May 09, 2022

National Projects Construction Corporation Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limits – Cash Credit	20.00	-	-
Non-fund based – Working Capital Facilities	480.00	500.00	[ICRA]A(Stable)/ [ICRA]A2+; reaffirmed
Total	**500.00**	**500.00**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings of National Projects Construction Corporation Limited (NPCC) takes comfort from its long track record in the construction and project management business as well as its sizeable order book position (~Rs. 13,000 crore as on March 31, 2022), which provides medium-term revenue visibility, though ramp up in execution remains crucial. The ratings note NPCC's status as Miniratna category-1 public sector undertaking (PSU), under the administrative control of Ministry of Jal Shakti (MoJS[1]), Government of India (GoI). Some of the Government sector entities prefer NPCC for its projects, indicating the company's ability to secure work orders. Further, NPCC sub-contracts the work with back-to-back arrangement, which reduces its working capital requirement as it can pass on the delays in debtor realisation by extending payments to sub-contractors. The rating draws support from its strong parent, WAPCOS Limited (WAPCOS), a PSU under the MoJS. ICRA expects NPCC to derive healthy synergies from WAPCOS as both are in similar lines of business with complementary services.

The ratings, however, are constrained by the modest gross profit margins in the company's ongoing projects, which along with high overhead costs and provisioning/write-offs resulted in operating losses in the past. While its operating performance has improved in FY2022 with boost in order execution and better cost absorption, the operating margins are likely to remain modest (sub 4%) going forward. The ratings are constrained by the high execution risk as most projects are in the early execution stages or are yet to start. The risk is further accentuated by the slow pace of execution in various under-construction projects due to delays in land acquisition, approvals, clearances, fund release by departments, etc. However, as NPCC works entirely through sub-contracting, once these bottlenecks are resolved, faster execution ramp-up is achievable. Notwithstanding the performance bank guarantees (PBGs) being provided by sub-contractors, the company is exposed to the risk of underperformance by the sub-contractors as most of these are smaller entities. Hence, the timeliness and quality of project execution is critically dependent on the choice of sub-contractors and their performance. The ratings also consider the risk associated with NPCC's high overdue receivables, its high total outside liabilities (TOL)/tangible net worth (TNW) ratio and sizeable contingent liabilities (arising from claims against the company and the bank guarantees given to clients).

The Stable outlook on the long-term rating reflects ICRA's opinion that NPCC's sizeable order book position will support its scale of operations, while negligible external borrowings and healthy liquidity position will support its financial risk profile.

[1] Formed by merging the Ministry of Water Resources, River Development & Ganga Rejuvenation, and the Ministry of Drinking Water and Sanitation

Key rating drivers and their description

Credit strengths

Long track record and established operating capabilities in civil construction industry – NPCC, a Miniratna PSU, was incorporated in 1957 for undertaking projects of national importance under the MoJS (or MoWR). It has over 60 years of experience in executing projects across multiple sectors in the country including water, buildings, housings, roads, bridges, civil construction, etc.

Strong and experienced promoter – The company is at present primarily owned by WAPCOS, which acquired the stake in NPCC from the GoI. WAPCOS is also owned by the GoI under the MoJS. Hence, the GoI remains the ultimate shareholder. WAPCOS is into consultancy projects and has a healthy financial profile. Further, ICRA expects NPCC to derive healthy synergies from WAPCOS as both are in similar lines of business with complementary services. As per the management, over the medium term both the entities are likely to be merged.

Sizeable order book position – The company reported a sizeable order book of ~Rs. 13,000 crore as on March 31, 2022, which translates into an order book/operating income (OI) ratio of ~9 times. While this provides strong medium-term revenue visibility, the execution risks are commensurately higher due to the large order backlog. The order book is spread across more than 300 projects across multiple states in India.

No external borrowing and adequate liquidity – The company has a healthy capital structure with no external debt on its books, leading to low financial charges (only financial charges being commissions on bank guarantees). Moreover, it has cash and bank balance position of ~Rs. 1,282 crore as on March 31, 2021, of which ~Rs. 82 crore was encumbered towards margin money for bank guarantees. Of the balance ~Rs. 1,200 crore, majority (70-80%) was held on behalf of its customers, which can be used only for specific projects against which the clients had provided advances and not for other projects. Nevertheless, NPCC earns healthy interest income on the cash balances, which has helped in maintaining profits at the net level despite loss at operating level in the past.

Credit challenges

Execution risks arising from large order book and dependence on smaller sub-contractors – NPCC's current order book is ~9 times of its OI of FY2022, which exposes it to risks of timely execution as most of the projects in its current order book have a scheduled execution period of two to three years. Further, most of the projects in the order book (in terms of residual size) are either in early stages of execution, or are yet to start, or in a sub-contracted stage. This adds to the execution risks. This apart, it sub-contracts project execution to sub-contractors, many of which are relatively smaller entities. Thus, the timeliness and quality of work done is critically dependent on the choice of these sub-contractors and their performance.

