NCC Limited

September 17, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,200.00	CARE AA-; Stable	Reaffirmed
Long-term / Short-term bank facilities	19,100.00	CARE AA-; Stable / CARE A1+	Reaffirmed
Commercial Paper (Carved out)*	1,000.00 (Enhanced from 100.00)	CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in ratings assigned to bank facilities and short-term instrument of NCC Limited (NCCL) factors the company's long and established track record in the construction industry in the last four decades, strong orderbook position backed by sizable order additions resulting in consequential growth in the scale of operations. The order book is diversified with presence across buildings, water pipelines, irrigation, transmission, mining, transportation and urban infra, among others. The company continues to have projects across pan India. The company ventured in smart metering projects, where it had undertaken three projects aggregating ₹4,456 crore for which the investment commitment is ₹528 crore over the next three years. NCCL group is comfortably placed to meet this equity commitment. Apart from this, CARE Ratings Limited (CARE Ratings) understands there is no other investment requirement in other verticals operated under the group and corporate guarantee (CG) shall not be extended in smart metering special purpose vehicles (SPVs). One of the projects has already achieved financial closure, where no CG has been extended by NCCL.

Driven by a robust order book position, revenue growth continues to be robust at 37% for FY24. Ratings are also backed by moderate profitability metrics with profit before interest, lease rentals, depreciation and taxes (PBILDT) margin range bound between 10-12% of the revenue. CARE Ratings takes cognisance of PBILDT margin moderating in year to date-FY24 due to a legacy arbitration claim write offs, however, cash generation is likely to remain robust fortifying credit strengths. Adequate cash generation from business operation resulted in lower dependence on external borrowings with total debt (including mobilization advance)/PBILDT consistently improving in the last six years and stands at 2.61x for FY24 (PY: 3.48x). Adjusting for interest-free mobilisation advance, total debt (including interest baring mobilization advance)/PBILDT stood at 2.15x for FY24 (PY: 2.52x).

However, above ratings' strengths are tempered by elevated working capital intensity due to sizable unbilled revenue with gross current asset days (GCA days) at 272 days for FY24. The company has been making consistent efforts to reduce working capital intensity which are also bearing results indicated by reduction from the past GCA days of 335 days in FY23 and 391 days in FY22. Improvement has been supported by management's focus on bidding for projects having strong counter parties with visible funding avenues and restricting exposure to a single state and single counterparty in the orderbook. Susceptibility of profitability due to volatility in commodity prices, legacy arbitrations and exposure to state government projects are some other credit deterrents.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained growing scale of operations with improving profitability and reducing GCA days below 200 days.

Negative factors

- Delaying execution of order book impacting growth in scale of operations and PBILDT margins falling below 9% on a sustained basis.
- Increasing GCA days above 320 days on sustained days.
- Higher-than-envisaged equity commitment for SPVs or support through extension of corporate guarantee.

Analytical approach:

Standalone

[1]Complete definition of ratings assigned are available at www.careedge.in and other CARE Ratings Limited's publications.

Outlook: Stable
The outlook is expected to remain stable supported by strong orderbook position rendering revenue visibility and execution track record underpinning cashflow generation.

Detailed description of key rating drivers:

Key strengths

Long and established track record of executing large infrastructure projects
NCCL has been a key contributor to India's infrastructure growth journey with projects spanning over diverse sectors such as buildings, water pipelines, irrigation, transmission, power generation, transportation and urban infra, among others. The company has a vast experience of over four decades in executing these projects.

