NCC Limited

June 15, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits	2131.00	2300.00	[ICRA]A (Stable); upgraded from [ICRA]A-(Stable)
Non-fund Based Limits	8226.00	8785.00	[ICRA]A (Stable); upgraded from [ICRA]A-(Stable)
Unallocated Limits	943.00	215.00	[ICRA]A (Stable); upgraded from [ICRA]A-(Stable)
Total	**11300.00**	**11300.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has upgraded the long-term rating to the Rs. 2,300.0-crore (Rs. 2131.0-crore earlier) fund-based limits, Rs. 8,785.0-crore (Rs. 8,226.0-crore earlier) non-fund-based limits and Rs. 215.0-crore[1] (Rs. 943.0-crore earlier) unallocated limits of Ncc Limited (NCC)[2] to [ICRA]A (pronounced ICRA A) from [ICRA]A- (pronounced ICRA A minus). The outlook on the long-term rating is Stable.

Rationale

The rating upgrade takes into account healthy order book accretion of Rs. 23,875 crore (excluding GST) in FY2018 across various segments resulting in robust unexecuted orderbook of Rs. 32,532 crore as on March 31, 2018 which is 3.99 times of the OI in FY2018; providing good revenue visibility in medium term. The rating also factors in the improved liquidity position and de-leveraging on account of Qualified Institutional Placement (QIP) issue of Rs. 550 crore in January 2018. The funds from QIP are deployed towards working capital requirements resulting in creation of significant cushion in existing working capital limits. Further, there is improvement in order book diversification across geographies and segments viz. buildings (accounts for 45% of outstanding order book as on March 31, 2018), water supply and railways (19%), roads (13%), irrigation (8%) and electrical (6%). The rating continues to draw comfort from the experienced management and NCC's four decades of operational track record with demonstrated execution capabilities across the segments with record of completing large-sized marquee projects within stipulated timelines which enhances its chances to win repeat orders.

The rating, however, remains constrained by the execution risks as ~58% of the outstanding order book is in preliminary stages of execution, with less than 5% financial progress. ICRA notes that for orders worth Rs. 6731 crore (22% of order book)– affordable housing and road projects in the state of Andhra Pradesh, the company has submitted designs and the client's final approval is awaited; although preliminary works have been started for these projects, billing for these projects would commence upon receipt of approvals. Any delay in securing design and requisite approvals could adversely affect NCC's revenues and profitability. The rating is also constrained by delay in monetization of real-estate portfolio which remains a drag on the consolidated balance sheet. However, no incremental funding support is envisaged for the current

---

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

portfolio of BOT road projects and the real-estate subsidiaries. The company is also exposed to risk of bad debts with 9% of the debtors as on March 31, 2018 amounting to Rs.191.16 crore pending for more than one year; of these, Rs.165.39 crore is pending for more than two years. ICRA also notes the recent arbitration award against Himachal Sorang Power Private Limited (HSPL), a subsidiary of NCC Infrastructure Holdings Limited (NCCIHL); while NCCIHL has contested the award, the net cashflow impact in the event of adverse outcome has been factored in ICRA's sensitivity scenarios for NCC.

Outlook: Stable

ICRA believes that NCC will continue to benefit from its strong execution capabilities across segments supported by experienced management. The outlook may be revised to 'Positive' if the company achieves better than expected growth in revenue and profitability along with improved working capital cycle thereby strengthening its financial risk profile. The outlook may be revised to 'Negative' in case there is delay in receipt of approvals resulting in lower than anticipated billing and/or increase in WIP (working capital cycle). Further, any incremental investment/funding support towards existing BOT projects and real-estate subsidiaries will be viewed negatively from the credit perspective. On the contrary, monetisation of real-estate portfolio and recovery of investments made in real estate subsidiaries will be a credit positive.

Key rating drivers

Credit strengths

Healthy order inflow and robust orderbook position: The company witnessed healthy order book accretion of Rs. 23,875 crore (excluding GST) in FY2018 across segments resulting in robust unexecuted orderbook of Rs 32,532 crore as on March 31, 2018 which is 3.99 times of the OI in FY2018; providing good revenue visibility in medium term.

Improved liquidity position due to QIP issue: NCC raised funds worth Rs. 550 crore through QIP issue in January 2018 resulting in deleveraging and improved liquidity position. The funds from QIP are deployed towards working capital requirements resulting in creation of significant cushion in existing working capital limits.

