

India Ratings Upgrades NCC and its Bank Facilities to 'IND AA-/Stable

Jun 13, 2024 | Civil Construction

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

Details of Instruments

Instrument Type	Date of issuance	Coupon Rate (%)	Maturity Date	Size of Issue (billion)	Rating assigned along with Outlook/ Watch	Rating Action
Fund-based working capital limits	-	-	-	INR22	IND AA-/Stable/IND A1+	Long-term upgraded and short-term affirmed
Non-fund-based working capital limits	-	-	-	INR130	IND AA-/Stable/IND A1+	Long-term upgraded and short-term affirmed

Analytical Approach

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

Detailed Rationale of the Rating Action

The upgrade reflects NCC's continued strong business, credit and financial profile in the engineering, procurement and construction industry and a diversified presence across all sub-segments and regions in the country. The upgrade also reflects a strong financial profile with a low net leverage ratio and comfortable liquidity in FY24, which Ind-Ra expects to sustain in the medium term despite a likely increase in equity outflows and debt for implementing its smart meter project.

The ratings reflect the company's healthy consolidated operational performance with volume growth in FY24 and Ind-Ra's expectation of continued growth and healthy profitability in the near-to medium term. Further, the management stated that the financial closure of its smart-meter project is in progress and it does not require to provide any corporate guarantee for it.

List of Key Rating Drivers

Strengths

- Robust order book with moderate concentration
- Increasing scale of operations
- Sustained strong credit metrics

Weaknesses

- Shortening and improving working capital cycle; recovery of debtors including unbilled revenue remains crucial
- Likely cash outflow towards smart meter projects

Detailed Description of Key Rating Drivers

Robust Order Book with Moderate Concentration: NCC received orders worth INR273 billion during FY24 (FY23: INR259 billion; FY22: INR122 billion), leading to a strong closing order book of INR575 billion at end-March 2024, with a healthy revenue visibility of 3.1x of the FY24 revenue. The orderbook displayed moderate geographical and segmental concentration, with Uttar Pradesh accounting for 22%, followed by Maharashtra (32%) and Karnataka (9%), while the electrical segment formed 33% with its smart meter projects, followed by buildings (24%), transportation (21%) and water and railways (12%).

Ind-Ra estimates projects with an execution progress of less than 10% cumulatively comprised 37% of the overall unexecuted order book in FY24. With the company receiving continuous new orders, the percentage of projects with less than 10% execution progress would likely remain higher even over FY25-FY26; however, it does not necessarily pose any execution risk. The order book excluding the orders received during September-March 2024 had a large number of projects requiring an increased run-rate of execution to meet the stipulated completion dates. The management stated that the extension of timelines is available in the regular course of business and it does not foresee any challenge in its order execution. The buildings segment accounted for 39% of the overall order-book at FYE24 (FYE23: 46%), followed by the electrical segments 20% (14%).

Increasing Scale of Operations: Ind-Ra expects NCC's revenue to grow 10%-12% yoy in over FY25-FY26, backed by strong order inflows during FY22-FY24. The company's revenue increased to INR183 billion in FY24 (FY23: INR133 billion; FY22: INR99 billion) in line with Ind-Ra's estimates, due to a steady inflow of new orders over FY22-FY23. However, the company witnessed a 9% reduction in its EBITDA margins in FY24 (FY23: 10.1%; FY22: 10.0%), due to a charge-off of INR3.5 billion towards the arbitration awarded during 2QFY24. Adjusting for the charge-off amount, its revenue stood at INR185 billion, EBITDA at INR18.5 billion and the EBITDA margins at 10.0% in FY24. Ind-Ra believes the margins will remain stable at 9.5%-11% over FY25-FY26 due to the presence of high-margin orders from the electrical segment in the order book.