Diversified and strong orderbook position
NCCL has a strong orderbook of over ₹52,626 crore as on June 30, 2024, which translates to 2.87x of gross billing for FY24. The company has been able to consistently add new orders in fiscal 2022-23, NCCL added orders worth ~₹25,900 crore and ~₹28,283 crore in FY24 and ₹408 crore in Q1FY25. The orderbook has a pan-India footprint spanning across over 14 states with a highest proportion in Maharashtra at 34%. The orderbook also stands sectorally diversified across multiple sectors such as water supply, civil construction, power, smart metering and roads, among others. The orderbook is completely focussed on domestic operations and the company is no longer foraying in geographies beyond India.
CARE Ratings takes cognisance of a sizable proportion of the outstanding orderbook at a nascent stage having less than 5% progress or awaiting appointed dates. Nascency of projects has been due to sizable order addition in FY24, which are still underway to receive authority clearances/permissions and right of way. Certain orders in the orderbook have been awarded in FY20-21 and are still to be completed. NCCL's management articulated to CARE Ratings that adequate extension of time is available and delays are not pertaining to NCCL. Going forward, CARE Ratings expects significant scaling up of operations due to execution of large orders.

Expansion of portfolio with entry into smart metering projects
NCCL has taken three smart meter installation projects of value ₹4,456 crore of which two are being executed through separate SPVs. There is a likely equity commitment of ₹528 crore to be infused over next three fiscals and a term debt aggregating to ₹2,112 crore for these SPVs. NCCL group is comfortably placed to meet this equity commitment. NCCL has indicated the likelihood of bringing in a strategic investor for these projects to whom the management shall be offloading a stake in these SPV for equity and a strategic premium. Funding tie up for these SPVs is at an advanced stage with one of the SPVs having achieved financial closure. NCCL management has articulated to CARE Ratings that the debt for these SPVs shall not be entailing corporate guarantee from NCCL. Onboarding of strategic partner for these projects remains crucial for reducing the equity infusion liability on NCCL.
Apart from these projects, there is no other investment requirement in the other business verticals of the group and deviation from this stance would be important from credit perspective.

Growing in scale of operations and cash accruals
Total operating income (TOI) has grown by 37% from ₹13,351 crore in FY23 to ₹18,314 crore for FY24. In Q1FY25, the company reported a TOI of ₹4,713 crore with revenue growth of 22% from corresponding quarter in the last fiscal. In FY24, due to settlement of some arbitration claims, the company charged off unrealised revenue for the project of Sembcorp India which moderated margins in FY24 at 9% (PY: 10.06%). However, cash flow generation is expected to continue to be robust with adjustment in revenues being of non-cash.
CARE Ratings believes that the growth in scale of operations is likely to continue in the near term and PBILDT margins are likely to recuperate to former levels going forward.

Comfortable leverage and capital structure
NCCL exhibits relatively low reliance on long-term borrowings. Larger leverage on books pertain to working capital finance in form of mobilisation advances, working capital bank borrowings and letter of credit (LC) backed acceptances.Interest coverage ratio stood comfortable at 2.77x for FY24. A significant portion of mobilisation advances are interest free and adjusting for interest-free mob advance, total debt (including interest-bearing mobilisation advances)/PBILDT would be 2.15x for FY24 (PY: 2.52x). Driven by strong net worth, total outside liabilities to total net worth (TOL/TNW) remains comfortable at 1.55x in FY24 (PY: 1.47x).
CARE Ratings expects the reliance on term debt to continue to be low and a likelihood of reduction in reliance on working capital debt from reduction in GCA days.

Key weaknesses

Elevated working capital intensity, but with improving trend

The company's operations continue to be working capital intensive, however, the intensity has indicated improvement with reduction in GCA days to 272 days in FY24 (PY: 335 days). Historically, NCCL witnessed GCA days of above 400 days in FY21 due to receivables stuck in Andhra Pradesh (AP) government projects. A large part of current assets continues to be blocked in unbilled revenue (forming 32% of revenue in FY24) given the huge order book across multiple sites. Gradually, the company has been able to recover a sizable portion of pending receivables indicated by 3-year cumulative cashflow from operation forming ~90% of the 3-year cumulative PBILDT. The company has been making consistent efforts to reduce the current asset position by implementing strategies such as taking exposure in projects with better payment cycles and restricting the exposure to a single counterparty to reduce customer concentration.
CARE Ratings shall continue to monitor the working capital intensity for NCCL, and further elongation of GCA days remains a key rating sensitivity.

