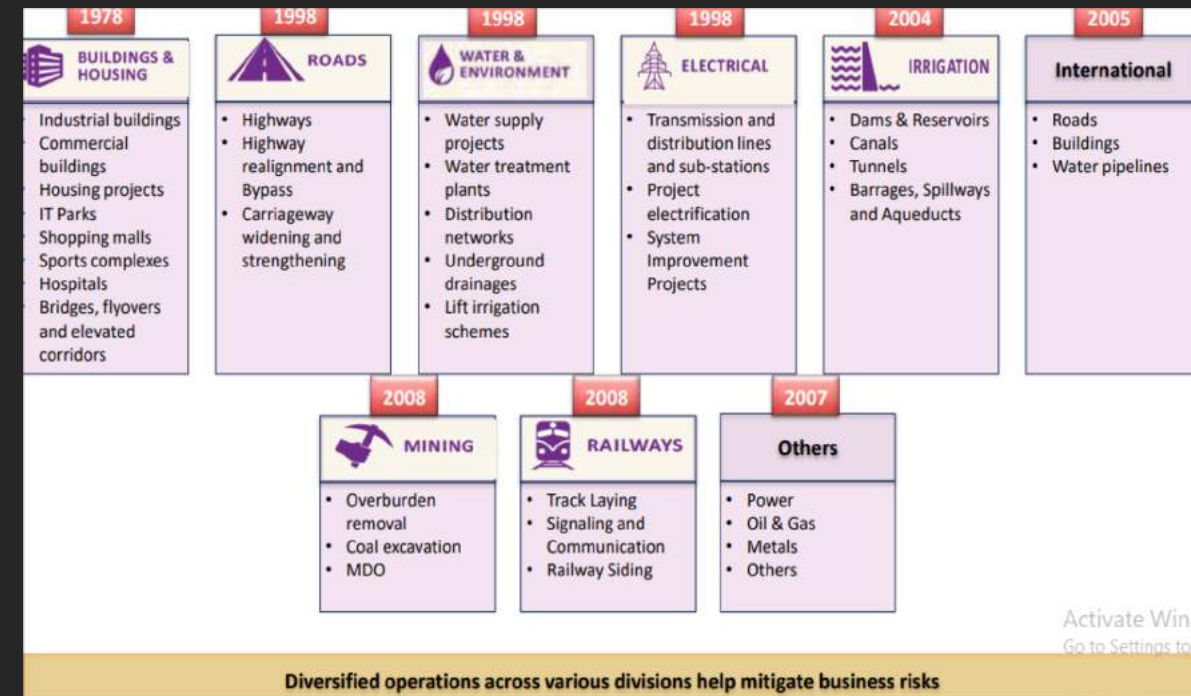


ABOUT THE COMPANY

- NCC Limited is an India-based company. NCC earlier known as Nagarjuna Construction Company incorporated in 1990 is engaged in development of real estate
- The Company is engaged in the infrastructure sector, primarily 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, real estate development, etc.
- The company was listed in 1992

OPERATIONS

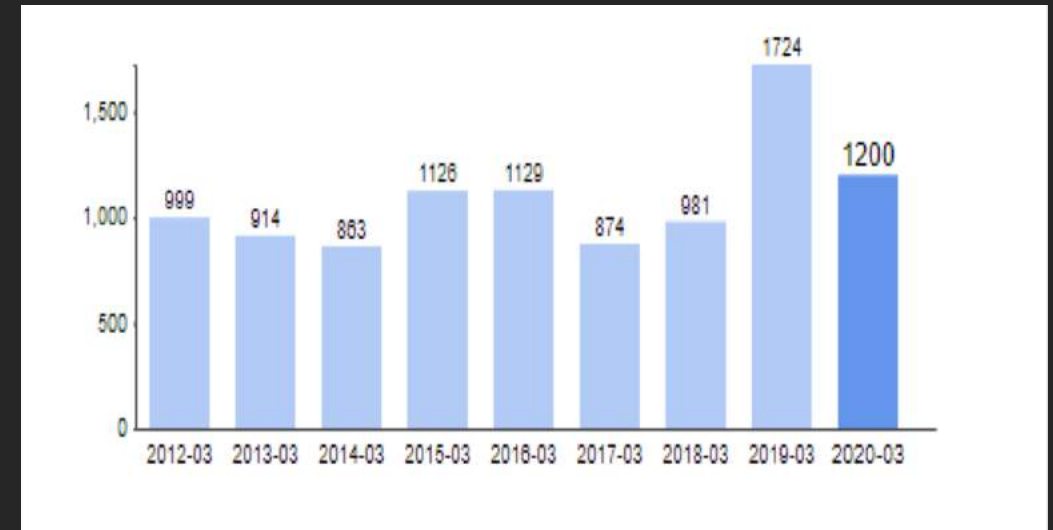
- NCC Ltd., incorporated in the year 1990, is a Mid Cap company (having a market cap of Rs 2729.06 Crore) operating in Construction sector
- As of March 31, 2012, the Company had 45 subsidiaries
- The Company subsidiaries operate in infrastructure development, real estate and urban infrastructure development and power
- The Company's international subsidiaries include NCC Infrastructure Holdings Limited, NCC Urban Infrastructure Limited, NCC Power Projects Limited and Himachal Sorang Power Limited



