

## India Ratings Places NCC on RWN

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India Ratings and Research (Ind-Ra) has placed NCC Limited's Long-Term Issuer Rating of 'IND A' on Rating Watch Negative (RWN). The Outlook on the earlier rating was Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Rating Watch	Rating Action
Fund-based working capital limits	-	-	-	INR20.58	IND A/RWN/IND A1/RWN	Placed on RWN
Non-fund-based limits	-	-	-	INR93.0	IND A/RWN/IND A1/RWN	Placed on RWN
Non-fund-based limits*	-	-	-	INR5.54	IND A/RWN/IND A1/RWN	Assigned & Placed on RWN
Term loans	-	-	FY23	INR3.0	IND A/RWN	Placed on RWN
Proposed non fund-based working capital limits#	-	-	-	INR0.88 (reduced from INR6.42)	Provisional IND A/RWN/Provisional IND A1/RWN	Placed on RWN

#The ratings are provisional and shall be confirmed upon the sanction and execution of the loan documents for the above facilities by NCC to the satisfaction of Ind-Ra.

\*The final ratings have been assigned based on the sanction and execution of the loan documents by NCC to the satisfaction of Ind-Ra.

**Analytical Approach:** Ind-Ra continues to factor in the support extended by NCC to its subsidiaries including corporate guarantees extended to Nagarjuna Construction Company International LLC, an Oman-based entity to arrive at the ratings.

The RWN reflects a decline in NCC's revenue visibility on account of cancellation of work orders by the government of Andhra Pradesh (GoAP) along with the uncertainty related to execution and payments of the remaining work orders exposed to AP. The company's net working capital lockup pertaining to the unexecuted order book in AP was around INR7.5 billion at June 2019. However, Ind-Ra derives comfort from NCC's ability to replenish the lost order book from other geographies, as witnessed in the past, and the management clarification regarding the initiation of discussions with the GoAP regarding commencement of Andhra Pradesh Township and Infrastructure Development Corporation (APTIDCO) projects amounting to INR43.1 billion of the overall unexecuted order book by end-October 2019. However, Ind-Ra would monitor the progress in the order book replenishment and the collections of receivables/work-in-progress orders from the GoAP.

### KEY RATING DRIVERS

**Cancellation of GoAP Orders:** In June 2019, the Chief Secretary of AP announced the new government's intent of cancelling work orders issued by the previous government prior to 1 April 2019, where work is yet to commence. Following which, NCC's order book amounting to around INR61.0 billion was cancelled. However, the adjusted order book, post the cancellation of orders, remained comfortable at INR351.0 billion at end-March 2019 (around 2.9x of FY19 revenue). As per discussions with the management, the agency understands that the capex incurred and the mobilisation advances availed for these cancelled orders are minuscule and would not impact NCC's credit profile in FY20. Excluding the cancelled orders, the execution risk still persists with exposure to orders persistent to the GoAP remaining around INR117.7 billion, where the progress is on hold.

However, Ind-Ra draws comfort from the company's ability to replenish the cancelled orders from other geographies backed by its strong business profile and execution capability. Excluding orders from AP, NCC's order book stood at INR233.3 billion at FYE19 (FYE18: INR125.7 billion), despite higher order execution in FY19, indicating NCC's ability to secure orders from other geographies/counterparties. In 1QFY20, NCC secured around INR6.0 billion of orders from outside AP.

**Working Capital Lock up Pertaining to AP:** The company's credit profile moderated in 1QFY20 due to an increase in net working capital lock up backed by an increase in debtor days, majorly pertaining to the orders executed in AP. The net working capital lock up from AP at end-June 2019 was around INR7.5 billion with

receivables of INR6.3 billion, unbilled revenue of INR5.8 billion and mobilisation advances of INR4.6 billion.

The agency expects NCC's liquidity profile to improve by FYE20 as the company is in discussions with the GoAP to commence APTIDCO projects, which could result in release in the locked working capital (1QFY20: INR2.0 billion). However, there is uncertainty involved regarding AP capital city developmental job works, which accounted around INR66.1 billion of NCC's order book and locked net working capital of around INR2.5 billion at end-June 2019. Any further delay in releasing the locked net working capital from AP-related orders would impact the company's liquidity profile and be negative for the ratings.

**Improved Operational Performance:** In FY19, NCC's revenue surged 60% yoy to INR120.8 billion backed by faster execution of the order book, while revenue contribution from AP was around 34%. Its EBITDA margin excluding one-off events improved to 11.8% in FY19 (FY18: 10.0%), majorly on account of execution of high-margin orders availed in FY18-FY19, as well as increased scale of operations.

