March 23, 2017

NCC Limited

Instrument	Amount (Rs. crore)	Rating Action
Fund based limits	2131.00	[ICRA]A-(Stable); assigned
Non-fund based limits	8226.00	[ICRA]A-(Stable); assigned
Unallocated limits	943.00	[ICRA]A-(Stable); assigned

*Instrument Details are provided in Annexure-1

Rating Action

ICRA has assigned a long-term rating of [ICRA]A- (pronounced ICRA A Minus) to the Rs. 2,131 crore fund-based limits, Rs. 8,226 crore non-fund based limits and Rs. 943 crore unallocated limits of NCC Limited (NCC)[†]. The outlook on the long-term rating is Stable.

Rationale

The assigned rating reflects the strong order book position of NCC with pending order book position of Rs. 20,466 crore as on December 31, 2016 (2.46 times of the OI in FY2016) which provides revenue visibility over the medium term. Further, the order book is well diversified across various segments viz. buildings (accounts for 39% of outstanding order book as on December 31, 2016), water supply and railways (19%), mining (15%), irrigation (10%) and electrical (7%). NCC's order book is diversified across geographies. The rating also draws comfort from the considerable improvement in NCC's credit profile over the last two years following a rights issue of Rs. 600 crore in October, 2014 supplemented by monetisation of NCC Power and two BOT road projects. The company received about Rs. 450 crore of cash (actual sale consideration is higher, a part of which was adjusted against mobilization advances in case of NCC Power) from stake sale which was partly used towards working capital requirements and to prepay the high-cost corporate loan. No funding support has been envisaged for the current portfolio of BOT projects and the real-estate subsidiaries. The rating draws further strength from NCC's four decades of operational track record, supported by the experienced management with demonstrated execution capabilities across the segments with record of completing large-sized marquee projects within stipulated timelines which enhances its chances to win repeat orders.

The rating is, however, constrained by the execution risks for newly-awarded projects which account for around 25% of the current order book. Securing all the design approvals and work front in a timely manner will be key factors to achieve revenue and profit growth. Around 42% of the retention money outstanding as on December 31, 2016, amounting to Rs. 600 crore is pending with a single customer. Although NCC could in turn retain around Rs. 450 crore of money to be paid to its suppliers and sub-contractors given the back-to-back nature of contractual agreement with the key suppliers; any issues in realising the retention money could adversely impact NCC's liquidity. The company is also exposed to the risk of rise in bad debts given that 37% of the debtors as on December 31, 2016 amounting to Rs.170 crore is pending for more than one year. Among these, Rs. 125 crore is pending for more than two years. ICRA notes the significant increase in working capital requirements in the current fiscal due to build-up in receivables from Uttar Pradesh-based rural electrification projects is temporary in nature, due to assembly elections. The rating is also constrained by the high investments in real-estate portfolio which remains a drag on the consolidated balance sheet.

[†] For complete rating scale and definitions please refer to ICRA's Website www.icra.in or other ICRA Rating Publications

Going forward, NCC's ability to sustain the operating margins at current levels and effectively manage its working capital requirements are the key rating sensitivities. Further, any incremental investment/funding support towards existing BOT projects and real-estate subsidiaries will be viewed negatively from the credit perspective. On the contrary, monetisation of real-estate portfolio and recovery of investments made in real estate subsidiaries will be a credit positive.

Key rating drivers

Credit strengths

- Established track record of operations of close to four decades supported by the experienced management with demonstrated execution capabilities across segments – buildings, irrigation & water supply, road, electrical and power projects
    - Record of completing large-sized marquee projects within stipulated timelines enhances ability to bag repeat orders
- Revenue visibility in the medium term with pending order book position of Rs.20,466 crore as on December 2016 (2.46 times of the OI in FY2016); strong pipeline of expected orders further boosts revenue visibility
- Reasonably diversified order book across various segments viz. buildings (accounts for 39% of the outstanding order book as on December 31, 2016), water supply and railways (19%), mining (15%), irrigation (10%) & electrical (7%) and across geographies with presence in many states
- Considerable improvement in credit profile over the last two years with rights issue of Rs. 600 crore and monetisation of BOT assets

