

India Ratings Affirms NCC at 'IND A'/Positive; Off RWN

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India Ratings and Research (Ind-Ra) has affirmed NCC Limited's (NCC) Long-Term Issuer Rating at 'IND A', while resolving the Rating Watch Negative (RWN). The Outlook is Positive. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (billion)	Rating/Outlook	Rating Action
Fund-based working capital limits	-	-	-	INR20.58	IND A/Positive/IND A1	Affirmed; Off RWN
Non-fund-based limits	-	-	-	INR98.54	IND A/Positive/IND A1	Affirmed; Off RWN
Term loans	-	-	FY23	INR0.81 (reduced from INR3.0)	IND A/Positive	Affirmed; Off RWN
Proposed non fund-based working capital limits*	-	-	-	INR3.07 (increased from INR0.88)	IND A/Positive/IND A1	Assigned

*The provisional rating of the proposed bank facilities has been converted to final rating as per India Ratings' updated policy. This is because the debt seniority and general terms and conditions of working capital facilities tend to be uniform across banks, and are not a rating driver.

Analytical Approach: Ind-Ra continues to rate NCC on a standalone basis after factoring in the support extended by NCC to its subsidiaries to arrive at the ratings.

The resolution of the RWN reflects NCC's demonstrated ability, over the 14 months ended November 2020, to recover a portion of the debtors and gain increased clarity on the execution of its orders majorly pertaining towards the Government of Andhra Pradesh (GoAP) along with its improved ability to replenish the cancelled and slow-moving orders from Andhra Pradesh (AP).

The Positive Outlook reflects Ind-Ra's expectation of an increase in the order book visibility majorly towards central government parties, with minimal counterparty risk, coupled with an improved geographical diversification. Furthermore, Ind-Ra also expects NCC's credit profile to improve by FYE22, backed by its improved operating performance.

KEY RATING DRIVERS

Cashflow Generation from GoAP in 2020; Further Release of Working Capital Likely in 4QFY21: In FY20, NCC faced order cancellations from the GoAP amounting to INR61.0 billion. Also, its net working capital was stuck in the form of debtors, including unbilled revenue amounting to INR6.3 billion, retention money of INR5.8 billion along with mobilisation advances of INR4.6 billion at end-September 2019. Moreover, there was a lack of clarity on the existing orders and the way ahead pertaining to GoAP orders. However, over the 14 months ended November 2020, NCC was able to negotiate successfully with the GoAP and was able to recover the net working capital of around INR5.2 billion. Furthermore, over the same period, NCC had executed orders amounting to INR6.3 billion majorly towards affordable housing projects, central government-funded projects and other multilateral funded projects. At end-November 2020, the debtors (including unbilled revenue) stood at INR7.2 billion, the retention money at INR3.0 billion and the mobilisation advances availed stood at INR1.6 billion. Furthermore, the agency has been informed that NCC will be recovering around INR3.0 billion of additional cashflows pertaining to the stuck working capital in 4QFY21. Thus, Ind-Ra believes the net working capital will improve, resulting in an overall improvement in the liquidity profile.

Strong Order Book Visibility due to Huge Inflow of Orders in 9MFY21: Till end-November 2020 the company had received orders amounting INR81.7 billion (FY20: INR71.7 billion; FY19: INR207.4 billion). This led to a strong closing order book of INR294 billion at end-September 2020 with a revenue visibility of 3.6x of FY20 revenue. Furthermore, the agency has been informed that NCC received around INR100.0 billion of additional orders in December 2020, which increased its overall order book to around INR400 billion at end-3QFY21.

Also, the current order book displays improved diversification as compared to the earlier order book profile as NCC had received orders from across different geographies with AP having an exposure of 20.5% and Maharashtra 13% of the overall order book profile at end-September 2020. The order book is concentrated towards buildings (46.4%) such as commercial, residential and industrial buildings and water and irrigation-related works (33%), with the balance comprising roads, electrical and mining projects. NCC has also executed engineering procurement & construction works towards metros, railways and other power sector-related activities. Furthermore, Ind-Ra also draws comfort from the fact that the major portion of the new orders are from the central government (65%-70% of the unexecuted order book at end-September 2020) where the counterparty credit risk is minimal. The central government orders comprised 35%-40% of the closing order book at FYE19

Liquidity Indicator - Adequate: NCC's average fund-based working capital utilisations was around 80% (overall limits INR20.8 billion) over the 12 months ended November 2020 with free cash of INR716 million at end-1HFY21. The repayment obligation scheduled in FY21 is INR2.6 billion, of which, the company had already serviced around INR2.11 billion at end-December 2020; the balance will be serviced by end-March 2021. The company did not avail the Reserve Bank of India-prescribed moratorium on working capital loans but availed low-cost loans under the COVID-19 relief scheme in FY20 amounting to around INR1,520 million, which is being repaid in 18 monthly instalments with six months moratorium.

