NKC Projects Private Limited

April 07, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities*	12.00 (reduced from 67.00)	CARE BBB+; Positive (Triple B Plus; Outlook: Positive)	Reaffirmed; Outlook revised from Stable
Long Term / Short Term Bank Facilities*	45.00 (reduced from 500.00)	CARE BBB+; Positive / CARE A3+ (Triple B Plus; Outlook: Positive/ A Three Plus)	Reaffirmed; Outlook revised from Stable
Total Bank Facilities	**57.00 (Rs. Fifty Seven Crore Only)**		

Details of instruments/facilities in Annexure-1

** CARE has withdrawn the rating assigned to the bank facilities aggregating to Rs.510 crore of NKC Projects Pvt Ltd at the request of the company and 'No Objection Certificate' received from the banks that have extended these facilities rated by CARE.*

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of NKC Projects Pvt. Ltd. (NKC) continue to derive strength from extensive experience of the promoters with established track record of operations, strong order book position providing medium term revenue visibility with low counterparty and price variation risk, improvement in the operational performance of the company during FY20 and 10MFY21 despite Covid-19 pandemic and efficient working capital management.

The ratings strengths are, however, tempered by high project concentration risk with current order book comprising of six packages of Amritsar Jamnagar Economic Corridor that constitute more than 90% of the total order book, increased overall gearing during FY20 and 10MFY21 and company's presence in tender-based nature of operations along with high competitive intensity.

Outlook: Positive

The outlook for the ratings has been revised to 'Positive' on account of satisfactory progress on all the work orders in hand and substantial improvement in the operational performance in FY20 & 10MFY21 (refers to period from April 1, 2020 to January 31, 2021), which is expected to further improve going forward with sustained profitability margins leading to improvement in overall gearing to below unity level.

The outlook may be revised to 'Stable' if the company is not able to achieve the envisaged total operating income and profitability margins leading to sustenance of gearing levels above unity.

Rating sensitivities

Positive Factors:

- Consistent increase in scale of operations by 15%-20% for 2-3 years with sustained profitability
- Geographically diversified order book with quality counterparties
- Maintained order book position providing a revenue visibility of 3x-3.5x
- Improvement in capital structure with overall gearing below unity on a sustained basis.

Negative Factors:

- Further protraction of operating cycle beyond 60 days
- Consistent decline in scale of operations and contraction in the profitability margins from the current levels
- Increased leverage with overall gearing above 1.30x

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and professional management with established track record of operations

NKC Projects Private Limited (NKC) was incorporated in 2003 and has been engaged in the construction business for last 18 years with a focus on executing road EPC projects. The Managing Director of NKC, Mr. Naresh Kumar has experience of over two decades in the construction sector and prior to starting NKC, he was involved in construction of building as principal contractor. The promoters of the company are further supported by professional management including Mr.

MK Magoo retired Chief Engineer from Indian Railways, Mr. SC Chatterjee retired director from IRCON and Mr. PP Pathak retired Chief Engineer from PWD.

Strong order book with lower counter party risk

The company has unexecuted order book of Rs.2,118 crore as of March 01, 2021. The current order book position translates to 3.60x of FY20 revenue thereby providing medium term revenue visibility. The entire order book of the company is with National Highways Authority of India (NHAI, rated CARE AAA; Stable), where the counterparty risks are very low. Further, the company has recently been declared L1 in one HAM project of NHAI for contract value of Rs.985 crore. The focus of the company continues to be road construction contracts with NHAI or other government funded projects leading to low counter party risk.

Limited price risk due to escalation clause in contracts

The orders of the company have in-built escalation clauses, thereby reducing the company's exposure towards volatility in the raw material prices.

Improved operational performances in FY20 and 10FY21 ; though deterioration in overall gearing levels

The total operating income of the company has increased by 6.79% in FY20 to Rs.589.60 crore as against Rs.552.11 crore in FY19 majorly on account of healthy order book position and smooth execution of the orders. The profitability margins of the company remained stable with PBILDT and PAT margin of 10.06% (PY: 10.11%) and 3.35% (PY: 3.22%) respectively during FY20.

The overall gearing of the company deteriorated to 1.01x as on March 31, 2020 as against 0.59x as on March 31, 2019 owing to availment of higher mobilization advances and working capital borrowings. Other debt coverage indicators also deteriorated, with total debt to GCA of 3.97x as on March 31, 2020 vis-à-vis 2.18x as on March 31, 2019. The interest coverage ratio remained stable 3.46x in FY20 (PY: 3.39x).