GROWTH

*EBITDA

- EBITDA margins have improved by 112bps in year 2019 mainly due to rise in share of higher-margin projects in Road, Water and Mining segments in revenue mix and receipt of arbitration awards (aggregating to Rs200mn in FY20)
- In Q1 FY21, EBITDA margin declined by 238bps YoY at 9.8% due to non absorption of fixed cost with lower volume of turnover
- However, in 2020, the EBITDA decreased because of high contractual and fuel costs both of which were 15-16% higher than the estimates

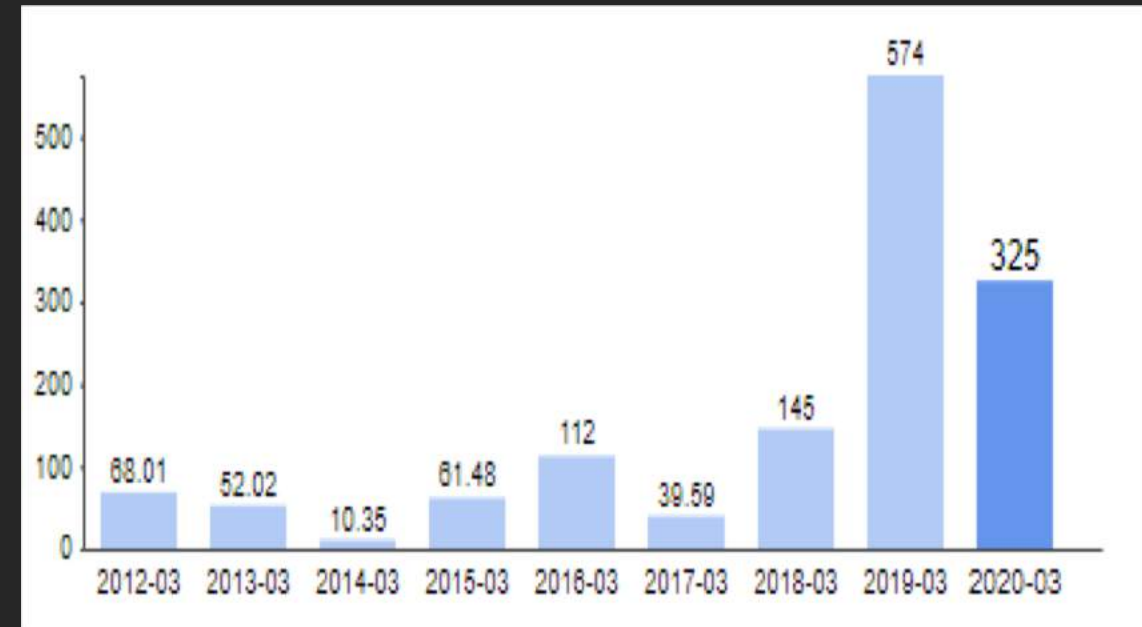


***EBITDA – Earnings before interest tax depreciation and amortization**

GROWTH

*PAT

- Net profit increased from 2017 to 2019 on account of higher revenue growth
- However, in 2020, PAT declined by 79% YoY due to lower volume of turnover and weak, less demand
- NCC Limited (NCC) has posted a lower profit of ₹58.41 crore for the second quarter ended September 30, 2020 as against a profit of ₹80.04 crore for the corresponding quarter of last fiscal on a standalone basis. The Covid lockdown phase has affected the business resulting in lower revenues and profit



*PAT – Profit After Tax

GROWTH POTENTIAL PARAMETER

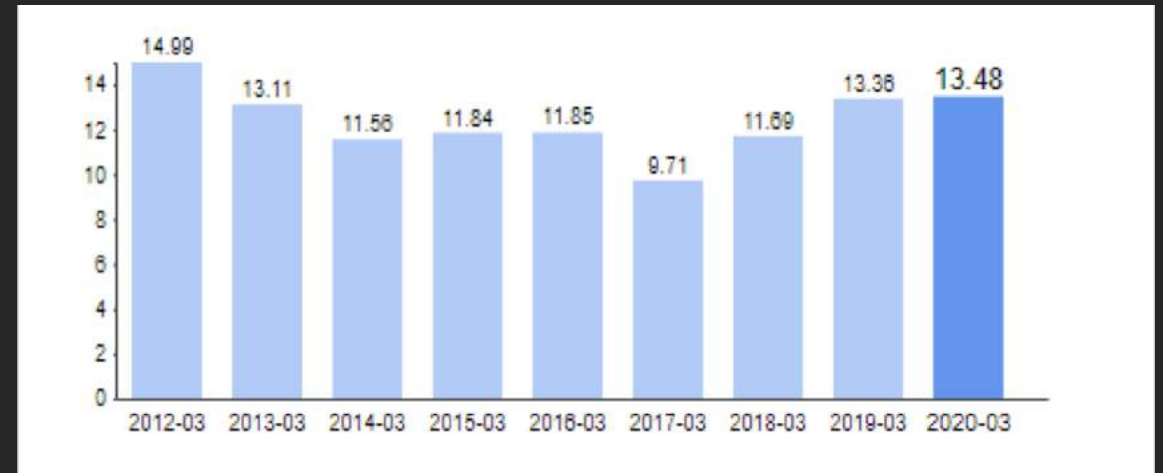
A POTENTIAL PARAMETER is a graded measurement of certain aspects of a company on a scale of 1 to 10, 10 denoting the highest rating. Since judgment on equity is subjective because different people will have different expectation from their investments, it is better to study each aspect and give an individual grading to arrive at the final evaluation of a stock.

