January 05, 2021

NCC Limited: Rating reaffirmed; Outlook revised to Stable from Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	173.00	83.43	[ICRA]A-; reaffirmed, Outlook revised to Stable from Negative
Fund-based Cash Credit	2058.00	2088.00	[ICRA]A-; reaffirmed, Outlook revised to Stable from Negative
Non-fund Based Limits	9854.0	9824.0	[ICRA]A-; reaffirmed, Outlook revised to Stable from Negative
Unallocated Limits	215.00	304.57	[ICRA]A-; reaffirmed, Outlook revised to Stable from Negative
Total	**12300.00**	**12300.00**	

**Instrument details are provided in Annexure-1*

Rationale

The revision in outlook for long term rating assigned to NCC Limited (NCC) takes into account the healthy recovery of its long pending monies from stuck projects in Andhra Pradesh (AP). NCC has recovered around Rs. 657.6 crore (part of these has been netted off against mobilization advances) from AP projects during the period from January 2020 till December 15, 2020. The liquidity position of NCC remained comfortable with cushion in working capital limits of around Rs. 500 crore with adequate drawing power and unencumbered cash balance of Rs. 95.0 crore as on November 30, 2020. The company has not opted for moratorium during March 2020 to August 2020 and average utilisation of fund-based facilities stood at 81% of the sanctioned limits during last 12 months ending November 2020. The rating continues to factor in the adequate revenue visibility in the medium term with a healthy unexecuted order book of Rs. 29,362 crore as on September 30, 2020, which is 3.6 times of the operating income (OI) in FY2020. The company's leverage indicators continue to remain healthy, with gearing and TOL/TNW of 0.4 times and 1.5 times respectively as on September 30, 2020. Further, NCC's order book is well diversified across geographies and segments viz. buildings (accounts for 46.6% of the outstanding order book as on June 30, 2020), water supply, environment and railways (24.4%), roads (8.6%), irrigation (7.1%) electrical (5.7%), and others (7.5%). 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 delay in recovery of pending receivables from AP projects. As on December 15, 2020, Rs. 681 crore of unbilled revenues and receivables, Rs. 303 crore of retention money are pending from the AP projects against Rs. 163.0 crore of mobilisation advances availed from these projects. The company is expected to recover another Rs. 150-200 crore in Q4 FY2021 from AP projects. Further, the rise in gross current assets were funded through working capital borrowings thereby resulting in deterioration in interest coverage to 1.5 times in H1 FY2021. NCC is exposed to moderate execution risks as ~60% of the outstanding order book is in preliminary stages of execution with less than 25% financial progress, of which 21% is yet to start execution as on June 30, 2020. Any slowdown in these projects would have an adverse impact on the revenues and profitability for FY2021. The operations of the company were affected in Q1 FY2021 due to lockdown restrictions imposed by government to contain the pandemic and constrained labor availability. The ramp-up in operations post easing of restrictions has been healthy and labor availability is around 80%-85% of pre-Covid levels in November 2020. In H1 FY2021, topline declined by 31% y-o-y to Rs. 2719.6 crore. Overall, revenues are expected to be lower by around 10%-15% y-o-y in FY2021 and operating margins are expected to reduce by 50-100 bps. 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. Any higher than expected support to group companies would be credit negative.

Key rating drivers and their description

Credit strengths

Adequate revenue visibility: NCC has adequate revenue visibility in the medium term with a healthy unexecuted order book of Rs. 29,362 crore as on September 30, 2020, which is 3.6 times of the OI in FY2020.

Diversified order book: NCC's order book is well diversified across geographies and segments viz. buildings (accounts for 46.6% of the outstanding order book as on June 30, 2020), water supply, environment and railways (24.4%), roads (8.6%), irrigation (7.1%) electrical (5.7%), and others (7.5%).

Strong execution capabilities: 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.

Healthy leverage indicators with comfortable liquidity: The company's leverage indicators continue to remain healthy, with gearing and TOL/TNW of 0.4 times and 1.5 times respectively as on September 30, 2020. The liquidity position of NCC remained comfortable with cushion in working capital limits of around Rs. 500 crore with adequate drawing power and unencumbered cash balance of Rs. 95.0 crore as on November 30, 2020. The company has not opted for moratorium during March 2020 to August 2020 and average utilisation of fund-based facilities stood at 81% of the sanctioned limits during last 12 months ending November 2020.