Sustained Strong Credit Metrics: Ind-Ra expects NCC's credit metrics to further improve in FY25-FY26 with the gross interest coverage (operating EBITDA/gross finance cost) rising above 3x and the net leverage (gross debt including corporate guarantee less unencumbered cash/operating EBITDA) falling below 1x, on a sustained basis, owing to higher EBITDA generation and debt levels reducing further, along with the presence of orders providing non-interest bearing mobilisation advances. NCC's net leverage reduced to around 0.3x in FY24 (FY23: 0.6x; FY22: 1.0x) and the gross interest coverage increased to 3.1x (2.6x; 2.2x). The total outside liabilities (TOL)/EBITDA improved significantly to 5.7x at FYE24 and is likely to sustain under 6x levels over FY25-FY26. At FYE24, its TOL aggregated to around INR105 billion (FY23: INR92.8 billion; FY22: INR80 billion). Its overall gross debt reduced to INR10 billion in FY24 (FY19: INR17 billion), however, it was offset by an increase in its mobilisation advances (around half are interest-bearing) up to INR29 billion (INR17 billion). In line with its improved working capital cycle in FY24, Ind-Ra expects NCC to reduce its working capital intensity over FY25-FY26 with the presence of orders from counter parties, whose receivable realisation have been regular in a timely manner. However, in case of any delay in the certification of bills or undue delays in realisation of the same can impact the overall liquidity profile of the company, leading to an increase in debt levels and/or a higher interest outflow and could be negative for the ratings.

Ind-Ra notes its consolidated debt is marginally lower than that at the standalone level owing to inter-corporate loans. As per the management, there is no expected support to any of the subsidiary or project special purpose vehicles (SPVs) which can impact the cash flows of NCC.

Reduced Working Capital Cycle; Recovery of Debtors Including Unbilled Revenue Remains Crucial: Ind-Ra expects NCC to sustain its net working capital cycle at less than 50 days during FY25-FY26 (FY24: 41; FY23: 68), due to the improved execution and lower receivables from the outstanding order book. Consequently, the net working capital cycle as a percentage of the revenue is likely to sustain below 20% in FY25-FY26 (FY24: 12%; FY23: 19%). Given the nature of the construction segment and with the presence of orders to be executed over one-to-three years, Ind-Ra expects the working capital requirements to be funded by a combination of working capital debt, mobilisation advances and sundry creditors. The recovery of debtors from distribution companies, state governments of Andhra Pradesh, Telangana and other counterparties remains crucial. The unbilled revenue increased to INR38.6 billion at FYE24 (FYE23: INR32.2 billion; FYE22: INR22.8 billion), largely on account of underlying payment terms of the contracts. The timely recovery of the same is crucial and a key monitorable for the agency.

Likely Cash Outflow towards Smart Meter Projects: The company has set up two SPVs for executing smart meter orders and is also pursuing for a strategic equity partner. The execution of smart meter orders (two SPVs and one directly executed by NCC) is likely to entail an equity outflow of INR5 billion and a debt tie-up of about INR20 billion, which is in progress. The management does not expect NCC to extend corporate guarantees towards the debt raised at SPV level; however, debt worth about INR5 billion would be raised by NCC at a standalone level. Since the company has yet to achieve financial closure for the projects, any upward deviation towards the estimated equity support other than envisaged INR5 billion or the provision of any other support in terms of corporate guarantee shall be negative for the ratings.

However, given the presence of undrawn mobilisation advances of about INR10 billion at end-1HFY24 and the unutilised fund-based working capital limits, the overall liquidity of NCC shall remain adequate. Also, a successful tie-up with a strategic investor is likely to result in an outflow of INR1.3 billion instead of INR5 billion over FY25-FY27 towards the SPVs. Further, the timely realisation of funds from the concluded sale of NCC Vizag Urban Infrastructure shall improve NCC's overall liquidity profile, and likely to provide an additional liquidity cushion.

