May 13, 2019

NCC Limited: Rating reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	242.00	283.00	[ICRA]A (Stable); reaffirmed
Fund-based Cash Credit	2058.00	2058.00	[ICRA]A (Stable); reaffirmed
Non-fund Based Limits	8785.00	9400.00	[ICRA]A (Stable); reaffirmed
Unallocated Limits	215.00	559.00	[ICRA]A (Stable); reaffirmed
Total	**11300.00**	**12300.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes into account the robust growth in operating income (OI) of NCC Limited (NCC) by 68% to Rs. 8690.8 crore in 9M FY2019 as against Rs. 5164.6 crore in 9M FY2018 backed by healthy execution of affordable housing projects (Vijayawada and Nellore packages) in Andhra Pradesh, the water pipeline project in Amreli, Gujarat and the rural electrification project in Mirzapur, Uttar Pradesh (UP). Further there has been a sustained improvement in EBITDA margins to 11.8% in 9M FY2019 (11.3% in FY2018) owing to execution of a few high margin orders, better absorption of overheads and completion of certain legacy projects. The company’s leverage and coverage indicators are healthy with gearing and TOL/TNW at 0.5 times, 1.8 times respectively, interest coverage and TD/OPDBIT at 3.1 times and 1.6 times at the end of 9M FY2019. The rating also factors in the strong revenue visibility in the medium term on account of a healthy order book accretion of Rs. 11,897 crore in 9M FY2019 across various segments, resulting in a robust unexecuted order book of Rs. 34,185 crore as on December 31, 2018, which is 4.19 times of the OI in FY2018. Further, NCC’s order book is well diversified across segments viz. buildings (accounts for 49% of outstanding order book as on December 31, 2018), roads (17%), water supply, environment and railways (14%), electrical (6%), irrigation (5%) and others (9%). 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 with a record of completing 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 ~47% of the outstanding order book is in preliminary stages of execution, with less than 5% financial progress and 29% of the order book yet to start execution as on December 2018. The company has outstanding orders worth Rs. 8732 crore (25% of order book) – affordable housing (11 packages) from Andhra Pradesh Township and Infrastructure Development Corporation (APTIDCO) and urban infrastructure projects from the Andhra Pradesh Capital Region Development Authority (APCRDA) in Andhra Pradesh, where the pace of execution has been slower than anticipated. Overall, Andhra Pradesh (AP) contributes to around 41.7% of outstanding order book followed by Maharashtra (11.2%), Telangana (8.9%), UP (6.9%), Jharkhand (6.1%), New Delhi (5.4%), Karnataka (4%) and other states (15.7%) as on December 2018. The AP state government authorities’ ability to arrange for adequate funding through the Central Government fund allocations will be critical for the timely and smooth progress of these projects. Further ICRA notes that these projects have undergone frequent scope/design changes since the date of the award, resulting in a slow pace of execution. Therefore, the timely execution of projects based out of AP would remain a key rating sensitivity and any delay could adversely affect NCC’s revenues and profitability. The rating is also constrained by the high loans and advances extended to various real estate subsidiaries viz. NCC Urban Infrastructure Limited, NCC Vizag Urban Infrastructure etc. in the past, which remains a drag on the consolidated balance sheet. ICRA notes that the company has recovered Rs. 145 crore of loans and advances in FY2019 from NCC Urban Infrastructure Limited. The company is also exposed to the risk of bad debts with 8% of the debtors as on December 31, 2018 amounting to Rs.244.1 crore pending for more than one year. Of these, Rs.109.9 crore has been pending for more than two years.

ICRA notes the recent arbitration award against Nagarjuna Contracting Company LLC (NCCLLC), a Dubai based subsidiary of NCC, for which NCC has booked Rs. 40 crore exceptional loss in Q2 FY2019 on its books and the subsidiary has contested for the remaining arbitration amount. NCC is expected to extend the requisite funding support to meet the liabilities arising out of the arbitration proceedings against NCCLLC. ICRA also notes that the shares pledged by promoters as a percentage of total promoter shareholding has increased from 32.5% in March 2018 to 42.7% in March 2019 on account of decline in share price and margin calls initiated by lenders and would continue to be a key monitorable.

Outlook: Stable

ICRA believes NCC will continue to benefit from its strong execution capabilities across segments, supported by its experienced management and robust outstanding order book. The outlook may be revised to Positive if the company achieves better-than-expected growth in revenue and profitability, combined with a recovery of investments made in real estate subsidiaries. The outlook may be revised to a Negative in case there is a delay in the execution of projects resulting in lower-than-anticipated billing and/or increase in the working capital cycle (WIP). Further, any incremental investment/funding support towards existing BOT projects and/or real-estate subsidiaries will be viewed negatively from the credit perspective.

Key rating drivers

Credit strengths

Robust growth in OI and sustained margins resulting in healthy debt coverage indicators – NCC witnessed robust growth in OI by 68% to Rs. 8690.8 crore in 9M FY2019 with healthy execution of affordable housing projects (Vijayawada and Nellore packages) in AP, a water pipeline project in Amreli, Gujarat and the rural electrification project in Mirzapur, UP. Further there was a sustained improvement in EBITDA margins to 11.8% in 9M FY2019 (11.3% in FY2018) owing to the execution of a few high margin orders, better absorption of overheads and completion of certain legacy projects. The company's leverage and coverage indicators are healthy with gearing and TOL/TNW at 0.5 times, 1.8 times respectively, interest coverage and TD/OPDBIT at 3.1 times and 1.6 times at the end of 9M FY2019.