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PROFITABILITY

EBITDA MARGIN

- EBITDA margin saw a significant increase in the year 2019 mainly because of a high jump in EBITDA which was a result of lower operating expenses and high revenue
- NCC posted decent quarterly performance as execution picked up and EBITDA margins emerged strong at 13.6%. With labor availability improving to ~80% pre-covid levels, efficiency levels have bounced back to 75-80% in Q2 FY21 vs 55-60% in Q1



EBITDA MARGIN

PROFITABILITY POTENTIAL PARAMETER

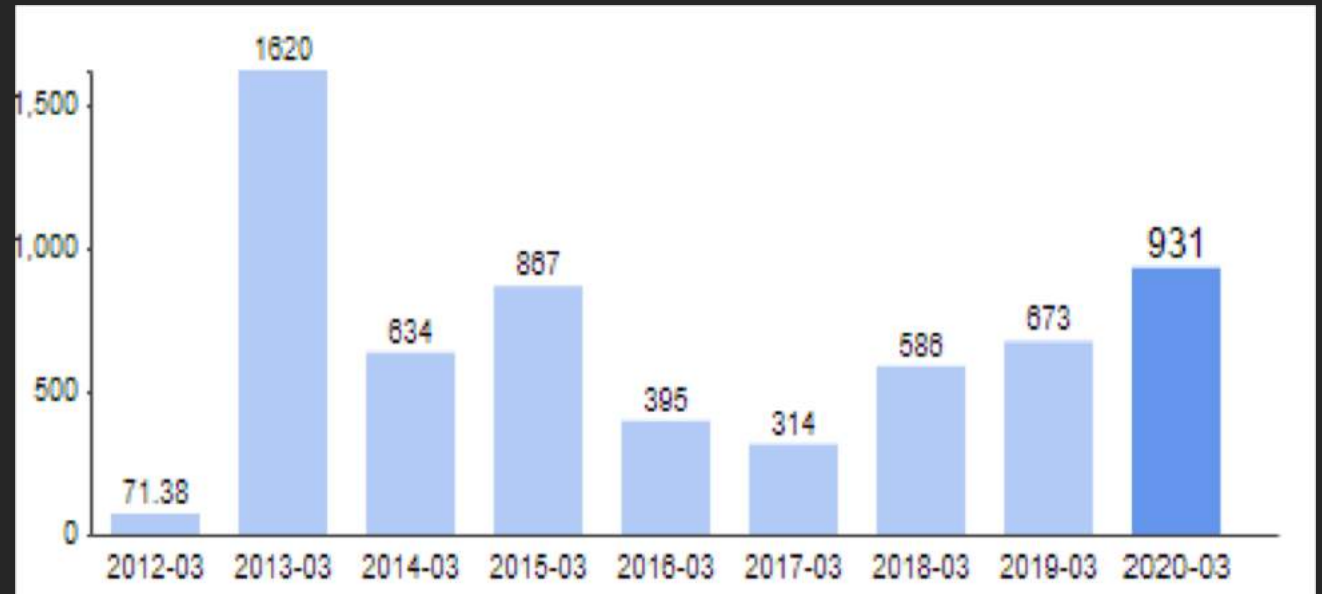
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EFFICIENCY

CASH FLOW

- The company has a good cash flow management. CFO is increasing from last 5 years which shows the company is managing its cash efficiently
- CFI has been on a declining trend. CFI decreased to an extent of 619Cr in the year 2019 majorly because the company was investing in its long-term health.
- CFF has been negative for the company which indicates that the company has been paying out capital

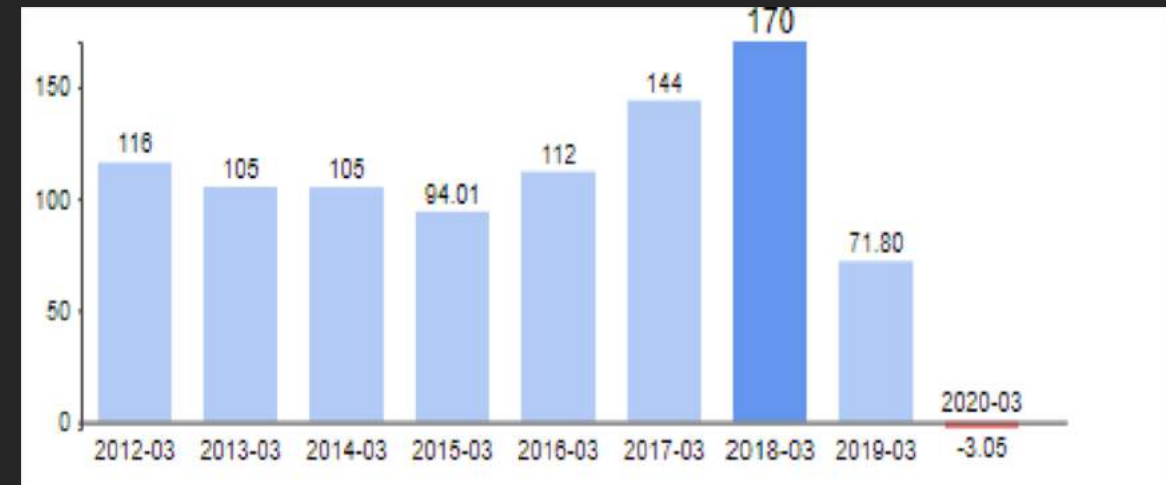


EFFICIENCY

WORKING CAPITAL CYCLE

The **working capital cycle** is a measure of how quickly a business can turn its current assets into cash.