Liquidity

Adequate: Ind-Ra expects the liquidity profile to remain adequate over FY25-FY26. The company had an unutilised working capital limit of nearly INR14 billion and an unencumbered cash balance of INR5 billion at end-March 2024. The company's average utilisation of the working capital limits (around 55% over the 12 months ended March 2024) is likely to remain in the less than 60%-70% and there will be availability of funding for vehicle/equipment financing during FY25. Although the company envisages an equity commitment of about INR5 billion over FY25-FY26 and has a capex plan of INR2,000 million-2,500 million each year over FY24-FY26, the same is unlikely to pose any liquidity challenges given the strong cash flow generation capability of the company. NCC's free cash flows improved to around INR3.9 billion in FY24 (FY23: negative INR0.16 billion; FY22: INR6.4 billion) and would touch approximately INR2.2 billion in FY25, in view of its robust order book.

Rating Sensitivities

Positive: The sustenance of the CFO, the profitability and the maintenance of its segmental, geographic and project-wise diversification could lead to a positive rating action.

Negative: Deterioration in the CFO, the profitability, an increase in the working capital lock-up, leading to a rise in the debt, and/or higher-than-expected cash outflows to its SPVs resulting in the TOL/EBITDA remaining above 6.0x, on a sustained basis, could lead to a negative rating action.

About the Company

Hyderabad-based NCC is a 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 100%-owned subsidiary NCC Infrastructure Holdings Limited and in real estate through its 80%-owned subsidiary NCC Urban Infrastructure Limited.

Key Financial Indicators

Particulars	FY24	FY23
Revenue (INR billion)	183	134
EBITDA (INR billion)*	18.5	13.4
EBITDA margins (%)*	10.0	10.1
Interest coverage (x)*	3.1	2.6
Net leverage (x)*	0.3	0.6
Source: NCC, Ind Ra		
*Adjusted EBITDA		

Status of Non-Cooperation with previous rating agency

Not applicable

Rating History

Instrument Type	Current Rating/Outlook			Historical Rating/Outlook				
	Rating Type	Rated Limits (billion)	Rating	25 January 2024	19 January 2023	12 December 2022	29 March 2022	14 March 2022
Issuer rating	Long-term	-	IND AA-/Stable	IND A+/Positive	IND A+/Stable	IND A+/Stable	IND A/Positive	IND A/Positive
Fund-based facilities	Long term/short-term	INR22	IND AA-/Stable/IND A1+	IND A+/Positive/IND A1+	IND A+/Stable/IND A1	IND A+/Stable/IND A1	IND A/Positive/IND A1	IND A/Positive/IND A1
Non-fund-based facilities	Long term/short-term	INR130	IND AA-/Stable/IND A1+	IND A+/Positive/IND A1+	IND A+/Stable/IND A1	IND A+/Stable/IND A1	IND A/Positive/IND A1	IND A/Positive/IND A1

Bank wise Facilities Details

The details are as reported by the issuer as on (13 Jun 2024)

