NCC

Ref. No.: NCCL/ Reg.30 / 2023-24
Date : March 27, 2024

National Stock Exchange of India Ltd
Exchange Plaza
Bandra– Kurla Complex
MUMBAI - 400 051

Symbol: NCC

BSE Limited,
Rotunda Building, P J Towers
Dalal Street, Fort
M U M B A I – 400 001

Code: 500294

Dear Sir,

Sub: Intimation regarding Rating by CARE Ratings Ltd

Pursuant to Regulation 30 of the SEBI (LO&DR) Regulations, 2015 we wish to inform you that CARE Ratings Ltd vide its Press Release dated March 26, 2024 has assigned Ratings to the Bank facilities availed / to be availed by the Company as detailed hereunder:

Facilities/Instruments	Amount (Rs.Crore)	Rating	Rating Action
Long-term bank facilities	2200.00	CARE AA-; Stable	Assigned
Long-term/Short-term bank facilities	19100.00	CARE AA-; Stable / CARE A1+	Assigned
Commercial paper	100.00	CARE A1+	Assigned

We are also forwarding herewith a copy of the Press Release dated March 26, 2024 issued by CARE Ratings Ltd for your information and record.

We would request you to please take the same on record.

Thanking you,

Yours faithfully

For NCC Limited

27-03-2024

M V Srinivasa Murthy
Company Secretary & Sr. EVP (Legal)

NCC Limited Hyderabad NCC

NCC Limited

March 26, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	2,200.00	CARE AA-; Stable	Assigned
Long-term / Short-term bank facilities	19,100.00	CARE AA-; Stable / CARE A1+	Assigned
Commercial paper (Carved out)*	100.00	CARE A1+	Assigned

Details of instruments/facilities in Annexure-1.
*Carved out of working capital limits

Rationale and key rating drivers

Ratings assigned to bank facilities and short-term instrument of NCC Limited (NCCL) factors its long and established track record of the company in the construction industry over the past four decades, strong orderbook position backed by sizable order additions resulting in consequential growth in the scale of operations. The order book is diversified with presence across buildings, water pipelines, irrigation, transmission, power generation, transportation and urban infra, among others. The company has also reduced the regional concentration with projects spread across pan India. The company has ventured into the smart metering projects and has undertaken three projects aggregating ₹4,456 crore for which the investment commitment is ₹528 crore over the next three years. The NCCL group is comfortably placed to meet this equity commitment. Apart from this, CARE Ratings Limited (CARE Ratings) understands there is no other investment requirement in any of the other verticals operated under the group and corporate guarantee shall not be extended in smart metering special purpose vehicles (SPVs).

Driven by a robust order book position, the revenue has registered a compounded annual growth rate (CAGR) of 35% inFY21 to FY23 with a y-o-y growth of 30% expected in FY24. Ratings are also backed by the moderate profitability metrics with profit before interest, lease rentals, depreciation and taxes (PBILDT) margin range bound between 10-12% of the revenue. CARE Ratings takes cognisance of the PBILDT margin moderating in year to date-FY24 due to legacy arbitration claim write offs, however, the cash generation is likely to remain robust fortifying the credit strengths. The adequate cash generation from business operation has resulted in lower dependence on external borrowings with total debt (including mobilization advance)/PBILDT consistently improving over the past five years and stood at 3.48-x in FY23. Going forward, the same is expected to remain within 3.25x in medium term. Adjusting for interest-free mobilisation advance, the total debt (including interest baring mobilization advance)/PBILDT stood at 2.52x in FY23 and 2.81x in 9MFY24.

However, above ratings' strengths are tempered by the elevated working capital intensity due to sizable unbilled revenue with gross current asset days (GCA days) at 282 days for 9MFY24. The company has been making consistent efforts to reduce the working capital intensity which are also bearing results indicated by the reduction from the past GCA days of 335 days in FY23 and 391 days in FY22. The improvement has been supported by management's focus on bidding for projects having strong counter parties with visible funding avenues and restricting exposure to a single state and single counterparty in the orderbook. Suceptibility of profitability due to volatility in commodity prices, legacy arbitrations and exposure to state government projects are some of the other credit deterrents.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Sustained growing scale of operations with improving profitability and reduction in GCA days below 200 days

Negative factors

- Delaying execution of order book impacting growth in scale of operations and PBILDT margins falling below 9% on a sustained basis
- Increasing GCA days above 320 days on sustained days
- Higher-than-envisaged equity commitment for SPVs or support through extension of corporate guarantee

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Analytical approach:
Standalone

Outlook: Stable
The outlook is expected to remain stable supported by the strong orderbook position rendering revenue visibility and the execution track record underpinning cashflow generation.

