CMA R. S. RAJU
CFO/Associate Director (F&A)
NCC Limited

Mr. Raju is a Fellow Member of The Institute of Cost Accountants of India. He is working as CFO of the company since 15 years and has got recognition both from the internal management and from the external bodies by securing various awards including Award for Excellence in Financial Reporting from ICAI, Excellence in Cost Management Award from The Institute of Cost Accountants of India.

Q1. What benchmarks have your esteemed organization established in the construction industry since its inception and what significant milestones has it achieved?

A. As CFO of the Company, I have given a serious thought about designing of the accounting system, IT system to exercise control over the cost and measuring the performance of the unit (project), measuring the performance of the Division (headed by the Whole time/Functional Director), motivate the team to achieve growth in top-line and bottom-line. In that view, we have designed the system of compiling the cost of each project, automatically through the IT system to know the cost incurred for each project in a month, the profit or loss of the project as against the planned cost and profit. Nearly 85 to 90% of the cost directly available at unit level trial balance and approximately 6 to 8% of the common cost get compiled on allocation basis, following the Standard Costing System. The following are the responsibility centres for which we established the benchmark for evaluating the performance on a continuous basis.

Profit Centre (Responsibility Centre)	Responsible Executives
i) Division	Director
ii) Group	Group Head
iii) Project	Project Manager

» Project Manager:-Each project is headed by a Project Manager and responsible for the timely completion of the project within the cost and to achieve targeted profit.

» Group Head:-The Group Head generally handle group of 8 projects and responsible for reporting return on various resources (in terms of capital employed) utilised by him.

» Division Head–Director:- The Company has divided the total company operations into various Divisions based on the nature of projects. The following are the Divisions at present in operation:

- Buildings & Industrial Structures Division
- Roads Division
- Water & Environment Division
- Electrical Division
- Irrigation Division
- Railways Division
- Mining Division
- Power Division
- Metals & Oil & Gas Division
- International Division

Benchmarks: The Company has set the following benchmarks for each operating Division:

Capital Employed

We have given a benchmark as to how much capital as a percentage of turnover is permitted to use. For some Divisions we stipulate 25% and some Divisions around 30% as percentage of turnover.

Profit Margins

We have stipulated Gross Margins, EBIDTA and Net Profit Margins benchmarks for each Division.

Return on Capital Employed (ROCE)

We have stipulated a specific percentage as Return on Capital Employed to achieve by each Division. This is ultimate benchmark through which we measure efficiency of the Division as to how effectively utilising the resources such as, Machinery, Material, Manpower, Money which the division working time to time.

Working Capital Days

This is another benchmark we have established for measuring the performance of the Division in terms of collections from clients, the efficiency in utilisation of credit period from the suppliers, sub-contractors and others and how efficiently managing optimum level of inventory.

EBIDTA & Turnover per Employee

Turnover per employee is another benchmark to exercise control over the deployment of manpower in Division. In the yearly Budget, the Division indicates their turnover per employee and we compare the actual with plan in all review meetings to exercise control over the employee cost.

Debt Collection Period

This is another benchmark stipulated for the Divisions to exercise control over the collections from the customers.

In order to review the above benchmark on a periodical basis, we have developed a system of budgetary control. We prepare the Budget (Business Plan) for the year by dividing into month-wise targets in all above said parameters. We have designed a robust MIS System to use in review at corporate level on bi-monthly basis and at division level on monthly basis. In the Business Plan we set targets for each of the above primary benchmarks and also the benchmarks for ancillary parameters. The growth plans will be prepared basing on the efficiency of each Division, the potentiality of the projects available in the economy and the company priority areas among available projects.

Significant Milestones Achieved by the Company:

Fastest growing construction company in India in terms of Turnover achieved in….	**2006**
Second Largest Construction Company in terms of Turnover achieved in …………	**2007**
Order Book crossed **Rs. 30000 crs** in………	**2008**
Turnover crossed **Rs. 10000 crs** in…………	**2019**
PAT crossed **Rs. 500 crs** in………………	**2019**
Third fastest growing construction company in India achieved in……………	**2019**

Q2. What are the quality control measures taken in your company for the raw materials?

A. Quality is the utmost priority for the company; as such the following quality control measures are established by the Company.

» A system of Quality check and approval for the quality and the specifications by the customers before procurement.