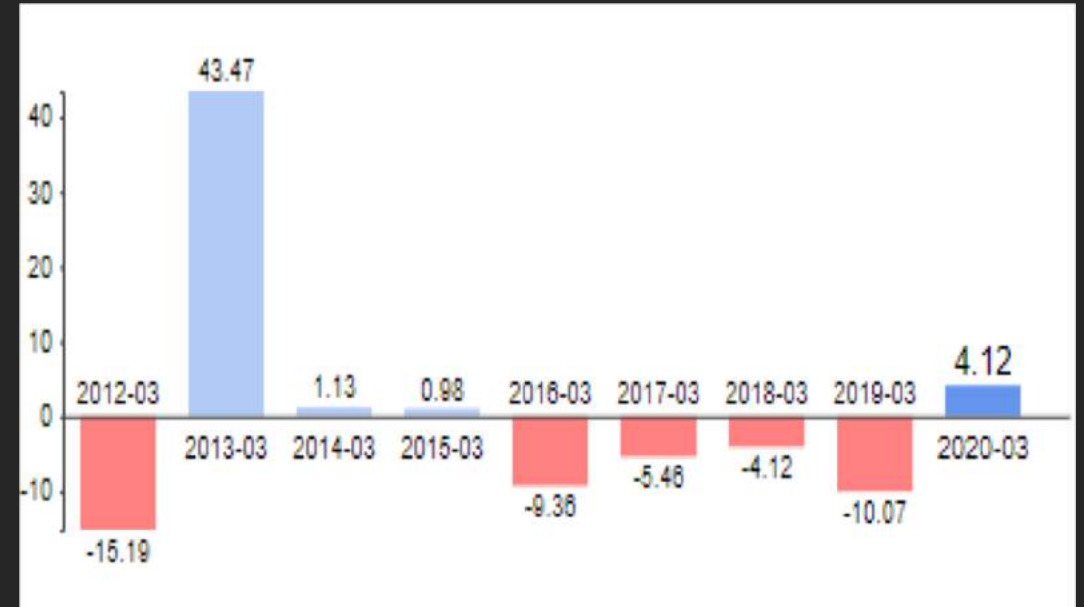
- Despite the pandemic scenario, working capital levels have been effectively managed on the back of timely disbursements from Central and State Govt authorities (except some projects in AP & Telangana)



EFFICIENCY

FREE CASH FLOW

- Free cash flow (FCF) is the cash left over after a company pays for its operating expenses and capital expenditures, also known as CAPEX
- The company free cash has been negative from 2016 to 2019 which showed company was not able to save money even after meeting all its expenses and further not able to invest it future growth
- Revenue increase and cost control measure in 2019 helped company to turn negative FCF to positive in year 2020
- FCF is an important parameter to judge and can save investor from investing into a bad company



EFFICIENCY POTENTIAL PARAMETER

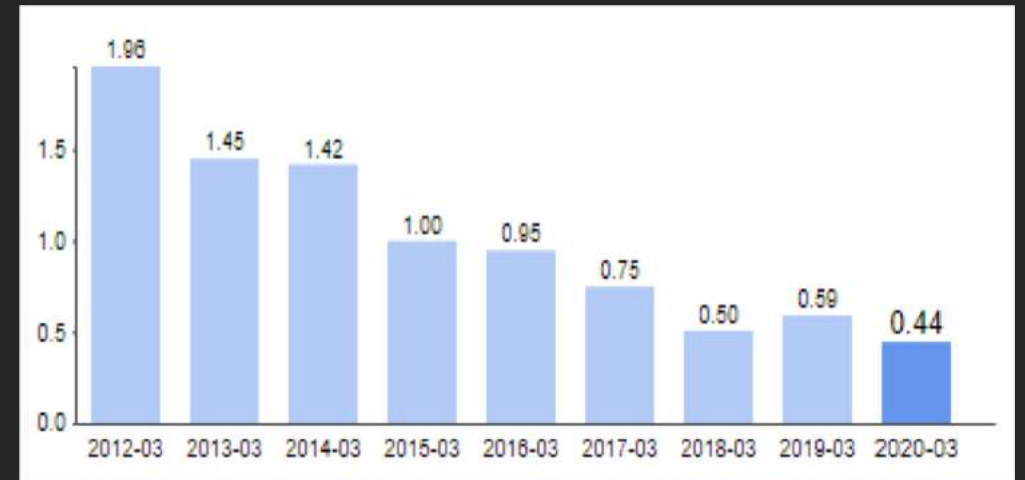
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SOLVENCY

DEBT TO EQUITY

- It is a good metric to check out the capital structure along with its performance
- NCC has a D/E ratio of 0.37 which means that the company has low proportion of debt in its capital
- Moreover, its assets are more funded by Equity as the ratio is less than 1
- The ratio is falling every year i.e., company is reducing its debt to the amount of its capital every year
- The company expects its debt to come down by 200-300 Cr by FY21-end to be backed by better collections and cash flows