Credit challenges

Delay in recovery of pending receivables from AP projects led to increase in working capital borrowings and lower interest coverage: As on December 15, 2020, Rs. 681 crore of unbilled revenues and receivables, Rs. 303 crore of retention money are pending from the AP projects against Rs. 163.0 crore of mobilisation advances availed from these projects. The company is expected to recover another Rs. 150-200 crore in Q4 FY2021 from AP projects. Further, the rise in gross current assets were funded through working capital borrowings thereby resulting in deterioration in interest coverage to 1.5 times in H1 FY2021.

Orderbook exposed to execution risks: NCC is exposed to moderate execution risks as ~60% of the outstanding order book is in preliminary stages of execution with less than 25% financial progress, of which 21% is yet to start execution as on June 30, 2020. Any slowdown in these projects would have an adverse impact on the revenues and profitability for FY2021.

Impact of covid-19 pandemic: The operations of the company were affected in Q1 FY2021 due to lockdown restrictions imposed by government to contain the pandemic and constrained labor availability. The ramp-up in operations post easing of restrictions has been healthy and labor availability is around 80%-85% of pre-Covid levels in November 2020. In H1 FY2021, topline declined by 31% y-o-y to Rs. 2719.6 crore. Overall, revenues are expected to be lower by around 10%-15% y-o-y in FY2021 and operating margins are expected to reduce by 50-100 bps.

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. Any higher than expected support to group companies would be credit negative.

Liquidity position: Adequate

The liquidity position of the company is adequate. The unencumbered cash as on November 30, 2020 is Rs. 95.0 crore with undrawn working capital facilities of around Rs. 500.0 crore as on November 30, 2020. The average utilisation of fund-based facilities during December 2019 to November 2020 remained at 81% of sanctioned limits. The company's debt repayment obligation in H2 FY2021 is Rs. 174.5 crore which can be comfortably met through cash flow from operations.

Rating sensitivities

Positive triggers - ICRA may upgrade NCC's rating if there is significant improvement in scale of operations and profitability. Specific metrics that would lead to upgrade will include debtor plus inventory days of less than 250 days on a sustained basis.

Negative triggers - Negative pressure on NCC's rating may arise if there is lower than anticipated billing and/or significant elongation in working capital cycle. Delay in recovery of pending receivables and WIP from GoAP or higher than expected support to group companies would be credit negative.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Methodology for Construction Entities Corporate Credit Rating Methodology
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered consolidated financials of NCC Limited. 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, BOT projects in infrastructure and real estate development. Under EPC, buildings division (accounts for 46.6% of the outstanding order book as on June 30, 2020), water supply, environment and railways (24.4%), roads (8.6%), irrigation (7.1%) electrical (5.7%), and others (7.5%). The shares of the company were listed on the stock exchanges in India in 1992.

Key financial indicators (consolidated)

	FY2019 Audited	FY2020 Audited	H1 FY2020 Provisional
Operating Income (Rs. crore)	12895.6	8901.1	3005.9
PAT (Rs. crore)	574.4	324.7	86.8
OPBDIT/OI (%)	12.4%	12.2%	11.9%
PAT/OI (%)	4.5%	3.6%	2.9%
Total Outside Liabilities/Tangible Net Worth (times)	2.0	1.6	1.5
Total Debt/OPBDIT (times)	1.7	2.0	3.1
Interest Coverage (times)	3.1	2.0	1.5

Source: NCC

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

			Current Rating (FY2021)				Chronology of Rating History for the Past 3 Years				
	Instrument	Type	Amount Rated (Rs. Crore)	Amount Outstanding (Rs. Crore)	Date & Rating	Date & Rating	Date & Rating in FY2020			Date & Rating in FY2019	Date & Rating in FY2018
					January 5, 2021	April 1, 2020	September 23, 2019	June 10, 2019	May 13, 2019	June 15, 2018	November 29, 2017
1	Fund-based Cash Credit	Long Term	2088.00	2088.00	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A&	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Fund-based Term Loan	Long Term	83.43	83.43	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A&	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
3	Non-fund-based limits	Long Term	9824.00	9824.00	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A&	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
4	Unallocated	Long Term	304.57	304.57	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A&	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)

& - rating watch with developing implications

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	9.7%	December 2021	83.43	[ICRA]A- (Stable)
NA	Cash Credit	-	9.5%	-	2088.00	[ICRA]A- (Stable)
NA	Bank Guarantee and Letter of Credit	-	-	-	9824.00	[ICRA]A- (Stable)
NA	Unallocated Limits	-	-	-	304.57	[ICRA]A- (Stable)

Source: NCC

Annexure-2: List of companies considered for consolidated analysis

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

Source: NCC; ICRA research

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About ICRA Limited:

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