#	Bank Name	Instrument Description	Rated Amount (INR million)	Rating
1	State Bank of India	Fund Based Working Capital Limit	6230	IND AA-/Stable/IND A1+
2	Canara Bank	Fund Based Working Capital Limit	4660	IND AA-/Stable/IND A1+
3	Andhra Bank	Fund Based Working Capital Limit	2130	IND AA-/Stable/IND A1+
4	Indian Overseas Bank	Fund Based Working Capital Limit	600	IND AA-/Stable/IND A1+
5	ICICI Bank	Fund Based Working Capital Limit	1000	IND AA-/Stable/IND A1+
6	IDBI Bank	Fund Based Working Capital Limit	1720	IND AA-/Stable/IND A1+
7	Standard Chartered bank	Fund Based Working Capital Limit	3000	IND AA-/Stable/IND A1+
8	Punjab National Bank	Fund Based Working Capital Limit	1000	IND AA-/Stable/IND A1+
9	Punjab & Sind Bank	Fund Based Working Capital Limit	300	IND AA-/Stable/IND A1+
10	State Bank of India	Non-Fund Based Working Capital Limit	34720	IND AA-/Stable/IND A1+
11	Canara Bank	Non-Fund Based Working Capital Limit	35940	IND AA-/Stable/IND A1+
12	Andhra Bank	Non-Fund Based Working Capital Limit	10650	IND AA-/Stable/IND A1+
13	Indian Bank	Fund Based Working Capital Limit	860	IND AA-/Stable/IND A1+
14	Indian Overseas Bank	Non-Fund Based Working Capital Limit	7900	IND AA-/Stable/IND A1+
15	Indian Bank	Non-Fund Based Working Capital Limit	6590	IND AA-/Stable/IND A1+
16	ICICI Bank	Non-Fund Based Working Capital Limit	2500	IND AA-/Stable/IND A1+
17	IDBI Bank	Non-Fund Based Working Capital Limit	5020	IND AA-/Stable/IND A1+
18	Standard Chartered bank	Non-Fund Based Working Capital Limit	4500	IND AA-/Stable/IND A1+
19	Punjab National Bank	Non-Fund Based Working Capital Limit	9530	IND AA-/Stable/IND A1+
20	Punjab & Sind Bank	Non-Fund Based Working Capital Limit	2150	IND AA-/Stable/IND A1+
21	IndusInd Bank Limited	Non-Fund Based Working Capital Limit	3000	IND AA-/Stable/IND A1+
22	EXIM Bank	Non-Fund Based Working Capital Limit	3000	IND AA-/Stable/IND A1+
23	Karnataka Bank Ltd	Non-Fund Based Working Capital Limit	1500	IND AA-/Stable/IND A1+
24	Karnataka Bank Ltd	Fund Based Working Capital Limit	500	IND AA-/Stable/IND A1+

25	Yes Bank Ltd	Non-Fund Based Working Capital Limit	3000	IND AA-/Stable/IND A1+
----	--------------	--------------------------------------	------	------------------------

Complexity Level of the Instruments

Instrument Type	Complexity Level
Fund-based working capital facilities	Low
Non-fund-based working capital facilities	Low

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

Contact

Primary Analyst

Vijay Babu Konda
Associate Director
India Ratings and Research Pvt Ltd
36 Urban Center, Level 4,Road no.36, Jubilee Hills, Hyderabad - 500 033, India
04067661900
For queries, please contact: infogrp@indiaratings.co.in

Secondary Analyst

Laxmi Mathpal
Senior Analyst
+91 124 6687211

Media Relation

Ameya Bodkhe
Marketing Manager
+91 22 40356121

About India Ratings and Research: India Ratings and Research (Ind-Ra) is 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 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.

India Ratings is a 100% owned subsidiary of the Fitch Group.

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

Solicitation Disclosures

Additional information is available at www.indiaratings.co.in. The ratings above were solicited by, or on behalf of, the issuer, and therefore, India Ratings has been compensated for the provision of the ratings.

Ratings are not a recommendation or suggestion, directly or indirectly, to you or any other person, to buy, sell, make or hold any investment, loan or security or to undertake any investment strategy with respect to any investment, loan or security or any issuer.

APPLICABLE CRITERIA AND POLICIES

Evaluating Corporate Governance

Short-Term Ratings Criteria for Non-Financial Corporates

Corporate Rating Methodology

The Rating Process

DISCLAIMER

All credit ratings assigned by india ratings are subject to certain limitations and disclaimers. Please read these limitations and disclaimers by following this link: <https://www.indiaratings.co.in/rating-definitions>. In addition, rating definitions and the terms of use of such ratings are available on the agency's public website www.indiaratings.co.in. Published ratings, criteria, and methodologies are available from this site at all times. India ratings' code of conduct, confidentiality, conflicts of interest, affiliate firewall, compliance, and other relevant policies and procedures are also available from the code of conduct section of this site.