SOLVENCY

INTEREST COVERAGE

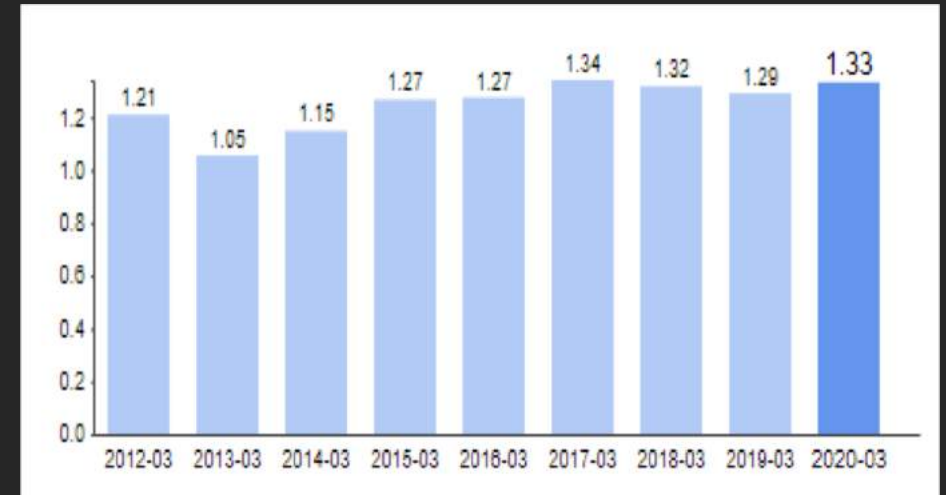
- The **interest coverage ratio** is used to determine how easily a company can pay its **interest** expenses on outstanding debt. The lower the **ratio**, the more the company is burdened by debt **expense**
- For the last 3 years the interest coverage ratio is above 1.5 which indicates that the company has been able to pay of its debt and able to meets its interest obligations



SOLVENCY

CURRENT RATIO

- The current ratio measures a company's ability to pay its short-term liabilities with its short-term assets. A higher current ratio is desirable so that the company could be stable to unexpected bumps in business and economy
- NCC current ratio has not fluctuated much from year 2012 till date
- For the year 2020, the current ratio is 1.33 indicating company can meet its short-term obligations



SOLVENCY POTENTIAL PARAMETER

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RETURN

*ROCE

- The **book value** literally means the **value** of a business according to its **books** or accounts, as reflected on its financial statements

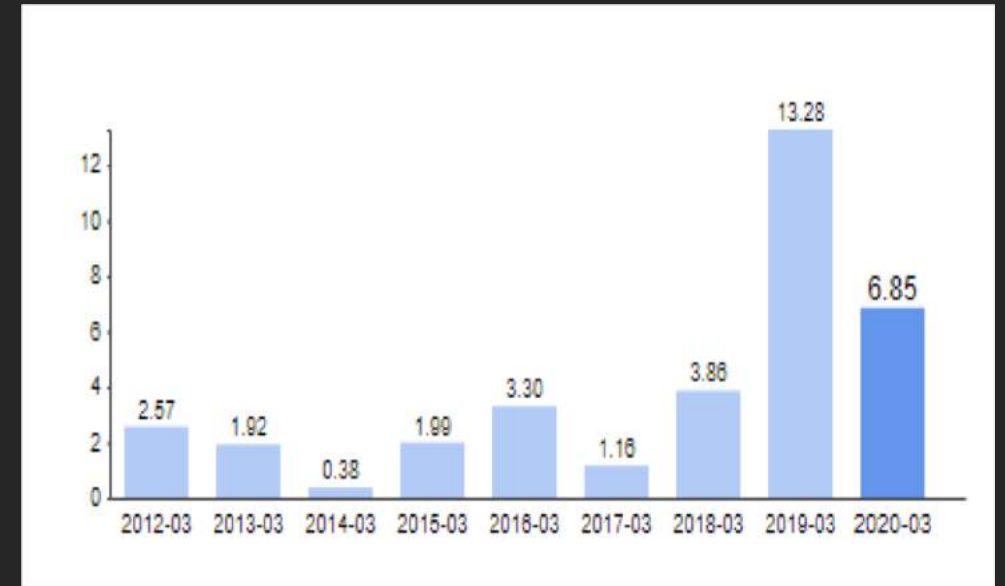


*ROCE – Return on Capital Employed

RETURN

*ROE

- ROE measures the ability of a firm to generate profits from its shareholders investments in the company. In other words, the return on equity ratio shows how much profit each rupee of common stockholders' equity generates
- ROE has not been satisfactory from year 2012 to 2018 but it increased drastically in the year 2019 mainly because of higher revenue and positive future growth
- ROE declined to 6.85% in year 2020 which is not a good sign