During 10MFY21, the company has reported total revenue of Rs.671.44 crore with improved PBILDT margin of 12.61% as against total revenue of Rs.419.96 crore with PBILDT margins of 11.08% during the corresponding 10MFY20. Further, gross cash accruals (GCA) has also improved significantly from Rs.26.73 crore in 10FY20 to Rs.51.26 crore in 10MFY21. The improvement in the company's operating performance during 10MFY21 is on account of its preparedness in executing and billing various work orders, despite the Covid-19 pandemic which impacted the operations of the company in Q1FY21.

Further, the total debt outstanding as on January 31, 2021 increased on account of additional equipment loans and higher mobilization advances availed by the company during FY21. In order to expedite the execution of the projects, the company augmented its equipment base during FY21 and does not envisage any major capex in the next 2-3 years as the equipment capacity appears to be commensurate with the increased order book position. With the improved scale of operations, the gearing levels are expected to improve going forward and shall remain a key rating monitorable.

Key Rating Weaknesses

Project Concentration Risk

While NKC has sizeable order book, the order book remains concentrated on a few projects. Out of the total order book outstanding as on March 01 2021, more than 90% of the orders are for development of Amritsar Jamnagar Economic Corridor, exposing the company to high project concentration risk. However, since the projects are on contiguous stretches, the geographical risk is offset to a large extent by the operational synergies achieved by the proximity of projects to one another by facilitating smooth movement of manpower and machinery and negotiating bulk discounts from the suppliers. The order book, however, continues to remain concentrated towards the road segment, leading to sectorial concentration.

Tender-based nature of operations in intensely competitive civil construction industry

The company receives most of its work orders from government departments. All these are tender-based and the revenues are dependent on the group's ability to bid successfully for these tenders. The Indian construction sector is highly competitive and fragmented. Due to the presence of large players as well as large number of unorganized players and project award based on competitive bidding, the sector witnesses competitive intensity. Further, profitability margins remain under pressure because of the competitive nature of the industry.

Liquidity Analysis: Adequate

The operating cycle of the company has stood at 41 days as on March 31, 2020 (PY: 40 days). The working capital utilization stood moderate with average utilization of 72.90% for the past 12 months ending Jan'21. Further, the company has free cash and bank balance of approximately Rs.55 crore as on March 30, 2021 (Rs. 10.26 crore as on January 31, 2020).

The company has debt repayment obligations of approximately 8 crore and 16 crore in FY21 and FY22 respectively as against current gross cash accrual of Rs.32 crore as om March 31,2020. The company has not availed moratorium under the RBI circular for COVID.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Rating methodology-Construction Sector
Rating Methodology- Infrastructure Sector Ratings
Liquidity Analysis of Non-Financial Sector entities
Financial ratios-Non Financial Sector
Short Term Instruments

About the Company
NKC Projects Private Limited (NKC) was incorporated in 2003 and has been engaged in the construction business for last 18 years with a focus on executing road EPC projects. The company is promoted by Mr. Naresh Kumar who has experience of more than 2 decades in the construction sector and prior to starting NKC he was involved in construction of building as principal contractor. Over the years, the company has executed several orders as a principal contractor for road and building construction, however later on the company has started focusing only on the road projects. The company focuses majorly on road & highway projects from government organizations like National Highways Authority of India (NHAI; rated CARE AAA; Stable).

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

Brief Financials (In Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	552.11	589.60
PBILDT	55.84	59.33
PAT	17.75	19.75
Overall gearing (times)^	0.59	1.01
Interest coverage (times)	3.39	3.46

A: Audited
^-Including Mobilization Advance as debt

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	12.00	CARE BBB+; Positive
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	45.00	CARE BBB+; Positive / CARE A3+

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1.	Fund-based - LT-Cash Credit	LT	12.00	CARE BBB+; Positive	-	-	1)CARE BBB+; Stable (31-Mar-20) 2)CARE BBB+; Stable (19-Jul-19)	1)CARE BBB+; Stable (31-Jan-19)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	45.00	CARE BBB+; Positive / CARE A3+	-	-	1)CARE BBB+; Stable / CARE A3+ (31-Mar-20) 2)CARE BBB+; Stable / CARE A3+ (19-Jul-19)	1)CARE BBB+ / CARE A3+ (31-Jan-19)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Long term loan	Detailed explanation
A. Financial Covenants	• TOL/TNW not to exceed 2.25:1 • Current Ratio maintained above 1.25:1
B. Non- Financial covenants	• The borrower shall undertake not to divert working capital funds for long term purposes • The borrower shall not transfer/invest funds of the company in whatsoever manner in any other concern without obtaining prior consent of the bank

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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