June 17, 2021

NCC Limited: Rating upgraded to [ICRA]A (Stable)

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	83.43	83.43	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Fund-based Working Capital Facilities	2088.00	2088.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Non-fund based Limits	9824.00	9824.00	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Unallocated Limits	304.57	304.57	[ICRA]A (Stable); upgraded from [ICRA]A- (Stable)
Total	**12300.00**	**12300.00**	

**Instrument details are provided in Annexure-1*

Rationale

The upgrade in the rating of NCC Limited (NCC/ the company) takes into account the continued recovery of pending monies from stuck projects in the state of Andhra Pradesh (AP). Further, the company also recovered the bank guarantees pending with the stuck projects in AP. ICRA is given to understand that around RS. 200 crore of BGs were returned and the remaining BGs worth Rs. 200 crore are expected to be released in next few months. NCC has also recovered around Rs. 763 crore (part of these has been netted off against mobilisation advances) from AP projects during January 2020 to March 2021, with pending net receivables of Rs. 255 crore as on March 31, 2021 from struck projects in AP. The liquidity position of NCC remained comfortable, with cushion in working capital limits of around Rs. 650 crore along with adequate drawing power and unencumbered cash balance of Rs. 210 crore as on March 31, 2021. The rating also factors in the strong revenue visibility with healthy order book accretion of Rs. 18,493 crore in FY2021 across various segments, which results in a robust unexecuted orderbook of Rs. 37,911 crore as on March 31, 2021 (5.2 times of the OI in FY2021). With strong orderbook and execution capabilities, the revenues and absolute operating profits are expected to witness healthy growth of around 20% in FY2022, notwithstanding the impact of second wave of Covid on the operations. NCC's order book is well diversified across geographies and segments viz. buildings (accounts for 55.8% of the outstanding order book as on Mar 31, 2021), water supply, environment and railways (18.7%), mining (6.8%), irrigation (6.4%), electrical (6.4%), roads (5.2%) and others (0.7%). 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 March 31, 2021. 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 the execution risks as ~76% of the outstanding order book is in preliminary stages of execution with less than 25% financial progress, of which 25% is yet to start execution as on March 31, 2021. Any slowdown in major projects would have an adverse impact on the revenues and profitability in FY2022. The rating is also constrained by the high working capital intensity, as indicated by NWC/OI of 57% as on March 2021, because of increase in inventory and debtor days due to sharp pick up in billing in Q4 FY2021 and reduced revenue base. The share of revenues from Q4 FY2021 was high at 35% of the overall OI in FY2021 as compared to 26% in a normal year. The debt coverage indicators of the company are modest, with interest coverage of 1.9 times and debt service coverage ratio of 1.3 times in FY2021; however, the debt coverage metrics are likely to report an increase with expected improvement in the operating profits in FY2022. The rating also remains constrained by the high loans and advances extended to various real estate subsidiaries viz. NCC Urban Infrastructure Limited, NCC Vizag Urban Infrastructure in the past, which remains a drag on the consolidated balance sheet. Any higher-than-expected support to group companies would be a credit negative.

As on March 31, 2021, the promoters held 19.68% equity stake in the company, of which around 20.5% was pledged or encumbered, which could weigh on the company's financial flexibility.

The Stable outlook reflects ICRA's belief that the company would continue to benefit from its experienced management, long and established track record in the construction sector, along with its robust outstanding orderbook.

Key rating drivers and their description

Credit strengths

Continued recovery of stuck AP receivables: The rating considers continued recovery of pending monies from stuck projects in the state of AP. Further, the company also recovered the bank guarantees pending with the stuck projects in AP. ICRA is given to understand that around Rs. 200 crore of BGs were returned and the remaining BGs of Rs. 200 crore are expected to be released in the next few months. NCC has also recovered around Rs. 763 crore (part of these has been netted off against mobilization advances) from AP projects during January 2020 to March 2021, with pending net receivables of Rs. 255 crore as on March 31, 2021 from struck projects in AP.