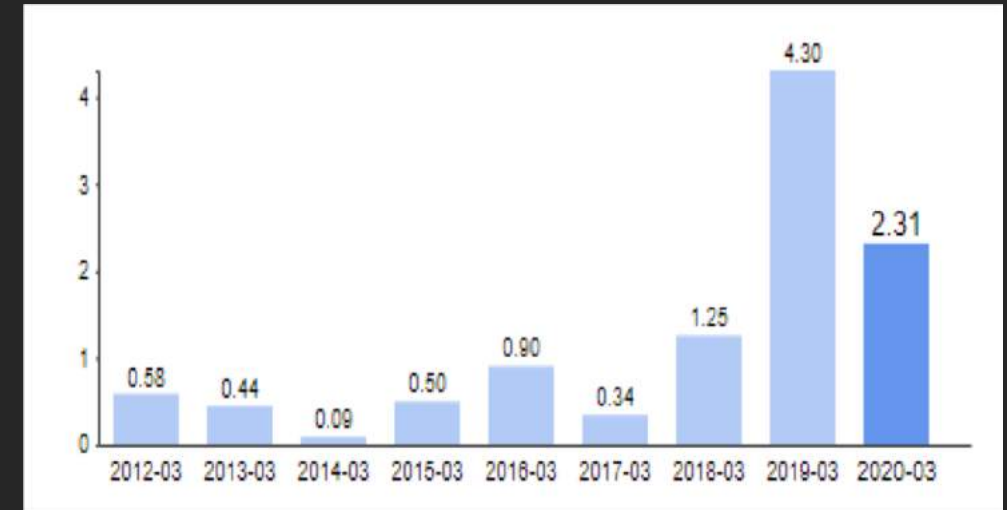


*ROE – Return on Equity

RETURN

*ROA

- Return on Assets measures how effectively a company can earn a return on its investment in assets. In other words, ROA shows how efficiently a company can convert the money used to purchase assets into net income
- For the year 2020, NCC has ROA of 2.31 % which is a bad sign for future performance (higher values are always desirable)
- However, in 2021, ROA declined by 27% because of more investment in assets without generating much return



*ROA – Return on Assets

RETURN POTENTIAL PARAMETER

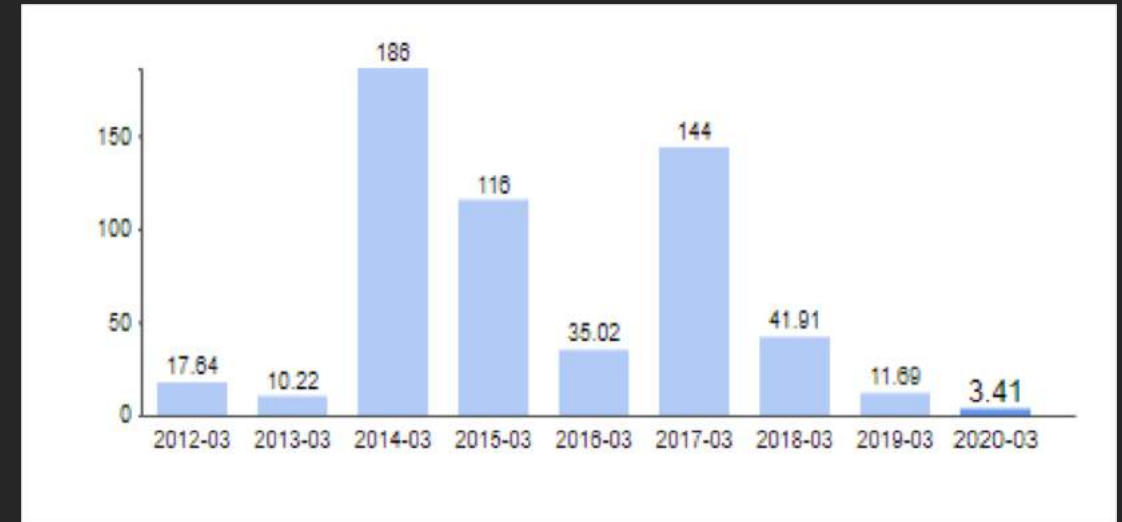
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VALUATION

PRICE TO EARNINGS RATIO

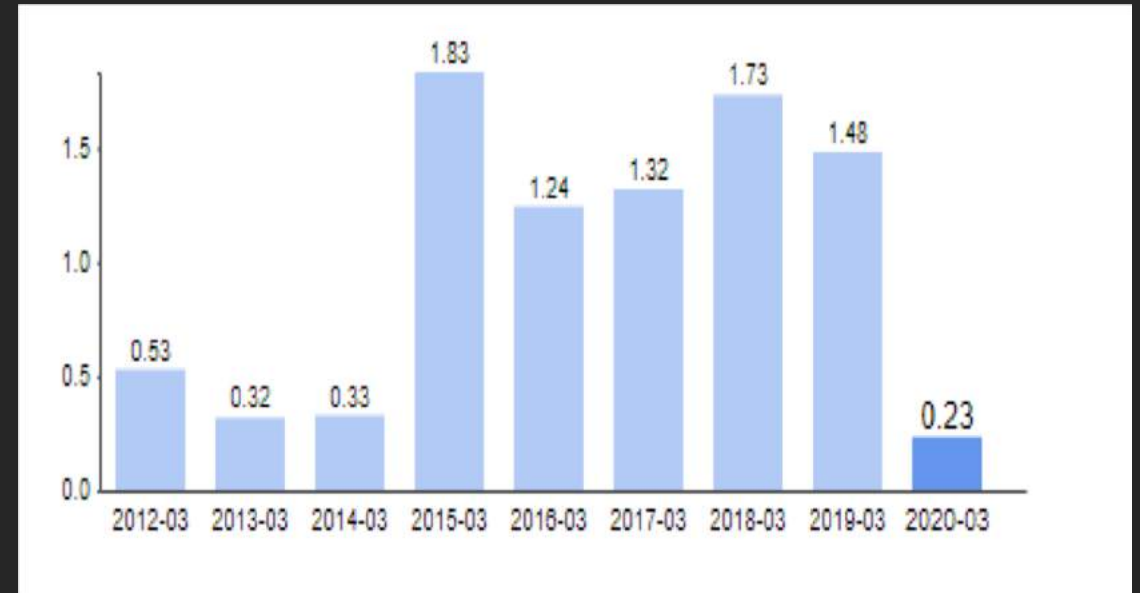
- Price to Earnings' ratio, which indicates for every rupee of earnings how much an investor is willing to pay for a share
- A general rule of thumb is that shares trading at a low P/E are undervalued (it depends on other factors too). In year 2019 NCC has a PE ratio of 11.25 which is low and comparatively undervalued compared to its peer and industry PE
- However, in 2021, the P/E ratio declined further due to a decline in investor's expectations because of the ongoing pandemic



