April 01, 2020

NCC Limited: Rating downgraded to [ICRA]A-; Negative outlook assigned

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	283.00	173.00	[ICRA]A-; downgraded from [ICRA]A and removed from rating watch with developing implications; Negative outlook assigned
Fund-based Cash Credit	2058.00	2058.00	[ICRA]A-; downgraded from [ICRA]A and removed from rating watch with developing implications; Negative outlook assigned
Non-fund Based Limits	9400.00	9854.00	[ICRA]A-; downgraded from [ICRA]A and removed from rating watch with developing implications; Negative outlook assigned
Unallocated Limits	559.00	215.00	[ICRA]A-; downgraded from [ICRA]A and removed from rating watch with developing implications; Negative outlook assigned
Total	**12300.00**	**12300.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating downgrade and negative outlook takes into account the prolonged delay in resolution of stuck projects of NCC in the state of Andhra Pradesh (AP) and the resultant build up of receivables and unbilled revenues. NCC's orders in AP can be broadly segregated into three categories— (1) affordable housing from Andhra Pradesh Township and Infrastructure Development Corporation (APTIDCO); (2) urban infrastructure projects for development of core capital city from the Amravati Development Corporation Limited (ADCL) and Andhra Pradesh Capital Region Development Authority (APCRDA); and (3) others (largely funded by ADB and AMRUT scheme). While the last category of projects are currently moving, the remaining two are largely stuck (barring few high priority works). As on December 31, 2019, Rs. 650.8 crore of unbilled revenues, Rs. 687.8 crore of receivables and Rs. 306.9 crore of retention money are pending from the AP projects against Rs. 481.3 crore of mobilisation advances availed from these projects, thus resulting in significant amount of liquidity stuck in these projects. Meanwhile, the lenders of NCC, allowed for an increase in cover period on receivables to 360 days (from 180 days earlier) for calculating the drawing power which would enable NCC to borrow against these current assets. The undrawn working capital facilities stood at Rs 235 crore as on February 29, 2020. The working capital borrowings for the company increased from Rs. 1415 crore as on March 31, 2019 to Rs. 1834 crore as on February 29, 2020. During the quarter, the company has realised Rs. 150 crore of receivables outstanding from the said projects and another Rs. 50 crore is expected to be realised by March 31, 2020. The company is also in discussions with GoAP for netting off certain receivables against the mobilisation advances, though the same may not provide any liquidity respite. Any further delay in resolution of stuck money in AP beyond Q1 FY2021 would adversely impact the liquidity position of the company and also limit the financial flexibility as large portion of stuck money in AP falls beyond the revised cover period of 360 days and therefore would remain credit negative.

The rating revision also factors in the 30% decline in operating income and profit after tax in 9M FY2020 on YoY basis and the deterioration in coverage indicators with interest coverage and TD/OPDBIT at 1.9 times and 2.4 times during this period. Around 14% of the order book is yet to start execution (orders received/reinstated recently) as on December 31, 2019 and 66% of the orders are in preliminary stages of execution (less than 25% execution); any slowdown in these projects would have an adverse impact on the gross billing and profitability for FY2021. 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.

The rating continues to take into account the adequate revenue visibility in the medium term on account of pending order book of Rs. 25,049 crore as on December 31, 2019 (adjusted for Rs. 13,620 crore of AP order book which has been either cancelled or reduced from the order book), which is 2.07 times of the operating income (OI) in FY2019. The company's leverage indicators are healthy, with TOL/TNW of 1.7 times, as on December 31, 2019. ICRA also takes into consideration infusion of Rs 82 crore by promoters upon exercising of warrants in January 2020. Further, NCC's order book is well diversified across segments viz. buildings (accounts for 42% of the outstanding order book as on December 31, 2019), water supply, environment and railways (19%), roads (13%), electrical (6%), irrigation (9%) and others (11%). 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.

Key rating drivers and their description

Credit strengths

Adequate order book position provides medium-term revenue visibility –The pending order book of Rs. 25,049 crore as on December 31, 2019 (adjusted for Rs. 13,620 crore of order book in AP which has been either cancelled or reduced from the order book) which is 2.07 times of the OI in FY2019 provides medium-term revenue visibility.

Healthy leverage indicators – The company's leverage indicators continue to remain healthy with TOL/TNW of 1.7 timesas on December 31, 2019. During January 2020, the promoters infused Rs 82 crore upon exercising of warrants.