Credit challenges

- Execution risks for newly-awarded projects which account for around 25% of the current order book - securing all the design approvals in a timely manner will be key to achieve growth in revenues and profits
- Risk of rise in bad debts with 37% of the debtors as on December 31, 2016 amounting to Rs.170 crore pending for more than one year; among these, Rs. 125 crore is pending for more than two years
- High retention money with a single customer; around 42% of retention money outstanding as on December 31, 2016 amounting to Rs. 600 crore; any issues in realising the money could adversely impact NCC's liquidity
- Significant increase in working capital requirements in current fiscal on account of buildup in receivables from Uttar Pradesh-based projects
- High investments in real-estate portfolio still remains a drag on the consolidated balance sheet

Description of key rating drivers highlighted above:

The company has an operational track record of around four decades supported by the experienced management with demonstrated execution capabilities across segments – buildings, irrigation & water supply, road, electrical and power projects. It has a record of completing large-sized marquee projects within stipulated timeline which enhances its ability to win repeat orders. The order book is healthy with pending order book of Rs.20,466 crore as on December 2016 (2.46 times of the OI in FY2016). Further, the strong pipeline of expected orders boosts revenue visibility. The order book is well diversified across geographies with presence in many states and various segments viz. buildings (accounts for 39% of outstanding order book as on December 31, 2016), water supply and railways (19%), mining (15%), irrigation (10%) & electrical (7%) and across geographies with presence in many states. The company raised Rs. 600 crore in October, 2014 through rights issue which was used to repay high-cost debt, short term loans availed for working capital needs. This coupled with stake sale in NCC Power and two BOT road projects resulted in considerable improvement in the credit profile. The proceeds from sale of road projects were received during the current financial year whereas proceeds from sale of power project came in multiple tranches. This money has been used to prepay the high-cost corporate loan.

Some of the recently won projects – Telangana-based lift irrigation and water supply projects, Bangalore Metro Rail along with Uttar Pradesh-based affordable housing and commercial complex are at nascent stages of execution and is thus exposed to execution risks. Therefore, securing all the design approvals and work front in a timely manner will be key factors to achieve growth in revenues and profits. The company is exposed to the risk of rise in bad debts given that 37% of the debtors as on December 31, 2016 amounting to Rs.170 crore are pending for more than one year; of these, Rs. 125 crore are pending for more than two years. As on December 31, 2016, bills worth Rs.210.35 crore approved by Purvanchal Vidyut Vitran Nigam Limited are pending for payments. Owing to elections in Uttar Pradesh, the disbursements from Rural Electrification Corporation were delayed resulting in increase of receivables. As on March 31, 2016, around Rs.836 crore was invested in real estate through various subsidiaries. Of these, Rs.511.48 crore is in the form of loans and advances. Huge investments in real-estate remains a drag on the company's consolidated balance sheet.

Company's Profile

NCC Limited (NCC) was established as a partnership firm in 1978, which was subsequently converted into a Limited Company in 1990. The operations of NCC can be broadly classified into EPC business (both domestic and international and development business), BOT projects in infrastructure and real estate development. Under EPC, the company is into the construction of industrial and commercial buildings, roads, bridges and flyovers, water supply and environment projects, housing, power transmission lines, irrigation etc. The shares of the company are listed on the stock exchanges in India since 1992.

The company reported an operating income (OI) of Rs. 5,752.65 crore and operating profit of Rs. 511.07 crore during 9M FY2017 against an OI and operating profit of Rs. 8,325.16 crore and Rs.737.38 crore, respectively in FY2016.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not Applicable

Rating History for last three years:

Table: Rating History

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month-year & Rating in FY2014
				March 2017	-	-	-
1	Fund based limits	Long Term	2,131.00	[ICRA]A- (Stable)	-	-	-
2	Non fund based limits	Long Term	8,226.00	[ICRA]A- (Stable)	-	-	-
3	Unallocated	Long Term	943.00	[ICRA]A- (Stable)	-	-	-

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

Details of Instrument

Name of the instrument	**Date of issuance**	**Coupon rate**	**Maturity date**	**Size of the issue (Rs. crore)**	**Rating Action**
Fund based – Term loan	Sept-14	13.5%	30-Jun-18	73.00	[ICRA]A- (Stable); assigned
Fund based – Cash Credit	-	10.9%*	-	2,058.00	
Non-fund based – Bank Guarantee	-	-	-	7,590.00	
Non fund based – Letter of credit	-	-	-	636.00	
Unallocated limits	-	-	-	943.00	
Total				**11,300.00**	

(Source: NCC) * RoI of consortium leader

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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.

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