

November 29, 2017

NCC Limited

Bank Guarantee Invocation of NCC Limited on November 9, 2017.

BG invocation by Sembcorp Gayatri Power Limited (SGPL): NCC Limited (NCC) was the Engineering Procurement and Construction (EPC) contractor for the 1320 MW thermal power project owned by SGPL. The project has two units (660 MW each), commissioned in November, 2016 and February, 2017 respectively. Despite withholding retention money of Rs. 343 crore and final bill of Rs. 25 crore for this project, SGPL invoked performance BG on November 9, 2017 worth Rs 291.5 crore towards liquidated damages on account of delays in execution. The BG encashment was honored by NCC on the same day from undrawn cash credit facilities and existing cash surplus. ICRA notes that NCC has initiated arbitration proceedings against SGPL in this regard (as on date, the arbitration panel has been constituted and the first meeting happened) and resolution is expected in next one year. Meanwhile, NCC started invoking performance BGs of the balance of plant (BOP) suppliers (back to back arrangement); Rs. 58 crore has been encashed till November 16, 2017.

Order book addition continues to remain healthy: During 7MFY2018, NCC secured orders worth Rs.14,800 crore largely from buildings, roads and metro rail segments. Majority of these orders provide mobilisation advances equivalent to 10% of the contract value. As on October 2017, NCC availed Rs. 900 crore of mobilization advances from the new orders. The pending order book to OI ratio is healthy at more than 2.5 times thereby providing medium term revenue visibility.

Lower than anticipated billing in H1FY2018: The operating income in H1FY2018 has been lower than anticipated at Rs. 3313.85 crore (Rs. 3849 crore in H1 FY2017) due to lower billing in Q2FY2018 on account of GST transition related issues. Pending clarity on tax rates for some of the irrigation projects, there has been increase in debtors. However, there has been considerable movement in debtors with ageing of greater than six months with receipt of payments from RGGVY.

Liquidity position continues to remain satisfactory: Rs.900 crore of fresh mobilisation advances and invocation of performance BGs from BOP suppliers has supported the liquidity position of NCC. The company is also in the process of availing a medium term general purpose corporate loan to the tune of Rs. 200 crore. During Q2FY2018, the company concluded the sale of land at Tellapur from which Rs. 63 crore of cash inflow is expected by end of FY2018 which will further support the liquidity position. Notwithstanding the outflow of Rs. 291.5 crore on account of BG encashment, the liquidity position continues to remain satisfactory.

The outstanding rating for the entity is [ICRA]A-(Stable).

The previous rating rationale is available on the following link: [Click here](#)

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