Moderate net worth, weak operating profitability and high TOL – As per the provisional financials, NPCC has earned profits at the operating level in FY2022 after loss in the previous years, supported by increased execution, which helped in absorption of overhead costs. In the past, the company faced issues including lower execution and provisioning/write-offs, which impacted its profitability. The net profitability, however, remains supported by the interest income on the bank balances and fixed deposits. It has sizeable creditors and advances from customers that resulted in a high TOL/TNW ratio of 8.7 times as on March 31, 2021. Given the nature of its operations, it gets advances from customers, which increases its TOL. However, the same increases its cash and bank balances, and hence the net TOL/TNW is relatively lower at ~3.1 times (adjusted for unencumbered cash balances) as of March 2022. Further, NPCC sub-contracts the work with back-to-back arrangements, which reduces its working capital requirement and passes the risk of payment to the contractors to its vendors.

Risks associated with sizeable contingent liabilities – NPCC has sizeable off-balance sheet exposure, primarily claims pending for adjudication and bank guarantees given to clients. The bank guarantees given to clients (primarily performance guarantees) are part of a normal course of business for construction entities. However, NPCC has sizeable claims under arbitration, which exposes it to any short-term liabilities that may arise out of materialisation of these contingent liabilities.

Liquidity position: Adequate

NPCC's liquidity position remains adequate, supported by unencumbered cash and bank balance of ~Rs. 300 crore as on March 31, 2021 (liquidity is estimated to be at similar level as of March 2022) and no debt on its books. While it has higher bank balances and deposits, a major part of it is restricted to be used against specific projects only. The company receives sizeable customer advances, which along with high creditors results in higher balance sheet liquidity.

Rating sensitivities

Positive factors – ICRA could upgrade NPCC's ratings if it demonstrates a sustained improvement in its order book execution and operating profitability.

Negative factors – Negative pressure on NPCC's ratings could arise if there is deterioration in operating performance or deterioration in credit profile of its parent (WAPCOS) or linkages with the parent.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Construction Entities Rating Approach – Implicit Parent or Group Support
Parent/Group Support	Parent/Group Company: WAPCOS Limited The ratings assigned to NPCC derives significant support from its parent – WAPCOS; ICRA expects WAPCOS to be willing to extend financial support to NPCC, should there be a need, given the strong linkages and synergies that NPCC holds for it; the credit profile of WAPCOS, in turn, derives strength from its ownership by the GoI
Consolidation/Standalone	The ratings are based on the company's standalone financial profile

About the company

Established in 1957, NPCC is a Miniratna category–I and a schedule-B PSU. The GoI has strategically divested its stake of 98.89% in NPCC and WAPCOS has acquired the GoI shares and management control in H1 FY2020. NPCC is an ISO 9001-2008 certified company and has been in the business for over 60 years. It offers project management consultancy services for civil construction projects, civil infrastructure for power sector and real estate development. The company has experience in undertaking projects in remote and hazardous locations across the country.

Key financial indicators (audited)

National Projects Construction Corporation Limited	FY2020	FY2021
Operating Income (Rs. crore)	1,309.2	1,205.3
PAT (Rs. crore)	20.6	24.5
OPBDIT/OI (%)	-1.5%	-0.76%
PAT/OI (%)	1.5%	2.0%
Total Outside Liabilities/Tangible Net Worth (times)	9.6	8.7
Total Debt/OPBDIT (times)	0.00	0.0

Interest Coverage (times)	-16.05	-12.57

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Source: ICRA Research

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2023)					Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on March 31, 2022 (Rs. crore)	Date & Rating in FY 2023	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020	
					May 09, 2022	Apr 07, 2021	-	Nov 28, 2019	Apr 8, 2019
1	Fund-based Limits	Long Term	0.00	-	-	[ICRA]A(Stable)	-	[ICRA]A (Stable)	[ICRA]A+&
2	Non-fund Based Limits	Long Term/ Short Term	500.00	-	[ICRA]A(Stable)/[ICRA]A2+	[ICRA]A(Stable)/[ICRA]A2+	-	[ICRA]A (Stable) / [ICRA]A2+	[ICRA]A+ &/ [ICRA]A1&

Complexity level of rated instruments

Instrument	Complexity Indicator
Fund-based Limits – Cash Credit	Not Applicable
Non-fund based – Working Capital Facilities	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-fund Based Limits*	July 2018	-	-	500.00	[ICRA]A (Stable)/[ICRA]A2+

** Rs. 250 crore of BG limits are sanctioned and rest are proposed and not yet sanctioned*

Source: *NPPL*

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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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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