Payment considering settlement of arbitration claims & exposure to state government orders

There are legacy arbitrations in the group's subsidiaries, NCCL has guaranteed the pay-out for settlement agreed for one of the subsidiaries NCC Infrastructure Holdings Limited (NCCIL) of ₹175 crore. Two instalments of this payment have been made from group concerns itself and NCCL has not been required to meet this. Third instalment of ₹45 crore is remaining to be paid which is also expected to be paid without recourse on NCCL. Any such arbitration claims imposing liability on NCCL shall be a key credit monitorable.
A significant portion of the orderbook is from state government agencies posing counterparty credit risk, NCCL's management has indicated the philosophy of restricting exposure to a single state agency to not over 30-35% and therefore the state profile remains diversified.

Liquidity: Strong

NCCL's liquidity position remains strong backed by cash flow from operations of ₹1300 crore generated in FY24 against relatively low debt repayments. Fund based working capital limits remain unutilised on an average of 58% for the last twelve months ended July 2024. Unencumbered liquidity as on June 30, 2024, stands at ₹140 crore.

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

ESG issues are credit neutral or have only a minimal credit impact on NCCL, unless stated otherwise. These are enlisted below:

	Risk factors	Mitigating measures
Environmental	1. Material selection 2. Water consumption 3. Method of construction 4. Waste management 5. Greenhouse emissions 6. Recycling	Through integrating data collection and sustainability indicator tracking across operational sites, the company is targeting to come up with well-established goals that would catalyse their sustainability of the operations.
Social	1. Workmen safety 2. Community impact 3. Emergency response planning	NCCL Foundation which is the CSR arm of NCC Limited delivers high-impact CSR projects for community upliftment & reducing the rural-urban divide. The community interventions are focussed on education in rural areas, skill development and job opportunities for rural youth, access to primary healthcare, rural infrastructure development and community support.
Governance	1. Stake holder engagement, supply chain management 2. Internal controls 3. Composition of the board 4. Diversity 5. Code of conduct	50% of the board of NCCL comprises of Independent Directors rendering strong internal controls. Per the sustainability and corporate governance report for FY24, there has not been penalty/fines/settlement/imprisonment faced by the entity or of its directors or KMPs. There is a well-defined code of conduct applicable for Directors/HODs/Regional heads.

Applicable criteria

[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Financial Ratios – Non financial Sector](#)
[Construction](#)
[Infrastructure Sector Ratings](#)
[Short Term Instruments](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil construction

NCCL, a construction and infrastructure sector company was established as a partnership firm in 1978, and converted to a limited company on March 22, 1990. Over the years, NCCL evolved from a mere contractor to a full-fledged infrastructure solutions provider. NCCL expanded its presence in sectors of construction and infrastructure development. Its construction endeavours span across the nation and encompass buildings, transportation, water and environment, electrical transmission and distribution, irrigation, mining, and railways projects.
NCCL has also executed infrastructure public private partnership (PPP) projects through NCC Infrastructure Holdings Limited (100% subsidiary), the company also has exposure in real estate projects through its 80% subsidiary NCC Urban Infrastructure Limited.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	Q1FY25 (UA)
Total operating income	13,351	18,314	4,713
PBILDT	1,343	1,648	440
PAT	569	631	201
Overall gearing (times)	0.74	0.63	NA
Interest coverage (times)	2.63	2.77	2.87

A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Commercial Paper-Commercial Paper (Carved out)	Proposed	Proposed	Proposed	Proposed	1000.00	CARE A1+
Fund-based - LT-Working Capital Limits		-	-	-	2200.00	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	19100.00	CARE AA-; Stable / CARE A1+

Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Commercial Paper-Commercial Paper (Carved out)	ST	1000.00	CARE A1+	-	1)CARE A1+ (26-Mar-24)	-	-
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	19100.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (26-Mar-24)	-	-
3	Fund-based - LT-Working Capital Limits	LT	2200.00	CARE AA-; Stable	-	1)CARE AA-; Stable (26-Mar-24)	-	-

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of rated instruments/facilities: Not applicable

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view lender-wise details of bank facilities please click here

Note on complexity levels of rated instruments: CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

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About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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