Strong revenue visibility and diversified order book: NCC has strong revenue visibility with healthy order book accretion of Rs. 18,493 crore in FY2021 across various segments resulting in a robust unexecuted orderbook of Rs. 37,911 crore as on March 31, 2021, which is 5.2 times of the OI in FY2021. With strong orderbook and execution capabilities, the revenues and absolute operating profit are expected to witness healthy growth of around 20% in FY2022, notwithstanding the impact of second wave of Covid on the operations. NCC's order book is well diversified across geographies and segments viz. buildings (accounts for 55.8% of the outstanding order book as on Mar 31, 2021), water supply, environment and railways (18.7%), mining (6.8%), irrigation (6.4%), electrical (6.4%), roads (5.2%) and others (0.7%).

Healthy leverage indicators with comfortable liquidity: The company's leverage indicators continue to be healthy, with gearing and TOL/TNW of 0.4 times and 1.5 times respectively as on March 31, 2021. The liquidity position of NCC remained comfortable with cushion in working capital limits of around Rs. 650 crore, with adequate drawing power and unencumbered cash balance of Rs. 210 crore as on March 31, 2021.

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.

Credit challenges

Orderbook exposed to execution risks: NCC is exposed to moderate execution risks as ~76% of the outstanding order book is in preliminary stages of execution with less than 25% financial progress, of which 25% is yet to start execution as on March 31, 2021. Any slowdown in major projects would have an adverse impact on the revenues and profitability in FY2022.

High working capital intensity and modest coverage indicators: The working capital intensity of the company remains high as indicated by NWC/OI of 57% as on March 2021 on account of increase in inventory and debtor days due to sharp pick up in billing in Q4 FY2021 and reduced revenue base. The share of revenues from Q4 FY2021 was high at 35% of the overall OI in FY2021 as compared to 26% in a normal year. The debt coverage indicators of the company remain modest with interest coverage of 1.9 times and debt service coverage ratio of 1.3 times in FY2021; however, the debt coverage metrics are likely to report an increase with an expected improvement in the operating profits in FY2022.

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 remain 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 March 31, 2021 is Rs. 210 crore with undrawn working capital facilities of around Rs. 650.0 crore. The average utilisation of fund-based facilities during April 2020 to March 2021 remained at 77% of the sanctioned limits. The company's debt repayment obligation in FY2022 is Rs. 285 crore, which can be comfortably met through cash flow from operations.

Rating sensitivities

Positive factors – ICRA may upgrade NCC's rating if there is a significant improvement in the working capital intensity while maintaining the profitability. Specific metrics that would lead to an upgrade will include debtor plus inventory days of less than 200 days on a sustained basis.

Negative factors – 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	Corporate Credit Rating Methodology Methodology for Construction Entities Consolidation and Rating Approach
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 all enlisted 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 accounted for 55.8% of the outstanding order book as on March 31, 2021, while water supply, environment and railways together accounted for 18.7%, irrigation 6.4%, electrical 6.4%, roads 5.2% and others 7.5%. The shares of the company were listed on the stock exchanges in India in 1992.

Key financial indicators (audited)

	FY2020	FY2021
Operating Income (Rs. crore)	8901.1	7494.4
PAT (Rs. crore)	324.7	281.8
OPBDIT/OI (%)	12.2%	11.6%
PAT/OI (%)	3.6%	3.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.6	1.5
Total Debt/OPBDIT (times)	2.0	2.3
Interest Coverage (times)	2.0	1.9

Source: NCC; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years					
		Type	Amount Rated	Amount Outstanding as of Mar 31, 2021	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020			Date & Rating in FY2019
					Jun 17, 2021	Jan 5, 2021	Apr 1, 2020	Sep 23, 2019	Jun 10, 2019	May 13, 2019	Jun 15, 2018
1	Term Loans	Long-term	83.43	83.43	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A&	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Fund based-Working Capital Facilities	Long-term	2088.00	2088.00	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A&	[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- (Stable)	[ICRA]A- (Negative)	[ICRA]A&	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
4	Unallocated Limits	Long-term	304.57	304.57	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Negative)	[ICRA]A&	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)

& - rating watch with developing implications

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based-Term Loan	Simple
Fund based- Working Capital Facilities	Simple
Non-fund based Working Capital Facility	Very Simple
Unallocated Limits	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analyzing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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	-	December 2021	83.43	[ICRA]A (Stable)
NA	Cash Credit	-	-	-	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 entities considered for consolidated analysis

Company Name	LTHL 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

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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