» Quality check at Vendors place before dispatching the material.

» We used to have a laboratory with required tools and employees at every project to carry-out the quality check for each and every input material incorporating in the project.

» We require to submit certificate on the quality tests, sometimes even from the outside agencies to the client. As such we established a system of compliance of required quality.

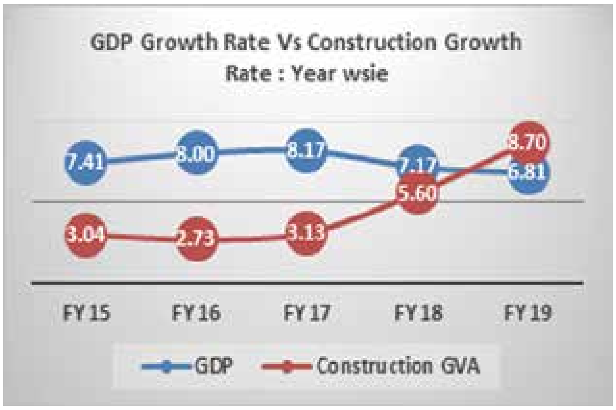
Q3. What are your plans and strategies to garner a larger share of the market?

A. NCC Limited being the 2nd largest construction company in India always strives to continue in the second position in the listed company category after L&T Limited, a giant construction company. We have a Strategic Plan for 5 years with 15% compounding average growth rate which we prepared in 2016-17. Accordingly, the company secured more orders basing on the infra development taking place in India. Further, the new states which are formed newly in the last decade have thrown good opportunities for various capital city developments and other infra developments. The construction companies have good opportunities in various sectors like, roads development, airports & sea ports development, power sector, water segments, irrigation segments, smart city development, real estate, metro rail, flyovers, dedicated rail corridor for transport of goods, etc.

Q4. Many datasets that are recently released show that the Indian economy is facing a multi-year slowdown. But exactly how worrying is this situation for Construction business?

A. Yes. The Indian Economy has seen a growth during the period FY 2014 to FY 2017. But in the last 2 years seen a decline year-on-year from 8.2% to 6.8%.

The following chart showing how the GDP growth and how construction industry growth in the last 5 years.



If at all the slowdown continues in Indian Economy from that of the present level, I believe that the same level of impact may not be there on the construction industry. The construction industry already is in slow momentum for the last 9 months because of general and state elections taken place. However, India yet to brought a lot of infrastructure, the Central and State Governments are keen to carry-out the developments for which various plans, schemes are in active consideration. Further, the Central Government already has taken certain reforms in their first regime and in their second regime also already certain reforms announced including slashing down the Corporate Tax rate from 35% to 25.17%. They are also considering to bring certain other reforms to improve the liquidity of customers and contracting companies for continuing the projects without any interruptions on account of liquidity. The above graph where it shown the GDP growth rate vis-à-vis the construction GDP growth that in the year 2018-19, the GDP has come down from 7.17% to 6.81% whereas the construction GDP is increased from 5.6% to 8.70%. Even the decline in GDP in current year may not impact in the same proportion the GDP of construction sector. Basing on the reforms taken by the Central Government, I believe that the construction sector may not get impacted with this slowness in the economy and the decline in the GDP rate.

Q5. How Technology is Reshaping the Construction Industry? Elucidate your views on it.

A. Technological advancements have always driven construction forward. Today, new technologies in construction are being developed at a rapid pace. The construction companies using new technologies by importing the high end machinery for completing the projects within the given period by maintaining high quality. The companies which are using new technology only will sustain in future and will get larger size of the projects. For ex:- NCCL is one company among the few companies using the mivan shuttering technology. It is imported equipment being used in multi storied buildings. NCCL has focused on using this mivan shuttering technology and succeeded in completing the projects well before the scheduled time and maintaining good quality. It has given training to the engineers and a team was developed to use this mivan technology in the construction of multi storied buildings. In future the companies which use the high end machines only will survive in the industry and deliver the things at a good quality and within the time.

Q6. List some challenges your company is facing currently and the measures taken by you for the prevention of these barriers?

A. The construction industry has certain challenges at this moment and required to be resolved by the Government through reforms. The following are some of the challenges currently facing by the company and the measures which the company initiated.