Diversified order book – NCC's order book is well diversified across segments and geographies. Buildings (accounts for 42% of the outstanding order book as on December 31, 2019), water supply, environment and railways (19%), roads (13%), electrical (6%), irrigation (9%) and others (11%).

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 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

AP order execution in abeyance – Currently, all works in AP (barring ADB funded projects) are stalled and the company has de-mobilised its resources from many of these sites to projects in other states. Order book of Rs 7,544 crore pertaining to GoAP has been treated as non-moving by the company as on December 31, 2019. Consequently, NCC witnessed 30% decline in operating income and profit after tax in 9M FY2020 on YoY basis

Elongation of working capital cycle – As on December 31, 2019, Rs. 650.8 crore of unbilled revenues, Rs. 687.8 crore of receivables and Rs. 306.9 crore of retention money are pending from the AP projects against Rs. 481.3 crore of mobilisation advances availed from these projects, thus resulting in significant amount of liquidity stuck in these projects Meanwhile, the lenders of NCC, allowed for an increase in cover period on receivables to 360 days (from 180 days earlier) for calculating the drawing power which had enabled NCC to borrow against these current assets. Any further delay in resolution of stuck money in AP beyond Q1 FY2021 would adversely impact the liquidity position of the company and also limit the financial flexibility as large portion of stuck money in AP falls beyond the revised cover period of 360 days and therefore would remain credit negative.

Execution risks – NCC is exposed to execution risks with 14% of the order book (orders received/reinstated recently) yet to start execution as on December 31, 2019 and 66% of the order in preliminary stages of execution (less than 25% execution).

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 remains a drag on the consolidated balance sheet.

Liquidity position: Adequate

The liquidity position of the company is adequate. The unencumbered cash as on December 31, 2019 is Rs 36.4 crore with undrawn working capital facilities of Rs 253.60 crore as on February 29, 2020. The average utilisation of fund-based facilities during March 2019 to February 2020 remained at 87%. The company's debt repayment obligation in FY2021 is Rs. 293 crore on a standalone basis

Rating sensitivities

Positive triggers - The crystallisation of scenarios for rating upgrade is unlikely in the medium term. ICRA could upgrade NCC's rating if TOL/TNW falls below 1.5 times and resolution of stuck receivables and WIP from GoAP.

Negative triggers - Negative pressure on NCC's rating could arise if there is any further delay in resolution of stuck receivables and WIP in AP thereby impacting liquidity adversely and reducing the financial flexibility. Absence of any improvement in working capital intensity.

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 were listed on the stock exchanges in India in 1992.

Key financial indicators (standalone, audited)

	FY2018	FY2019	9MFY2020
Operating Income (Rs. crore)	7,559.3	12078.8	6036.8
PAT (Rs. crore)	286.8	563.9	271.7
OPBDIT/OI (%)	11.3%	11.8%	12.4%
RoCE (%)	14.2%	21.8%	12.6%
Total Debt/TNW (times)	0.3	0.4	0.5
Total Debt/OPBDIT (times)	1.5	1.4	2.4
Interest Coverage (times)	2.3	3.2	1.9

Source: NCC

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

			Current Rating (FY2021)			Chronology of Rating History for the Past 3 Years				
		Type	Amount Rated (Rs crore)	Amount Outstanding (Rs crore)	Current Rating	FY2020			FY2019	FY2018
					April 1, 2020	September 23,2019	June 10, 2019	May 13, 2019	June 15, 2018	November 29, 2017
1	Fund-based Cash Credit	Long Term	2058.00	2058.00	[ICRA]A- (Negative)	[ICRA]A &	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2	Fund-based Term Loan	Long Term	173.00	173.00	[ICRA]A- (Negative)	[ICRA]A &	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
3	Non-fund-based limits	Long Term	9854.00	9854.00	[ICRA]A- (Negative)	[ICRA]A &	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
4	Unallocated	Long Term	215.00	215.00	[ICRA]A- (Negative)	[ICRA]A &	[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	9.4% - 12%	December 2021	173.00	[ICRA]A-(Negative)
NA	Cash Credit	-	10%	-	2058.00	[ICRA]A-(Negative)
NA	Bank Guarantee and Letter of Credit	-	-	-	9854.00	[ICRA]A-(Negative)
NA	Unallocated Limits	-	-	-	215.00	[ICRA]A-(Negative)

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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About ICRA Limited:

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