Improvement in order book diversification across segments: Huge order inflow led to improvement in order book diversification across geographies and segments viz. buildings (accounts for 45% of outstanding order book as on March 31, 2018), water supply and railways (19%), roads (13%), irrigation (8%%) and electrical (6%).

Strong execution capabilities: The rating continues to draw comfort from the experienced management and NCC's four decades of operational track record with demonstrated execution capabilities across the segments with record of completing large-sized marquee projects within stipulated timelines which enhances its chances to win repeat orders.

Credit challenges

Execution risks: NCC is exposed to execution risks as ~58% of the outstanding order book is in preliminary stages of execution, with less than 5% financial progress. ICRA notes that for orders worth Rs. 6731 crore (22% of order book)– affordable housing and road projects in the state of Andhra Pradesh, the company has submitted designs and the client's final approval is awaited; although preliminary works have been started for these projects, billing for these projects would commence upon receipt of approvals. Any delay in securing design and requisite approvals could adversely affect NCC's revenues and profitability

Delay in monetisation of real estate portfolio: The rating is constrained by delay in monetization of real-estate portfolio which remains a drag on the consolidated balance sheet. However, no funding support has been envisaged by company for the current portfolio of BOT projects and the real-estate subsidiaries.

Risk of bad debts: The company is exposed to risk of bad debts with 9% of the debtors as on March 31, 2018 amounting to Rs. 191.16 crore pending for more than one year; of these, Rs. 165.39 crore are pending for more than two years.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

Corporate Credit Rating Methodology
Rating Methodology for Construction Entities

About the company:

Ncc Limited (NCC) was established as a partnership firm in 1978, which was subsequently converted into a Limited Company in 1990. The operations of NCC can be broadly classified into EPC business (both domestic and international and development business), BOT projects in infrastructure and real estate development. Under EPC, the company is into the construction of industrial and commercial buildings, roads, bridges and flyovers, water supply and environment projects, housing, power transmission lines, irrigation etc. The shares of the company are listed on the stock exchanges in India since 1992.

Key financial indicators

	FY2017	FY2018*
Operating Income (Rs. crore)	7892.1	7559.3
PAT (Rs. crore)	225.5	286.8
OPBDIT/OI (%)	8.7%	11.3%
RoCE (%)	13.1%	14.2%
Total Debt/TNW (times)	0.5	0.3
Total Debt/OPBDIT (times)	2.3	1.5
Interest coverage (times)	1.7	2.3

OPBDITA: Operating Profit before Depreciation, Interest, Taxes and Amortisation; PAT: Profit after Tax; RoCE: Return on Capital Employed; TNW: Tangible Networth; *As per Provisional numbers

Source: NCC

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating June 2018	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 November 2017	Date & Rating in FY2017 March 2017	Date & Rating in FY2016 -
1	Cash Credit	Long Term	2058.00	**2058.00**	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
2	Term Loan	Long Term	242.00	**242.00**	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
3	Non-fund based limits	Long Term	8,785.00	**8,785.00**	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-
4	Unallocated	Long Term	215.00	**215.00**	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	October 2017	9.3%	December 2021	242.00	[ICRA]A (Stable)
NA	Cash Credit & Working Capital Demand Loan	NA	10.3%	NA	2058.00	[ICRA]A (Stable)
NA	Letter of Credit & Bank Guarantee	NA	NA	NA	8785.00	[ICRA]A (Stable)
NA	Unallocated Limits	NA	NA	NA	215.00	[ICRA]A (Stable)

Source: NCC Limited

ANALYST CONTACTS

Anjan Ghosh
+91 22 6114 3407
aghosh@icraindia.com

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Shubham Jain
+91 124 4545306
shubhamj@icraindia.com

Abhishek Lahoti
+91 40 4067 6534
abhishek.lahoti@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 3047 0005
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited

Corporate Office
Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002
Tel: +91 124 4545300
Email: info@icraindia.com
Website: www.icra.in

Registered Office
1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001
Tel: +91 11 23357940-50

Branches

Mumbai	+ (91 22) 24331046/53/62/74/86/87
Chennai	+ (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata	+ (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore	+ (91 80) 2559 7401/4049
Ahmedabad	+ (91 79) 2658 4924/5049/2008
Hyderabad	+ (91 40) 2373 5061/7251
Pune	+ (91 20) 6606 9999