JMC Projects (India) Limited

October 13, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	1,234.75 (Enhanced from 873.61)	CARE AA- (CWP) (Double A Minus) (Under Credit watch with Positive Implications)	Continues to be on Credit watch with Positive Implications
Long-term / Short-term bank facilities	6,000.00 (Enhanced from 4,900.00)	CARE AA- / CARE A1+ (CWP) (Double A Minus / A One Plus) (Under Credit watch with Positive Implications)	Continues to be on Credit watch with Positive Implications
Total bank facilities	**7,234.75 (₹ Seven thousand two hundred thirty-four crore and seventy-five lakh only)**		
Non-convertible debentures	175.00	CARE AA- (CWP) (Double A Minus) (Under Credit watch with Positive Implications)	Assigned
Non-convertible debentures	75.00 (Reduced from 150.00)	CARE AA- (CWP) (Double A Minus) (Under Credit watch with Positive Implications)	Continues to be on Credit watch with Positive Implications
Non-convertible debentures	100.00	CARE AA- (CWP) (Double A Minus) (Under Credit watch with Positive Implications)	Continues to be on Credit watch with Positive Implications
Non-convertible debentures	99.00	CARE AA- (CWP) (Double A Minus) (Under Credit watch with Positive Implications)	Continues to be on Credit watch with Positive Implications
Total Long-Term Instruments	**449.00 (₹ Four hundred forty-nine crore only)**		
Commercial paper (Carved out)*	150.00	CARE A1+ (A One Plus)	Reaffirmed
Total Short-term instruments	**150.00 (₹ One hundred fifty crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The rating assigned to the bank facilities and instruments of JMC Projects (India) Limited (JMC) continue to remain under credit watch with positive implications in the view of the ongoing amalgamation scheme for merger of JMC with its parent i.e. Kalpataru Power Transmission Ltd (KPTL; rated CARE AA; Stable/CARE A1+) subject to receipt of necessary approvals from regulators and stakeholders. Relevant approval from all the stakeholders has been obtained while final approval from the regulator is pending. The merger is envisaged to translate in synergistic benefits in the form of enhanced operational, organisational, financial efficiencies with likely expansion of business footprint in overseas markets. CARE Ratings Limited (CARE Ratings) is monitoring developments in this regard and shall review the rating when greater clarity emerges.

The ratings continue to take into account JMC's strong and geographically well-diversified order book position with healthy order inflows from reputed clientele, significant growth in its total operating income (TOI) during FY22 (refers to the period from April 1 to March 31) on account of strong order execution along with improvement in its working capital cycle led by timely realisation of debtors. The ratings continue to draw strength from its strong parentage, being a subsidiary of KPTL and strategic importance of JMC for KPTL. CARE Ratings believes that KPTL shall extend need-based support to JMC owing its strategic importance and near-completion of merger transaction. The ratings continue to derive strength from its established presence in

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

diversified areas of construction business, demonstrated execution capability of JMC in civil construction as well as infrastructure projects along with professional management.

The above rating strengths, however, continue to remain tempered on account of moderate profitability, which was further adversely impacted on account of increase in commodity prices, high leverage along with financial support being extended to its special purpose vehicles (SPVs) operating road projects on account of their subdued performance leading to high exposure to its Build-Operate-Transfer (BOT) based road projects. In contrast to CARE Ratings' earlier expectation of timely resolution, debt restructuring in one of the SPV has been delayed, while stake sale intention in another SPV is now proposed to be replaced with longer tenure debt refinance. KPTL envisages fructification of these aforementioned strategies by December 2022/ March 2023. Furthermore, no major cash outflow is envisaged from the KPTL group for funding of shortfall in debt due in one project wherein termination notice is issued. However, CARE Ratings expects that the total support towards the above-mentioned weak BOT projects shall not exceed ₹100 crore. In light of high leverage of JMC, fructification of the aforementioned plans within envisaged timelines in FY23 shall be crucial from credit perspective and thus form key rating sensitivities.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Completion of the merger with KPTL within envisaged timelines

Negative factors – Factors that could lead to negative rating action/downgrade:

- Delay in debt restructuring in its SPV beyond March 2023 and higher-than-envisaged support required in its SPVs
- Inability to achieve and sustain total operating income of around ₹5,000 crore and improvement in PBILDT margins
- Significant increase in its working capital intensity marked by Gross Current Assets days increasing beyond 250 days
- Deterioration in the credit rating of KPTL

Detailed description of the key rating drivers

Key rating strengths

Strong order book position: JMC's order book position strengthened to ₹19,448 crore as on June 30, 2022 translating into healthy visibility of 3.59x of FY22 revenue besides L1 position of ₹2,800 crore. The order book is well diversified into various segments B&F (40%), water (44%), and urban infra (16%). The order book is geographically also well diversified with domestic orders constituting 81% of the order book and overseas orders constituting 19%. Further to that, in domestic segment, order book is classified into more than 15 states with no state contributing more than 20%. JMC has received new orders of ₹10,139 crore in FY22 and ₹3,698 crore in Q1FY23 which has strengthened the order book position. All the international orders are backed by multilateral funding agencies which mitigates the counterparty risk to a large extent. Clientele of JMC largely consist of reputed government companies or private companies with comfortable credit profile mitigating the counterparty risk to a large extent. Strong order book position and demonstrated execution capability of JMC in civil construction as well as infrastructure projects are expected to aid growth and healthy cash accruals generation in the medium term.

Healthy growth in the scale of operations: Total operating income (TOI) of JMC has increased significantly during FY22 (refers to the period April 1 to March 31) to ₹5,418 crore marking growth of over 45% as compared to FY21. Improved revenue performance was on account of strong execution in Water segment as well as B&F segment. JMC also reported healthy growth in its scale of operations during Q1FY23 marked by TOI of ₹1,620 crore as against ₹1,124 crore in Q1FY22.

Established presence in diversified areas of infrastructure construction and reputed clientele having strong credit profile: JMC has an established track record in infrastructure construction business of over two decades in various areas including industrial, commercial and residential buildings and infrastructure segment (roads and pipeline laying). JMC's presence in diversified segments of the construction industry, pan-India as well as international presence shields it from slowdown in a particular segment and geography. Furthermore, strong execution capabilities of JMC are reflected in various large-sized projects undertaken by it for reputed clientele ranging from leading Engineering, Procurement and Construction (EPC) contractors, real estate companies as well as central and state governments. JMC's long-standing relationships with clients along with their strong credit profile has resulted in sizeable realisation of debtors and order inflows.

Strong parentage of KPTL with strategic importance and near completion status of merger: JMC is a subsidiary of KPTL (67.75% equity stake as on June 30, 2022), which is one of the leading players in the domestic transmission and distribution infrastructure (TDI) industry and has an established international presence. The parentage of KPTL provides JMC with strong financial flexibility required for taking up large projects and in times of any exigencies. The reputation of KPTL in the international market has helped JMC in gaining overseas presence. Furthermore, with the announcement made by the company regarding the amalgamation scheme for the merger of JMC with KPTL, the same will translate into synergistic benefits in the form of enhanced operational, organisational, financial efficiencies with likely expansion of business footprint in overseas markets. Relevant approval from all the stakeholders has been obtained and final approval from the regulator is pending for the merger which is expected to be receive in Q3FY23 and the transaction is to be completed by Q4FY23. On the combined level {KPTL(Standalone)+JMC(Standalone)}, JMC contributed 52% of the order book as on June 30, 2022, 44% of TOI and 40% of PBILDT during FY22. CARE Ratings believes that KPTL shall extend need-based support to JMC owing its strategic importance.

Key rating weaknesses

Moderate profitability: The PBILDT margins of JMC remained moderate as compared to its peers and further moderated by 93 bps to 8.79% during FY22 due to increase in commodity prices and excepted credit loss provisions. The said impact continues to be observed in Q1FY23 in which the PBILDT margins remain rangebound at 8.81%. However, presence of price-escalation clause and raw material supply in the scope of client in some of the projects protect the profitability to an extent. With softening of commodity prices, the operating margins are envisaged to improve gradually. Moreover, the proposed merger of JMC with KPTL is expected to augur well for the margins expansion of the merged entity due to operational and financial synergies.

