June 10, 2019

NCC Limited: Update on Material Event

Summary of Rated Instrument:

Instrument	Rated Amount (Rs. crore)	Rating Outstanding
Fund-based Term Loan	283.00	[ICRA]A (Stable)
Fund-based Cash Credit	2058.00	[ICRA]A (Stable)
Non-fund Based Limits	9400.00	[ICRA]A (Stable)
Unallocated Limits	559.00	[ICRA]A (Stable)
Total	**12300.00**	

Material Event

The Chief Secretary of Andhra Pradesh announced that the new Government of Andhra Pradesh (GoAP) is considering to cancel work orders issued by previous government prior to April 1, 2019 where works are yet to be started. Subsequently, NCC Limited has informed the stock exchanges on May 31, 2019 that orders worth Rs. 6,100 crore awarded to NCC by erstwhile GoAP are likely to be cancelled by the new government. However, there is no official communication from GoAP on cancellation of orders.

Impact of the Material Event

The rating remains unchanged at the earlier rating of [ICRA]A (Stable).

During FY2019, NCC secured orders worth Rs. 25,612 crore across various segments and geographies resulting in a robust unexecuted orderbook of Rs. 41,197 crore as on March 2019. Adjusted for Rs. 6,100 crore of expected order cancellations by GoAP, the remaining orderbook stands at Rs. 35,097 crore. The adjusted order book to operating income of FY2019 is healthy at 2.9 times thereby providing revenue visibility in the medium term. ICRA is given to understand that the 9 out of 10 orders that are likely to get cancelled were awarded in Q4FY2019. As on March 2019, construction activity commenced and Rs. 17 crore has been expended for one order viz. water supply improvement scheme in Prakasham District which is funded by Asian Infrastructure Investment Bank (AIIB). For the remaining orders, the construction activity including resource mobilisation has not commenced yet. In the event of formal cancellation of these projects, the performance bank guarantees amounting to Rs. ~152 crore submitted for these projects are expected to be returned. In the adjusted orderbook, orders from GoAP amount to Rs. 12,881 crore accounting for 37% as on March 2019. These projects are largely related to Amaravati capital city development and affordable housing segments and are currently at various stages of execution.

Overall, there will be no major impact on the company given the robust adjusted orderbook, healthy financial profile and strong execution capabilities across segments supported by its experienced management. Going forward, the pace of execution of ongoing projects in AP and the movement in key working capital indicators would be the key monitorables.

The previous detailed rating rationale is available on the following link: Click here

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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.

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