Banks support- fund and non-fund based limits:

Bank is one of the important stakeholders in providing support in the form of fund and non-fund based limits. However, because of failures of construction & infra companies in the last 6 to 7 years in completion of projects, particularly BOT projects within the time, mainly due to the reasons beyond the control of the companies which in turn again resulted into failures in servicing of the debt & interest payments to the banks. Now the banks restricted the facilities. Further, the clients wherever the companies failed to complete the projects went for the invocation of Bank Guarantees. Because of this negative trend in the infra business, the banks have brought in rigid rules. At present the construction companies are not getting the fund & non-fund based limits easily thereby it has become a hurdle in getting the new orders. Our company has taken appropriate measures in the last 5 years expecting the above scenario and managing the liquidity position as a result never failed in servicing the debt & interest payments in the last 5 years. The banks are happy about the performance, commitment of the management of NCCL and strong financial base developed year-on-year.

Dispute resolutions:

In the construction industry the disputes on account of scope changes, other changes like legislative changes, interpretation of the contract clauses, penalties for delay for the reasons of the client are not being getting settled smoothly with mutual discussions between client and contractor. As a result, the contracting company forced to approach Arbitrators and Courts for the settlement of pending payments and claims. In India, the Arbitration and Court mechanism taking long time as a result the contracting company suffering the liquidity during the project execution. Thousands of crores are held-up in dispute mechanism and the companies suffering heavily and failing to meet the payment to various vendors, sub-contractors and also to the banks. NCC along with other companies represented this matter to Central Government to bring the easy dispute resolution mechanism. The Government has brought certain reforms in this context 3 years back and some more reforms are required for getting the pending payments on account of disputes.

Customer Payments:

The orders are flowing mainly from Central and State Governments, the payments are not happening in regular basis from some of the clients due to their internal issues. As a result, contracting companies are facing liquidity issues to meet their payments to vendors and lenders which in turn led to time overrun, cost overrun of projects and losses. Proper reforms to compensate the contracting companies whenever delays happening at the client end are required.

Tender/Contract Agreement:

The Tender/Contract Agreement clauses are to be framed to provide equal justice to both the parties i.e., client and contracting company. However, in India the tender and contract agreements, in some places, only in favour of the client. As a result, whenever such clauses comes into operation the contracting company is in loss because client is blindly following the contract provisions. Since majority of the clients are from Central & State Government, they never goes beyond the clauses stipulated in the document. In developed countries, the "Fedics Contract Document" in use provides equal justice to both the parties. In India, being a developing country, require to adopt the Fedics document to provide equal justice. The construction industry represented the matter to Central Government. Once the Fedics document comes into force, it helps both the parties and also brings the infrastructure development at a faster rate. Our contracts documents are one side documents and it is a major hurdle for infra development of India.

Q7. Going forward, how do you envisage the growth of NCC Limited by 2025?

A. We envisage going forward a 10% Compound Average Growth in turnover upto 2025. Last year the company has reported a turnover of Rs.13000 crs (consolidate basis) as against Rs.8500 crs reported in 2017-18. The year 2018-19 is a good year for the company since that year the company has shown 53% growth in turnover and 300% jump in its net profit. The Company expects to grow and report a turnover of Rs.20000 crs by FY 2025 at a CAGR of 10%.

Q8. NCC Ltd., is a company that contributes to India's progress through landmark infrastructure projects which demonstrate far-reaching impact - beyond the realm of construction. What are the various ways your organization can integrate with The Institute of Cost Accountants of India for the diverse avenues in professional development matters?

A. The company in fact has recognised CMAs contribution in laying down good foundation for development of the systems, budgetary plans, cost control, tax efficiency plans, etc., to support the fastest growth of the company in last 2 decades. The Company is in continues process for talent development and professional development. As the Institute of ICAI is one of the premier professional body in professional development in India, we closely working with the local Hyderabad Chapter for professional development of the company in respect of the following activities:

» Encouraging recruitment of CMAs into the Company. In our Company more than 25 CMAs are working occupying different positions right from CFO to Divisional CFOs, project cost controllers, etc. Company continues to encourage recruitment of CMAs into the Company.

» Sponsoring the employees for various development courses being organized by ICAI Institute.

» Sponsoring the contribution for the development of the Chapter and professional development courses and Chapter R&D centres.

» Taking the opinions from experts of CMAs and various Committees of ICAI Institute.