However, the revenue declined to around INR21.9 billion in 1QFY20, majorly on account of election season prevailing across the country and uncertainty pertaining from the GoAP. Despite this, NCC was able to maintain EBITDA margin of 12.2% on account of its closing order book, which had high-margin orders. Basis discussion with NCC's management, Ind-Ra understands that the company has stopped execution works for the pending order book from AP. Ind-Ra expects NCC's FY20 revenue to be around INR100.0 billion-110.0 billion with existing profitability levels.]

**Credit Metrics Improves in FY19 before Moderating in 1QFY20:** NCC's net adjusted leverage (net adjusted debt/EBITDA) improved to around 1.3x in FY19 (FY18: 1.9x; FY17: 2.9x) and interest coverage (EBITDA/interest cost) to 3.2x (2.3x, 1.7x) owing the improvement in revenue and profitability. However, the net leverage deteriorated to 2.1x and interest cover to 2.1x in 1QFY20, largely on account of increase in working capital utilisation, backed by the increase in debtor days to 134 from 95 in FY19. The company's net adjusted debt increased to INR22.7 billion at 1QFY20 (FYE19: INR17.9 billion). Revenue from AP accounted around INR4.5 billion of the total revenue in 1QFY20.

**Liquidity Indicator- Adequate:** NCC had sufficient cash balance of INR2.7 billion at FYE19 (FYE18: INR0.65 billion, 1QFY20: INR2.0 billion) as against repayment obligations of around INR2.6 billion (FYE18: INR1.4 billion). It has modest capex requirement of INR2.0 billion for FY20 which is likely to be funded by INR1.5 billion debt. Its average use the fund-based limits was 80%-85% during the 12 months ended September 2019; NCC is looking to enhance its fund based bank lines to INR22.0 billion from INR20.58 billion in FY20-21. It had a comfortable debt service coverage ratio (DSCR) with a minimum DSCR at 1.3x in FY20 and through the tenure of its equipment term loan. In FY19, the promoters have subscribed to share warrants of about INR0.28 billion, and the remaining INR0.82 billion will be infused in FY20.

**Proposed Investment in Road HAM Projects:** NCC is exploring bidding for road hybrid annuity model (HAM) projects, due to the significant number of projects being offered by National Highways Authority of India ('IND AAA/Stable) under the model. However, the management wants to continue its focus on engineering, procurement and construction projects and would limit its investment in HAM projects. NCC received around INR0.83 billion in FY19 from its subsidiary NCC Urban Infrastructure Limited, a real estate entity, the management expects to receive additional INR1.0 billion in FY20. Ind-Ra has factored in the cash inflows from the subsidiary to be utilised for any equity requirement of HAM projects in FY20 and any incremental cash outflows beyond the factored amount of INR 1.0 billion would be negative for the ratings.

## RATING SENSITIVITIES

The RWN indicates that ratings may be either affirmed or downgraded. Ind-Ra will continue to closely monitor the ability of the company to replenish the cancelled order book of AP and impact of the liquidity profile based on collection of its receivables/MPP from AP. Ind-Ra will undertake an appropriate rating action and will resolve the RWN by April 2020 post considering the developments.

## COMPANY PROFILE

NCC is a Hyderabad-based construction company listed on the National Stock Exchange Limited and BSE Limited. 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.

### FINANCIAL SUMMARY

Particulars	FY19	FY18
Revenue (INR billion)	120.8	75.6
EBITDA (INR billion)	14.23	8.55
EBITDA margin (%)	11.8	11.3
Total adjusted debt (INR billion)	20.6	16.66
Cash and cash equivalent (INR billion)	2.7	0.64
Net adjusted debt (INR billion)	17.9	16.0
Source: NCC, Ind-Ra		

## RATING HISTORY

Instrument Type	Current Rating/Rating Watch			Historical Rating/Outlook		
	Rating Type	Rated Limits (billion)	Rating	3 April 2019	6 August 2018	10 April 2017
Issuer rating	Long-term	-	IND A/RWN	IND A/Stable	IND A/Stable	IND A-/Stable
Fund-based facilities	Short-term	INR20.58	IND A/RWN/IND A1/RWN	IND A/Stable/IND A1	IND A/Stable/IND A1	IND A-/Stable/IND A2+
Non-fund-based facilities	Short-term	INR99.42	IND A/RWN/IND A1/RWN	IND A/Stable/IND A1	IND A/Stable/IND A1	IND A-/Stable/IND A2+
Term loans	Long-term	INR3.0	IND A/RWN	IND A/Stable	IND A/Stable	IND A-/Stable

## COMPLEXITY LEVEL OF INSTRUMENTS

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## Applicable Criteria

[Corporate Rating Methodology](#)

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