India Ratings & Research
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India Ratings Upgrades NCC to 'IND A'; Outlook Stable

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India Ratings and Research (Ind-Ra) has upgraded NCC Limited's (NCC) Long-Term Issuer Rating to 'IND A' from 'IND A-'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based working capital limits	-	-	-	INR 20,580	IND A/Stable/IND A1	Upgraded
Non-fund-based limits	-	-	-	INR82,760	IND A/Stable/IND A1	Upgraded
Term loans	-	-	June 2017	INR350	WD	Withdrawn (paid in full)
Proposed fund-based working capital limits	-	-	-	INR1,760	WD	Withdrawn (the company did not proceed with the instrument as envisaged)

KEY RATING DRIVERS

Improvement in Credit Metrics: The upgrade reflects a sustained improvement in NCC's credit metrics as indicated by net adjusted leverage (net adjusted debt EBITDA) of 1.9x in FY18 (FY17: 2.9x, FY16: 3.0x) and interest coverage (EBITDA/interest cost) of 2.3x in FY18 (1.7x, 1.5x). This was due to an improvement in operating profitability, coupled with a decline in overall adjusted debt levels (including shared fund-based corporate guarantee) to INR16.6 billion in FY18 (FY17: INR21.1 billion, FY16: INR 24.2 billion), resulting from an increase in mobilisation advances from new orders and fresh equity infusion through qualified institutional placement in 4QFY18. Ind-Ra expects the credit metrics to sustain at the existing levels backed by higher order inflow, which carry high margins.

Revenue Visibility: In FY18, the company received new orders amounting to INR238.7 billion (excluding Goods and Services Tax (GST) portion) (FY17: INR92.3 billion), leading to an increase in its order book to INR325.3 billion (around 4.3x of FY18 revenue) as of March 2018 (March 2017: INR188.9 billion; 2.4x of FY17 revenue). However, revenue declined 4.2% yoy to INR75.6 billion in FY18 due to the impact of the introduction of the GST regime and weak opening order book. Excluding the GST impact, revenue grew 5% yoy). Ind-Ra expects revenue to grow at a CAGR of 20%-25% during FY19-FY21 on the back of the strong order book.

Increasing Profitability: NCC's EBITDA margin expanded to 11.3% in FY18 (FY17: 8.7%, FY16: 8.9%) owing to one-off events related to receipt of bonus of INR730 million from UP Expressways Industrial Development Authority for early execution of projects and claims of INR750 million received from the National Highways Authority of India ('IND AAA'/Stable). Excluding these events, the EBITDA margin was around 10.0%. Ind-Ra expects the margin to sustain at the existing levels due to receipt of high-margin orders.

Concentrated Order Book: Although the company's operations are spread across the country, its order book is concentrated in Andhra Pradesh with around 34.0% of the overall order book as of December 2017. Due to the political uncertainty in Andhra Pradesh post the bifurcation between the central and state governments, the timely execution of the projects remains a challenge. However, the company has not faced any payment issues in these projects till date and any elongation of receivable period (FY18: 104 days, FY17: 96 days) will be negative for the ratings.

Moderate Liquidity: In FY18, NCC's liquidity profile was impacted by bank guarantee invocations amounting to INR3.4 billion by Sembcorp Gayatri Power Limited (SGPL) towards liquidated damages on account of delays in execution in Nellore power project. However, the company managed to pay for the damages with cash inflows in the form of mobilisation advances for its fresh orders amounting to INR14.3 billion in FY18 (FY17: INR5.8 billion). This, coupled with the fresh equity infusion led to a moderate liquidity position, despite the elongation of gross working capital cycle (FY18: 199 days, FY17: 179 days) backed by an increase in debtor period and retention money. Despite the delay in recovery of few contracts in Uttar Pradesh, Gujarat and Rajasthan, and the stipulated increase in working capital utilisation levels to execute its order book, NCC's liquidity profile is likely to remain moderate in the near term due to advance-backed orders and funds from equity infusion.

Proposed Investment in Road BOT Projects: NCC is exploring bidding for road build-operate-transfer (BOT) projects under the Hybrid Annuity Model, due to the significant number of projects being offered by the National Highways Authority of India. Management expects to focus on engineering, procurement and construction projects, and would limit investments in such projects. However, any significant investments by the company in excess of cash flow from operations would be negative for the ratings.

RATING SENSITIVITIES

Negative: A negative rating action could result from delays in timely execution of the order book or increase in debtor days, resulting in a further elongation of the working capital cycle or a significant investment in BOT projects resulting in interest coverage reducing below 2x on a sustained basis.

Positive: A positive rating action could result from timely execution of the order book combined with inflows from asset sales and recovery of debtors while maintaining the EBITDA margins, resulting in interest coverage increasing above 2.5x on a sustained basis, while maintaining the net leverage at current levels.

COMPANY PROFILE

NCC is a Hyderabad-based construction company listed on the National Stock Exchange and BSE. It is engaged in the construction of roads, buildings, irrigation, water and environment, electrical, metals, mining and railways. Apart from executing projects across India, the company has a presence in the Middle East through subsidiaries in Muscat and Dubai. NCC also has interests in road and energy projects through its 62.1%-owned subsidiary NCC Infrastructure Holdings Limited and in real estate through its 80%-owned subsidiary NCC Urban Infrastructure Limited.

FINANCIAL SUMMARY

Particulars	FY18	FY17
Revenue (INR million)	75,593.3	78,920.7
EBITDA (INR million)	8,548.8	6,851.7
EBITDA margin (%)	11.3	8.7
Total adjusted debt (INR million)	16,664.4	21,162.7

Cash and cash equivalent (INR million)	642.7	1,089.1
Net debt (INR million)	16,021.7	20,073.6
Source: NCC, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook		
	Rating Type	**Rated Limits (million)**	**Rating**	**10 April 2017**	**29 August 2016**	**22 July 2015**
Issuer rating	Long-term	-	IND A/Stable	IND A-/Stable	IND BBB+/Stable	IND BBB/Stable
Fund-based facilities	Short-term	INR20,580	IND A/Stable/IND A1	IND A-/Stable/IND A2+	IND BBB+/Stable/IND A2	IND BBB/Stable/IND A3+
Non-fund-based facilities	Short-term	INR82,760	IND A/Stable/IND A1	IND A-/Stable/IND A2+	IND BBB+/Stable/IND A2	IND BBB/Stable/IND A3+
Term loans	Long-term	INR350	WD	IND A-/Stable	IND BBB+/Stable	IND BBB/Stable

COMPLEXITY LEVEL OF INSTRUMENTS

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

SOLICITATION DISCLOSURES

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India Ratings and Research (Ind-Ra) is India's most respected credit rating agency committed to providing India's credit markets accurate, timely and prospective credit opinions. Built on a foundation of independent thinking, rigorous analytics, and an open and balanced approach towards credit research, Ind-Ra has grown rapidly during the past decade, gaining significant market presence in India's fixed income market.

Ind-Ra currently maintains coverage of corporate issuers, financial institutions (including banks and insurance companies), finance and leasing companies, managed funds, urban local bodies, structured finance and project finance companies.

Headquartered in Mumbai, Ind-Ra has seven branch offices located in Ahmedabad, Bengaluru, Chennai, Delhi, Hyderabad, Kolkata and Pune. Ind-Ra is recognised by the Securities and Exchange Board of India, the Reserve Bank of India and National Housing Bank.

Ind-Ra is a 100% owned subsidiary of the Fitch Group.

For more information, visit www.indiaratings.co.in.

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Applicable Criteria

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