

August 29, 2023

National Projects Construction Corporation Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term/Short-term – Non-fund based – Working capital facilities	500.00	500.00	[ICRA]A (Stable)/ [ICRA]A2+; reaffirmed
Total	500.00	500.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings for 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, 2023), which provides medium-term revenue visibility, though ramp-up in execution remains crucial. The ratings note NPCC's status as a Miniratna category-1 public sector undertaking (PSU), under the administrative control of the Ministry of Jal Shakti (MoJS¹), Government of India (GoI). NPCC sub-contracts its entire orders on back-to-back basis, which reduces its working capital requirement. The ratings continue to derive comfort from NPCC's parent, WAPCOS Limited (WAPCOS/parent), a PSU under the MoJS. Despite some moderation in the performance of the parent owing to decline in its profit margins and elongation of receivables, WAPCOS' credit profile remains comfortable, supported by its sovereign ownership. Nevertheless, any further deterioration in the credit profile of the parent will remain a key monitorable and could exert pressure on NPCC's ratings.

The ratings, however, are constrained by the modest profit margins in NPCC's ongoing projects, primarily owing to high overhead costs. While its operating performance improved sequentially in FY2022 and sustained in FY2023 in the backdrop of improved order execution and better cost absorption, the operating margins are likely to remain modest (sub 2%) going forward. The ratings are constrained by the execution risk as most projects are in the early execution stages or are yet to start, which could result in time and cost overruns impacting its profitability. Notwithstanding the performance bank guarantees (PBGs) being provided by sub-contractors which provides indemnity to NPCC, the company remains exposed to the risk of underperformance by the sub-contractors as most of these are smaller entities and replacing them in case of non-performance during the implementation period is fraught with challenges. Hence, the timeliness and quality of project execution is critically dependent on the choice of sub-contractors and their performance. The ratings 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, and healthy profile of WAPCOS is expected to aid its financial risk profile.

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

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

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 (with 98.89% stake), which acquired the stake in NPCC from the GoI in April, 2019. WAPCOS is owned by the GoI under the MoJS. Hence, the GoI remains the ultimate shareholder. Further, ICRA expects NPCC to derive healthy synergies from WAPCOS as both are in similar lines of business with complementary services. While recently, there has been some moderation in the performance of the parent, its credit profile still remains healthy. Nevertheless, any further deterioration will remain a key monitorable.

Sizeable order book position providing healthy revenue visibility – The company reported a sizeable order book of ~Rs. 13,000 crore as on March 31, 2023, which translates into an order book/operating income (OI) ratio of ~8 times providing medium-term revenue visibility. The order book is spread across more than 400 projects across multiple states in India.

Credit challenges

Execution risks arising from large order book and dependence on smaller sub-contractors – NPCC's order book is exposed to risks of timely execution as 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. 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 profit margins at the operating level in FY2023 (0.98%) similar to FY2022 levels, supported by healthy execution. 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 8.0 times as on March 31, 2023. Given the nature of its operations, it gets advances from customers, which increases its TOL. Nevertheless, the same increases its cash and bank balances, and hence the net TOL/TNW remained relatively lower at ~2.4 times (adjusted for unencumbered cash balances) as on March 31, 2023. Further, NPCC sub-contracts the work with back-to-back arrangements, which reduces its working capital requirement.

Risks associated with sizeable contingent liabilities – NPCC has sizeable off-balance sheet exposure, primarily claims pending for adjudication and bank guarantees given to clients. Sizeable claims under arbitration 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. It has unencumbered cash and bank balances of Rs. 1,550 crore as on March 31, 2023. However, of this a major portion (~Rs. 970 crore) is advance received from clients for specific projects and is not fungible across projects. Further, the company has nil external debt.

Rating sensitivities

Positive factors – ICRA could upgrade NPCC's ratings if it demonstrates a sustained improvement in operating profitability and liquidity position, while maintaining comfortable order book position. Moreover, improvement in the credit profile of the parent will remain a key factor for rating upgrade.

Negative factors – Negative pressure on NPCC's ratings could arise if there is deterioration in operating profitability and liquidity position, or deterioration in credit profile of its parent (WAPCOS Limited) or weakening of linkages with the parent.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group support	Parent/Group Company: WAPCOS Limited The ratings assigned to NPCC derives 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.

Key financial indicators

National Projects Construction Corporation Limited	FY2022	FY2023*
Operating income	1,432.1	1,614.1
PAT	35.1	45.4
OPBDIT/OI	0.9%	0.9%
PAT/OI	2.5%	2.8%
Total outside liabilities/Tangible net worth (times)	9.4	8.0
Total debt/OPBDIT (times)	0.0	0.0
Interest coverage (times)	15.6	15.2

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore; * - Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Aug 29, 2023	May 09, 2022	Apr 07, 2021	-
1 Fund-based limits	Long Term	-	-	-	-	[ICRA]A (Stable)	-
2 Non-fund based limits	Long Term/	500.0	-	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	[ICRA]A (Stable)/ [ICRA]A2+	-

Short
Term

Complexity level of the rated instruments

Instrument	Complexity Indicator
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: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Non-fund-based limits – Bank Guarantee*	NA	NA	NA	250.00	[ICRA]A (Stable)/[ICRA]A2+
NA	Non-fund-based limits – Unallocated Limits	NA	NA	NA	250.00	[ICRA]A (Stable)/[ICRA]A2+

* Rs. 250 crore of BG limits are sanctioned and rest are proposed and not yet sanctioned; Source: NPPL

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis: Not Applicable

ANALYST CONTACTS

Rajeshwar Burla

+91 40 4547 4829

rajeshwar.burla@icraindia.com

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Abhishek Gupta

+91 124 4545 863

abhishek.gupta@icraindia.com

Mrinal Jain

+91 124 4545 845

mrinal.jain@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



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