Detailed description of the key rating drivers:

Key strengths

Long and established track record of executing large infrastructure projects
NCCL has been a key contributor to India's infrastructure growth journey with projects spanning over diverse sectors such as buildings, water pipelines, irrigation, transmission, power generation, transportation and urban infra, among others. The company has a vast experience of over four decades in executing these projects.

Diversified and strong orderbook position
NCCL has a strong orderbook of over ₹50,000 crore as on December 31, 2023 which translates to 3.75 times of gross billing for FY23. The company has been able to consistently add new orders and in fiscal 2022-23, NCCL has added orders worth around ₹25,900 crore and around ₹21,240 crore in 9MFY24. The orderbook has a pan-India footprint spanning across 16 states with no state forming more than 30% of the orderbook. The orderbook also stands sectorally diversified across multiple sectors such as water supply, civil construction, power, smart metering and roads, among others. The orderbook is completely focussed on domestic operations and the company is no longer foraying in geographies besides India.
CARE Ratings takes cognisance of about 40% of the outstanding orderbook at a nascent stage having less than 5% progress or awaiting appointed dates. The nascency of projects has been due to sizable order addition in 9MFY24 which are still underway to receive authority clearances/permissions and right of way. Certain orders in the orderbook have been awarded in FY20-21 and are still to be completed. NCCL's management has articulated to CARE Ratings that adequate extension of time is available and the delays are not pertaining to NCCL. Going forward, CARE Ratings expects significant scaling up of operations due to execution of large orders.

Expansion of portfolio with entry into smart metering projects
NCCL has taken three smart meter installation projects of value ₹4,456 crore of which two are being executed through separate SPVs. There is a likely equity commitment of ₹528 crore to be infused over next three fiscals and a term debt aggregating to ₹2,112 crore for these SPVs. NCCL group is comfortably placed to meet this equity commitment. NCCL has indicated the likelihood of bringing in a strategic investor for these projects to whom the management shall be offloading a stake in these SPV for equity and a strategic premium. Financial closure for these SPVs is at an advanced stage with in principal sanction in place for both SPVs. NCCL management has articulated to CARE Ratings that the debt for these SPVs shall not be entailing any corporate guarantee from NCCL. Onboarding of strategic partner for these projects remains crucial for reducing the equity infusion liability on NCCL.
Apart from the said projects, there is no other investment requirement in any of the other business verticals of the group and any deviation from said stance would be important from credit perspective.

Growing in scale of operations and cash accruals
The total operating income (TOI) has been reporting consistent growth over the last three years (FY21-9MFY24) post a slowdown witnessed during FY19-20. CAGR growth during the period (FY21-23) was 35% from ₹7,180 crore in FY21 to ₹13,351 crore for FY23. In 9MFY24, the company has reported a TOI of ₹12,868 crore with revenue growth of 35% expected in FY24 over FY23. The PBILDT margin has been robust between 10-12% for the past fiscals. In 9MFY24, due to settlement of some of the arbitration claims, the company has charged off the unrealised revenue for the project of Sembcorp India which has moderated the margins in 9MFY24 and thus for the entire fiscal of FY24. However, the cash flow generation is expected to continue to be robust with the adjustment in the revenues being of non-cash nature.
CARE Ratings believes that the growth in scale of operations is likely to continue in the near term and the PBILDT margins are likely to recuperate to the former levels going forward.

Comfortable leverage and capital structure
NCCL exhibits relatively low reliance on long-term borrowings. The larger leverage on the books pertains to working capital finance in form of mobilisation advances, working capital bank borrowings and Letter of credit (LC) backed acceptances. The interest coverage ratio stood comfortable at 2.63x for FY23. A significant portion of the mobilisation advances are interest free and

adjusting for interest-free mob advance, the total debt (including interest-bearing mobilisation advances)/PBILDT would be 2.52x in FY23 and 2.81x in 9MFY24. Driven by strong net worth, the total outside liabilities (TOL)/total net worth (TNW) remains comfortable at 1.47x in FY23.
CARE Ratings expects the reliance on term debt to continue to be low and a likelihood of reduction in reliance on working capital debt from reduction in the GCA days.

Key weaknesses

Elevated working capital intensity, but with improving trend
The working capital intensity for the company is relatively high. NCCL had witnessed GCA days of above 400 days in FY21 due to receivables stuck in the Andhra Pradesh (AP) government projects. However, a large part of current assets continues to be blocked in unbilled revenue (forming 24% of revenue in FY23) along with advances to suppliers (15% of revenue) given the huge order book spread across multiple sites. However, gradually the company has been able to recover a sizable portion of pending receivables indicated by 3-year cumulative cashflow from operation forming about 90% of the 3-year cumulative PBILDT. The same has resulted in significant reduction in GCA days to 335 days for FY23. As on December 31, 2023 the exposure to AP has significantly reduced and the working capital intensity has further improved as on 9MFY24 with GCA days at 282 days. The company has been making consistent efforts to reduce the current asset position by way implementing strategies such as taking exposure in projects with better payment cycles and restricting the exposure to a single counterparty to reduce customer concentration.
CARE Ratings shall continue to monitor the working capital intensity for NCCL, any further elongation of the GCA days remains a key rating sensitivity.