However, in 1HFY21, the debtor's recovery got elongated majorly from the states of AP, Telangana and from other power transmission related projects majorly on account of the changes in the priority of the respective state governments. This resulted in elongated debtors where debtors ageing over a year stood at INR7.0 billion (30% of the overall debtors) at end-1HFY21 against INR4.3 billion (18.6% of the overall debtors) at FYE20. However, NCC realised around INR1.8 billion of the said debtors ageing in 3QFY21 and is in negotiations with certain parties to recover another INR2.0 billion in 4QFY21. Furthermore, NCC has an ongoing capex plan of INR1.2 billion for FY21 majorly for the purchase of commercial equipment and had a funding tied up around INR800 million till end-December 2020.

Moreover, NCC had received cashflow of around INR400 million from its subsidiary NCC Urban Infrastructure Limited till 9MFY21 and is likely to receive another INR600 million in 4QFY21 which will further improve its liquidity profile. Although the management has informed the agency that it is in process of recovering another INR3.0 billion of debtors pertaining to GoAP,

NCC is likely to continue to generate negative free cash flow in FY21 (FY20: negative INR112 million) due to the impact of COVID-19. However, Ind-Ra believes the free cash flow will turn positive at around INR3.0 billion over FY22-FY23 due to strong demand.

Operational Performance Likely to Recover in 2HFY21: NCC's operational performance deteriorated in FY20 due to order cancellations and other issues pertaining to the slow-moving orders from the GoAP with around 32% yoy decline in the revenue to INR82.2 billion in FY20. The revenue fell further to INR27.2 billion in 1HFY21 due to COVID-19-led disruptions and the nation-wide lockdown. However, the operations streamlined in 3QFY21 and the agency was informed that NCC has been performing at almost 100% execution rates since September 2020. Ind-Ra believes NCC's revenue will be INR68 billion-70 billion in FY21 and will grow at 30%-35% yoy in FY22.

Though the revenue declined, NCC was able to maintain its EBITDA margins at around 12% in 1HFY21 (FY20: 12.5%) majorly due to the high-margin closing order books (which have a gross margin of 15%-20%) along with the cost-effective measures it implemented. Ind-Ra believes NCC's margins will remain stable at 13%-13.5% over FY21-FY23.

Warrants Issue to Improve Credit Metrics in FY22: NCC had announced a warrants issue in 3QFY21 which would not only increase the existing shareholding position of the promoters but also improve the working capital position of the company as the said proceeds will be majorly used for meeting the working capital purposes and deleverage its balance sheet. Furthermore, over the six months ended December 2020, the promoters' pledge component also decreased to around 26% of their overall shareholding (FY20: 39%; FY19: 43%) on account of a reduction in the unsecured loans availed by them, along with an improved share price.

NCC's credit metrics moderated in FY20 with the net leverage of around 1.8x (FY19: 1.2x) and interest coverage of 2.0x (FY19: 3.2x) on account of the increased working capital requirement to fund the elongation in debtors majorly pertaining to AP and other state government parties. Ind-Ra believes NCC's credit profile in FY21 will deteriorate marginally year-on-year before improving in FY22 with the net leverage of around 1.6x and the interest coverage of 2.3x-2.5x.

RATING SENSITIVITIES

Negative: A negative rating action could result from delays in the timely execution of the order book or an increase in debtor collection, leading to the interest coverage reducing below 2x, all on a sustained basis.

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

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 its 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 (INR billion)	FY20	FY19
Revenue	82.2	120.8
EBITDA	10.3	14.23
EBITDA margin (%)	12.5	11.8
Total adjusted debt	19.1	20.6

Cash and cash equivalent	1.0	2.7
Net adjusted debt	18.0	17.9
Source: NCC, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook/Rating Watch		
	Rating Type	Rated Limits (billion)	Rating	7 October 2019	6 August 2018	10 April 2017
Issuer rating	Long-term	-	IND A/Positive	IND A/RWN	IND A/Stable	IND A-/Stable
Fund-based facilities	Long term/Short-term	INR20.58	IND A/Positive/IND A1	IND A/RWN/IND A1/RWN	IND A/Stable/IND A1	IND A-/Stable/IND A2+
Non-fund-based facilities	Long term/Short-term	INR 101.61	IND A/Positive/IND A1	IND A/RWN/IND A1/RWN	IND A/Stable/IND A1	IND A-/Stable/IND A2+
Term loans	Long-term	INR0.81	IND A/Positive	IND A/RWN	IND A/Stable	IND A-/Stable

COMPLEXITY LEVEL OF INSTRUMENTS

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Applicable Criteria

[Corporate Rating Methodology](#)
[Short-Term Ratings Criteria for Non-Financial Corporates](#)

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