

NCC Limited

September 23, 2019

NCC Limited: Rating placed on Watch with Developing Implications

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	283.00	283.00	[ICRA]A &; placed under rating watch with developing implication
Fund-based Cash Credit	2058.00	2058.00	[ICRA]A &; placed under rating watch with developing implication
Non-fund Based Limits	9400.00	9400.00	[ICRA]A &; placed under rating watch with developing implication
Unallocated Limits	559.00	559.00	[ICRA]A &; placed under rating watch with developing implication
Total	12300.00	12300.00	

*Instrument details are provided in Annexure-1

Rationale

ICRA in its earlier release dated June 10, 2019 ([link](#)) has taken note of the cancellation of Rs. 6,100 crore worth orders from NCC's order book. Adjusting for these orders, the orderbook stood at Rs. 33,495 crore as on June 30, 2019 with orders from Government of Andhra Pradesh (GoAP) accounting for Rs. 12,068 crore (36% of order book). Currently, all works in AP (barring Asian Development Bank (ADB) funded projects) are stalled and the company has de-mobilised its resources from many of these sites to projects in other states. These orders can be broadly segregated into three categories—affordable housing (11 packages) from Andhra Pradesh Township and Infrastructure Development Corporation (APTIDCO); urban infrastructure projects for development of core capital city from the Amravati Development Corporation Limited (ADCL) and Andhra Pradesh Capital Region Development Authority (APCRDA); and others (largely funded by ADB). ICRA is given to understand that the works from APTIDCO are expected to re-commence execution by October 2019, while there is no clarity with respect to timelines for ADCL, APCRDA and APSFL projects. As on June 30, 2019, Rs. 578.8 crore of unbilled revenue, Rs. 634.3 crore of receivables are pending from the AP projects, against Rs. 463 crore of mobilisation advances availed from these projects. Of these, the net exposure (unbilled revenues plus receivables minus mobilisation advances) from non-moving projects viz. ADCL, APCRDA and APSFL is Rs. 257.5 crore. The liquidity position of the company is adequate with unencumbered cash of Rs. 115.37 crore as on June 30, 2019 and undrawn working capital limits of Rs. 259 crore as on August 31, 2019. Considering the situation of AP projects, the rating has been placed under watch with developing implications. ICRA will closely monitor the developments and would keep the investors updated on the implication of the same on the credit profile of the company. Any prolonged delay in resolution of stuck projects in AP beyond Q3FY2020 that results in build up of receivables and unbilled revenue, thereby impacting liquidity adversely, would be a credit negative.

The rating continues to take into account the healthy revenue visibility in the medium term on account of healthy order book accretion of Rs. 25,612 crore in FY2019 and Rs. 636 crore in Q1 FY2020 across various segments, resulting in robust unexecuted order book of Rs. 33,495 crore (adjusted for Rs. 6076 crore of AP order cancellations) as on June 30, 2019, which is 2.8 times of the operating income (OI) in FY2019. The company's leverage and coverage indicators are healthy, with gearing and TOL/TNW at 0.4 times and 1.7 times, respectively. The interest coverage and TD/OPDBIT were at 3.2 times and 1.4 times as on March 31, 2019. Further, NCC's order book is well diversified across segments viz. buildings

(accounts for 44% of the outstanding order book as on June 30, 2019), roads (25%), water supply, environment and railways (13%), electrical (5%), irrigation (5%) and others (8%). 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. The company has completed large-sized marquee projects within the stipulated timelines, which enhances its chances to win repeat orders.

The rating, however, remains constrained by the execution risks as ~35% of the outstanding order book is in preliminary stages of execution, with less than 5% financial progress, and 14% of the order book yet to start execution as on June 2019. Further, orders worth Rs. 12,068 crore from AP are at standstill, with no execution in the past three-four months. The unbilled revenue from AP projects is around Rs. 578.8 crore and the receivables is around Rs. 634.3 crore. Therefore, timely resolution of stuck projects based in AP would remain a key rating sensitivity and any further delay will result in buildup of receivables and inventory, which could adversely affect NCC's liquidity. The rating is also constrained by the high loans and advances extended to various real estate subsidiaries viz. NCC Urban Infrastructure Limited, NCC Vizag Urban Infrastructure etc. in the past, which remains a drag on the consolidated balance sheet. Further, the company has extended Rs. 83 crore loans and advances to NCC Urban in Q1 FY2020. The company has long pending receivables with 10.6% of the debtors as on June 30, 2019, amounting to Rs.317.2 crore pending for more than one year. Of these, Rs.132.8 crore has been pending for more than two years.

Key rating drivers and their description

Credit strengths

Robust order book position provides medium-term revenue visibility - The revenue visibility in the medium term is healthy on account of strong order book accretion of Rs. 25,612 crore in FY2019 and Rs. 636 crore in Q1 FY2020 across various segments. The unexecuted order book of Rs. 33,495 crore (adjusted for Rs. 6076 crore of AP order cancellations) as on June 30, 2019, is robust, and is 2.8 times of the OI in FY2019.

Healthy leverage and coverage indicators - The company's leverage and coverage indicators are healthy with gearing and TOL/TNW at 0.4 times and 1.7 times respectively. The interest coverage and TD/OPDBIT were at 3.2 times and 1.4 times at the end of FY2019.