Healthy order inflow and robust order book position - The strong revenue visibility in the medium term on account of healthy order book accretion of Rs. 11,897 crore in 9M FY2019 across various segments resulting in a robust unexecuted order book of Rs. 34,185 crore as on December 31, 2018, which is 4.19 times of the OI in FY2018.

Strong execution capabilities and diversified order book - The experienced management and NCC's four decades of operational track record with demonstrated execution capabilities across the segments with a record of completing large-sized marquee projects within the stipulated timelines, which enhances its chances to win repeat orders. Further, NCC's order book is well diversified across segments viz. buildings (accounts for 49% of outstanding order book as on December 31, 2018), roads (17%), water supply, environment and railways (14%), electrical (6%), irrigation (5%) and others (9%).

Credit challenges

Execution risks - NCC is exposed to execution risks as ~47% of the outstanding order book is in preliminary stages of execution, with less than 5% of the financial progress and 29% of the order book yet to begin execution as on December 2018. The company has outstanding orders worth Rs. 8732 crore (25% of order book) from APTIDCO and APCRDA in the state of AP, where the pace of execution has been slower than anticipated. Overall, AP contributes to around 41.7% of the outstanding order book as on December 2018. The AP Government authorities' ability to arrange for adequate funding through the Central Government fund allocations will be critical for the timely and smooth progress of these projects. Further, ICRA notes that these projects have undergone frequent scope/design changes since the date of the award, resulting in a slow pace of execution. Therefore, the timely execution of projects based out of AP would remain a key rating sensitivity and any delay could adversely affect NCC's revenues and profitability.

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, which remains a drag on the consolidated balance sheet. The company has recovered Rs. 145 crore of loans and advances in FY2019 from NCC Urban Infrastructure Limited. ICRA notes the recent arbitration award against NCCLLC, for which NCC has booked Rs. 40 crore exceptional loss in Q2 FY2019 on its books and the subsidiary has contested for the remaining arbitration amount. NCC is expected to extend the requisite funding support to meet the liabilities arising out of the arbitration proceedings against NCCLLC.

Risk of bad debts - The company is exposed to a risk of bad debts with 8% of the debtors as on December 31, 2018 amounting to Rs.244.1 crore pending for more than one year; of these, Rs.109.9 crore has been pending for more than two years.

Liquidity position

The liquidity position of the company is comfortable with unencumbered cash and liquid investments of Rs. 76.43 crore as on December 2018. The average utilisation of fund-based facilities during March 2018 to March 2019 has been moderate, at 74%. The debt repayment obligation in FY2020 is expected to be around Rs. 257 crore, which can be comfortably met through the cash accruals.

Analytical approach

Analytical Approach	**Comments**
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has used limited consolidation approach, under which only the proposed equity investments/funding commitments to various subsidiaries towards debt servicing and operational shortfall have been considered. The list of companies that are consolidated to arrive at the rating are given 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 (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, irrigation, security services etc. The shares of the company are listed on the stock exchanges in India since 1992.

Key financial indicators (Standalone)

	FY2017 Audited	FY2018 Audited	9M FY2019 Provisional
Operating Income (Rs. crore)	7,892.1	7,559.3	8,690.9
PAT (Rs. crore)	225.5	286.8	389.5
OPBDIT/OI (%)	8.7%	11.3%	11.8%
RoCE (%)	13.1%	14.2%	20.8%
Total Debt/TNW (times)	0.5	0.3	0.5
Total Debt/OPBDIT (times)	2.3	1.5	1.6
Interest Coverage (times)	1.7	2.3	3.1

Source: NCC

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

		Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating May 2019	Date & Rating in FY2019 June 2018	Date & Rating in FY2018 November 2017	Date & Rating in FY2017 March 2017
1	Fund-based Cash Credit	Long Term	2058.00	2058.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
2	Fund-based Term Loan	Long Term	283.00	283.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
3	Non-fund-based limits	Long Term	9400.00	9400.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[ICRA]A- (Stable)
4	Unallocated	Long Term	559.00	559.00	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)	[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: 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	10.5%	December 2021	283.00	[ICRA]A (Stable)
NA	Cash Credit	-	10.0%	-	2058.00	[ICRA]A (Stable)
NA	Bank Guarantee and Letter of Credit	-	-	-	9400.00	[ICRA]A (Stable)
NA	Unallocated Limits	-	-	-	559.00	[ICRA]A (Stable)

Source: NCC

Annexure-2: List of companies considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
NCC Infrastructure Holdings Private Limited	62.13%	Limited Consolidation
NCC Urban Infrastructure Limited	80.00%	Limited Consolidation
NCC Infrastructure Holdings Mauritius Pte. Limited	100.00%	Limited Consolidation
Nagarjuna Construction Company International L.L.C (Dubai)	100.00%	Limited Consolidation
OB Infrastructure Limited	64.02%	Limited Consolidation
Pondicherry Tindivanam Tollway Limited	47.80%	Limited Consolidation

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