VALUATION

PRICE TO BOOK VALUE

- The **ratio** helps in understanding how many times the stock is trading over and above the company's book value. The **P/B ratio** compares a company's market capitalization, or market value, to its book value
- From 2015 to 2019 the PB ratio was not fluctuating much but 2020 saw a huge decline in the PB ratio
- It was less than one and it may be a sign that stock is undervalued



VALUATION

DIVIDEND YIELD

- NCC LTD has been constantly paying dividends to its investors since the year 2011 which indicates the company has been generating revenue
- For the year ending March 2020 NCC has declared an equity dividend of 10.00% amounting to Rs 0.2 per share

Book Value / Share	81.43	Trailing Twelve Months Ending 2020-09
Price to Book Value	0.57	Calculated using Price: 46.05
Dividend Yield	0.43	Period Ending 2020-03
No. of Shares Subscribed	60.98 Cr.	609,846,588 Shares
FaceValue	2	

VALUATION POTENTIAL PARAMETER

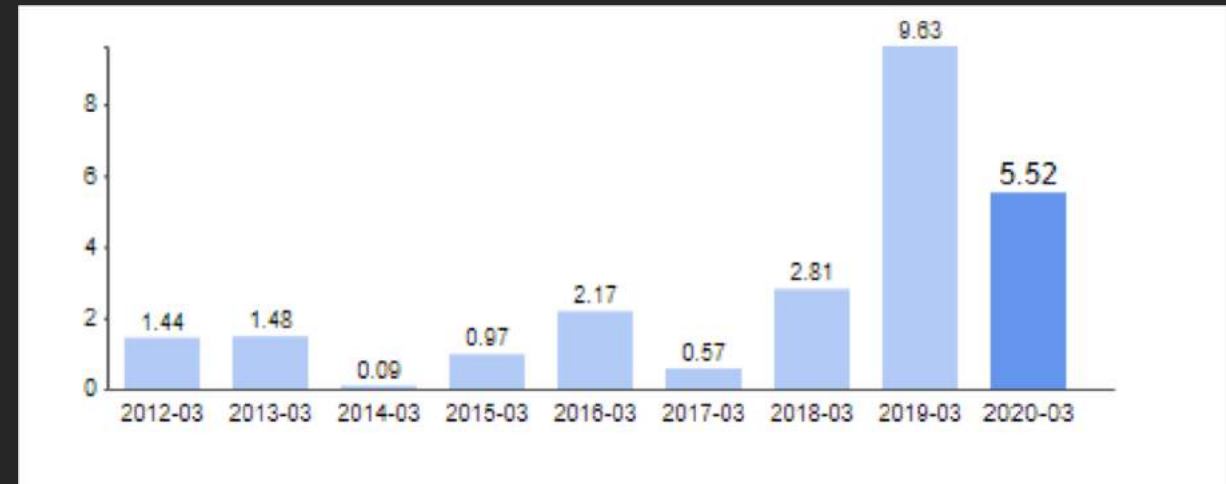
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PER SHARE RATIOS

ADJUSTED EPS

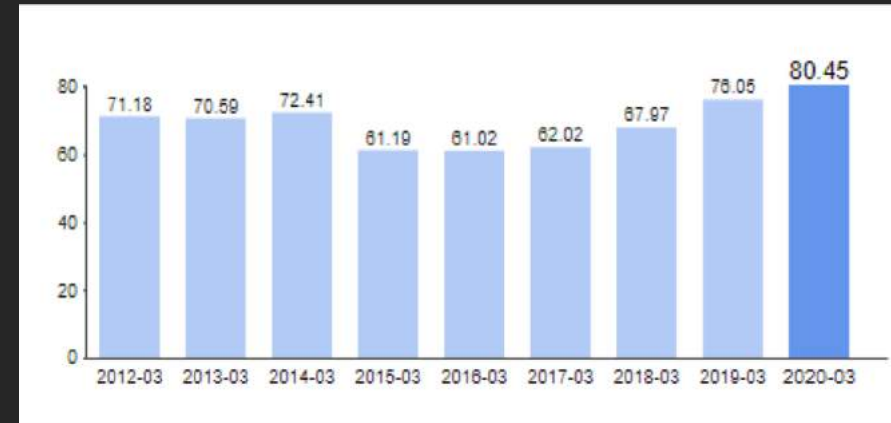
- **EPS** shows how much a company earns for each share, with a higher **EPS** indicating the stock has a higher value when compared to others in its industry
- NCC Ltd EPS increased drastically from year 2017 to 2019 but is still very low when compared to its competitors



PER SHARE RATIOS

BOOK VALUE/SHARE

- The **book value** literally means the **value** of a business according to its **books** or accounts, as reflected on its financial statements
- BV of the company is higher than the market price indicating the company is undervalued as of March 2020