Strong execution capabilities and diversified order book - The experienced management and NCC's four decades of operational track record with demonstrated execution capabilities across the segments are credit positives. The company has a record of completing large-sized marquee projects within the stipulated timelines, which enhances its chances to win repeat orders. Further, NCC's order book is well diversified across segments viz. buildings (accounts for 44% of outstanding order book as on June 30, 2019), roads (25%), water supply, environment and railways (13%), electrical (5%), irrigation (5%) and others (8%).

Credit challenges

AP order execution in abeyance – Currently, all works in AP (barring ADB funded projects) are stalled and the company has de-mobilised its resources from many of these sites to projects in other states. The outstanding orderbook from AP is Rs. 12,068 crore (36% of total orderbook). These orders can be broadly segregated into three categories – affordable housing APTIDCO; development of core capital city ADCL and APCRDA; and others. ICRA is given to understand that the works from APTIDCO are expected to re-commence execution by October 2019, while there is no clarity with respect to timelines for ADCL, APCRDA and APSFL projects. As on June 30, 2019, Rs. 578.8 crore of unbilled revenue, Rs. 634.3 crore of receivables are pending from the AP projects against Rs. 463 crore of mobilisation advances availed from these

projects. Of these, the net exposure (unbilled revenues plus receivables minus mobilisation advances) from non-moving projects viz. ADCL, APCRDA and APSFL is Rs. 257.5 crore. Any prolonged delay in resolution of stuck projects in AP beyond Q3 FY2020 that results in build up of receivables and unbilled revenue thereby impacting liquidity adversely would be a credit negative.

Execution risks - NCC is exposed to execution risks as ~35% of the outstanding order book is in preliminary stages of execution, with less than 5% of the financial progress, and 14% of the order book yet to begin execution as on June 2019.

Exposure to group entities – High loans and advances extended to various real estate subsidiaries viz. NCC Urban Infrastructure Limited, NCC Vizag Urban Infrastructure etc. in the past remains a drag on the consolidated balance sheet.

Long pending receivables - The company has long pending receivables with 10.6% of the debtors as on June 30, 2019 amounting to Rs.317.2 crore pending for more than one year. Of these, Rs.132.8 crore has been pending for more than two years.

Liquidity position: Adequate

The liquidity position of the company is adequate with unencumbered cash of Rs. 115.37 crore as on June 2019 and undrawn working capital facilities. The average utilisation of fund-based facilities during September 2018 to August 2019 remained at 82%. The company's principal debt repayment obligation in FY2020 is Rs. 257.0 crore, which can be comfortably met through the cash accruals.

Rating sensitivities

Positive triggers - ICRA could upgrade NCC's rating if TOL/TNW falls below 1.2 times and there is a cushion of 25% in the working capital limits on a sustained basis.

Negative triggers - Negative pressure on NCC's rating could arise if TOL/TNW increases beyond 2.0 times and/or any further delay in resolution of stuck projects in AP results in build up of receivables and unbilled revenue, thereby impacting liquidity adversely.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has used limited consolidation approach, under which only the proposed equity investments/funding commitments to various subsidiaries towards debt servicing and operational shortfall have been considered. The list of companies that are consolidated to arrive at the rating are given in Annexure 2

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 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, irrigation, security services etc. The shares of the company were listed on the stock exchanges in India in 1992.

Key financial indicators (standalone, audited)

	FY2018	FY2019
Operating Income (Rs. crore)	7,559.3	12078.8
PAT (Rs. crore)	286.8	563.9
OPBDIT/OI (%)	11.3%	11.8%
RoCE (%)	14.2%	21.8%
Total Debt/TNW (times)	0.3	0.4
Total Debt/OPBDIT (times)	1.5	1.4
Interest Coverage (times)	2.3	3.2

Source: NCC

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Rating (FY2020)						Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Current Rating	Earlier Rating	Earlier Rating	FY2019	FY2018	FY2017
					September 2019	June 2019	May 2019	June 2018	November 2017	March 2017
1	Fund-based Cash Credit	Long Term	2058.00	2058.00	[ICRA]A &	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Fund-based Term Loan	Long Term	283.00	283.00	[ICRA]A &	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Non-fund-based limits	Long Term	9400.00	9400.00	[ICRA]A &	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	Unallocated	Long Term	559.00	559.00	[ICRA]A &	[ICRA]A (Stable)	[ICRA]A (Stable)	[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	10.5%	December 2021	283.00	[ICRA]A &
NA	Cash Credit	-	10.0%	-	2058.00	[ICRA]A &
NA	Bank Guarantee and Letter of Credit	-	-	-	9400.00	[ICRA]A &
NA	Unallocated Limits	-	-	-	559.00	[ICRA]A &

Source: NCC

Annexure-2: List of companies considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NCC Infrastructure Holdings Private Limited	62.13%	Limited Consolidation
NCC Urban Infrastructure Limited	80.00%	Limited Consolidation
NCC Infrastructure Holdings Mauritius Pte. Limited	100.00%	Limited Consolidation
Nagarjuna Construction Company International L.L.C (Dubai)	100.00%	Limited Consolidation
OB Infrastructure Limited	64.02%	Limited Consolidation
Pondicherry Tindivanam Tollway Limited	47.80%	Limited Consolidation

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About ICRA Limited:

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