Payment on account of settlement of arbitration claims & exposure to state government orders
There are legacy arbitrations looming in the group's subsidiaries, NCCL has guaranteed the pay-out for the settlement agreed for one of the subsidiaries NCC Infrastructure Holdings Limited (NCCIL) of ₹175 crore. The management has indicated that the payment is to be made from group concerns itself and NCCL is not expected to meet the settlement. Any such arbitration claims imposing liability on NCCL shall be a key credit monitorable.
A significant portion of the orderbook is from state government agencies posing counterparty credit risk, NCCL's management has indicated the philosophy of restricting exposure to a single state agency to not more than 25% and therefore the state profile remains diversified.

Liquidity: Strong

NCCL liquidity position remains strong backed by cash flow from operations of ₹873 crore generated in FY23 against relatively low debt repayments. The fund based working capital limits remain unutilized on an average of 40% for the past twelve months ended December 2023. Unencumbered liquidity as on December 31, 2023 stands at ₹47 crore.

Assumptions/Covenants

Not applicable

Environment, social, and governance (ESG) risks

The ESG issues are credit neutral or have only a minimal credit impact on NCCL. The same are enlisted below:

	Risk factors	Mitigating measures
Environmental	1. Material selection 2. Water consumption 3. Method of construction 4. Waste management 5. Greenhouse emissions 6. Recycling	Through integrating data collection and sustainability indicator tracking across operational sites, the company is targeting to come up with well-established goals that would catalyse their sustainability of the operations.
Social	1. Workmen safety 2. Community impact 3. Emergency response planning	NCCL Foundation which is the CSR arm of NCC Limited delivers high-impact CSR projects for community upliftment & reducing the rural-urban divide. The community interventions are focussed on education in rural areas, skill development & job opportunities for rural youth, access to primary healthcare, rural infrastructure development & community support. There have been 2,370 trainings for workers, conducted on health & safety awareness in FY23.
Governance	1. Stake holder engagement,	50% of the board of NCCL comprises of Independent Directors

	Risk factors	Mitigating measures
	supply chain management 2. Internal controls 3. Composition of the board 4. Diversity 5. Code of conduct	rendering strong internal controls. As per the sustainability & corporate governance report for FY23, there has not been any penalty/fines/settlement/imprisonment faced by the entity or any of its directors or KMPs. There is a well-defined code of conduct applicable for Directors/HODs/Regional heads.

Applicable criteria

[Definition of Default](#)
[Liquidity Analysis of Non-financial sector entities](#)
[Rating Outlook and Rating Watch](#)
[Financial Ratios – Non financial Sector](#)
[Construction](#)
[Short Term Instruments](#)

About the company and industry

Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil construction

NCCL, a construction and infrastructure sector company was established as a Partnership Firm in 1978, and converted into a Limited Company on March 22, 1990. Over the years, NCCL has evolved from a mere contractor to a full-fledged infrastructure solutions provider. NCCL has expanded its presence in various sectors of construction and infrastructure development. Its construction endeavours span across the nation and encompass Buildings, Transportation, Water and Environment, Electrical Transmission and Distribution, Irrigation, Mining, and Railways projects.
NCCL has also executed infrastructure public private partnership (PPP) projects through its holding company (holdco) (62.84% subsidiary of NCC), NCC Infrastructure Holdings Limited, the company also has exposure in real estate projects through its 100% subsidiary NCC Urban Infrastructure Limited.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)	9MFY24 (UA)
Total operating income	9,934	13,351	12,868
PBILDT	1000	1,343	1,138
PAT	490	569	392
Overall gearing (times)	0.68	0.74	NA
Interest coverage (times)	2.18	2.63	2.58

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available', NA: Not available

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for last three years: Please refer to Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Please refer to Annexure-4

Lender details: Please refer to Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Commercial Paper-Commercial Paper (Carved out)	Proposed	Proposed	Proposed	Proposed	100.00	CARE A1+
Fund-based - LT-Working Capital Limits		-	-	-	2200.00	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	19100.00	CARE AA-; Stable / CARE A1+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021
1	Commercial Paper-Commercial Paper (Carved out)	ST	100.00	CARE A1+				
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	19100.00	CARE AA-; Stable / CARE A1+				
3	Fund-based - LT-Working Capital Limits	LT	2200.00	CARE AA-; Stable				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities- Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Fund-based - LT-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Lender details

To view the lender-wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

Contact us

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About us:

Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in