PER SHARE RATIOS

DIVIDEND/SHARE

- The company has a good dividend track report and has consistently declared dividends for the last 5 years
- The company declared high dividends in 2019 owing to higher growth and profit

29-05-2020	07-09-2020	Final	10.00	Rs.0.2000 per share(10%)Dividend
24-05-2019	08-08-2019	Final	75.00	Rs.1.5000 per share(75%)Dividend
24-05-2018	30-07-2018	Final	50.00	Rs.1.0000 per share(50%)Dividend
26-05-2017	07-08-2017	Final	20.00	Rs.0.4000 per share(20%)Dividend
24-05-2016	08-08-2016	Final	30.00	Rs.0.6000 per share(30%)Dividend
14-05-2015	10-08-2015	Final	20.00	Rs.0.4000 per share(20%)Dividend

PER SHARE POTENTIAL PARAMETER

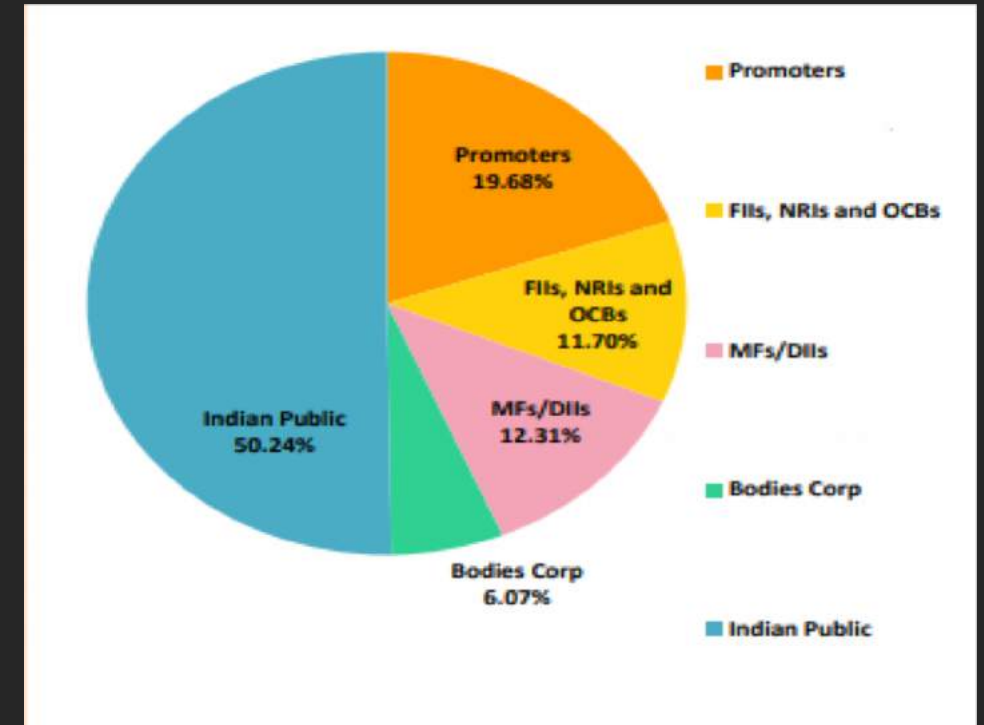
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QUALITY

SHAREHOLDING PATTERN

- Promoters have been increasing their stake since 2018 from 18.11 % to 19.68 % as of September 2020 quarter
- Promoters pledging is declining continuously from dec 2019 from 36.37% to 26.19 % which is a positive sign
- Major investors having stake in the Company: Rekha and Rakesh Jhunjhunwala ,Reliance Capital Trustee ,Aditya Birla Sun life and IDFC Sterling Value Fund



QUALITY

SECTOR POTENTIAL

- ❑ The government has announced a plan to invest 100 lakh crore on infrastructure projects which is a good sign for NCC Ltd
- ❑ Moreover, FASTAG which leads to auto collection of toll will help NCC speed up revenue collection
- ❑ With impetus of Government on development of Infrastructure and housing for all in India, focus on bidding for construction projects in India
- ❑ The company has been continuously receiving new orders which is a positive sign. Moreover, NCC has a diversified business model which is an added advantage

QUALITY

FUTURE PROSPECTS

- NCC mentioned that work efficiency has improved to 80% in October due to pick up in manpower and guided for Rs7,700cr revenue in FY21
- With vast experience and proven execution capabilities, the company can leverage rising opportunities in buildings, transportation, metros, defense and airports once scenario normalizes and awarding momentum returns to its investors
- NCC's order book remains healthy at Rs29,360cr supported by strong order inflow of Rs2,962cr in Q2FY21. NCC's comfortable order book provides visibility for the coming years. Improving work efficiency and better margin guidelines will support earnings in H2FY21
- Recently NCC LTD confirmed to SEBI regarding its new order of 3905 Cr which is a positive indicator

QUALITY POTENTIAL PARAMETER

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POTENTIAL PARAMETER

8 Potential Parameters	Score
Growth	8
Profitability	5
Efficiency	7
Solvency	8
Return	7
Valuation	7
Per Share Basis	7
Quality	8
TOTAL	57

Would suggest a BUY call for NCC Ltd. There is a lot of scope in infrastructure sector in the coming years .There are a lot of projects upcoming in the future and NCC is expanding its business operations, Moreover the promoters are also increasing its stake which a great sign.



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