Highly leveraged capital structure due to exposure in underperforming BOT projects: The capital structure of JMC as on March 31, 2022 continued to remain leveraged marked by an overall gearing (net debt basis) of 2.23x (FY21-end: 1.45x) and TOL/TNW of 5.18x (FY21 end 3.67x). The deterioration in the leverage was primarily on account of erosion of net-worth base due to write-off of investment including loans and advances in SPVs amounting to ₹380 crore in FY22 primarily in KEPL and WEPL. On the contrary, with strong order inflows and execution, working capital and long-term debt has been increased leading to overall deterioration in the capital structure. The exposure to build-operate-transfer (BOT) projects stood high, diluting the financial flexibility and free cash flow generation capability of JMC.
Debt protection indicators further moderated during FY22 owing decline in networth base. Net debt/PBILDT moderated from 3.53 times in FY21 to 3.72 times in FY22. Nevertheless, debt protection indicators are expected to improve with growth in scale of operations, materialisation of various plans of operational toll roads and synergies of financial flexibility of KPTL post-merger.

Delays in materialisation of various transactions in the operational toll roads segment: JMC has exposure in weaker operational toll SPVs wherein delays were there in materialisation of various transactions including restructuring and stake sale. In one SPV, named, Wainganga Expressway Private Ltd timeline for restructuring of debt has been revised again to Q3FY23 from Q1FY23. In another SPV, i.e. Vindhyachal Expressway Limited (VEPL), the plans are changed from stake sale to refinancing of the debt for the longer tenor with a timeline to complete the transaction by Q4FY23. Furthermore, one of the SPVs (in Joint venture) i.e. Kurukshetra Expressway Private Ltd (KEPL) in Haryana was issued termination notice to National Highways Authority of India (NHAI) owing to sustained force majeure event (farmer agitation) and no major cash outflow is envisaged from the KPTL group due to shortfall between debt due and termination payment. Till March 31, 2022, JMC had infused ₹596 crore in all its BOT Road SPVs diluting its free cash flow generation post provisioning of ₹380 crore towards impairment and excepted credit loss in investment as well as loans and advances in above SPVs. Moreover, management has articulated to provide minimal support to these SPVs to the extent of major maintenance and will not foray into BOT projects going forward and majorly focus only on the EPC segment thereby improving its liquidity. Materialisation of the aforementioned transactions by Q4FY23 will be crucial from credit perspective and will be a key rating sensitivity.

Liquidity: Strong

The operations of JMC are working capital intensive marked by high gross current asset days led by high collection days and inventory days albeit improvement during FY22. However, during FY22, the working capital intensity of JMC has improved owing to timely realisation of debtors marked by operating cycle improving to 57 days as on March 31, 2022 (FY21: 77 days) along with GCA days improving to 223 days as against 287 days as on March 31, 2021.

Further to that, JMC's liquidity remained strong marked by free cash and bank balance of ₹338 crore as on March 31, 2022 along with sufficient cushion between cash accruals and repayment obligations. The average maximum utilisation of the fund-based working capital limits was moderate at around 85% during the 12 months ended July 2022. High scheduled repayment obligations along with continued support extended to SPVs are expected to lead to moderation in debt coverage indicators in the medium term. However, JMC has demonstrated good financial flexibility due to the benefit of the parentage of KPTL. Furthermore, liquidity shall improve post successful and timely implementation of the transactions for WEPL and VEPL as well as completion of the merger with KPTL.

Analytical approach

CARE Ratings has considered standalone approach while factoring the strong parentage and availability of need-based support (in case of any exigencies) from its parent, KPTL. CARE Ratings has factored KPTL-JMC linkages to arrive at JMC's ratings. Cash flow support required to be extended to its SPVs till the implementation of restructuring plan has also been factored in the analysis of JMC.

Applicable criteria

Policy on default recognition
Factoring Linkages Parent Sub JV Group
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction
Policy on Withdrawal of Ratings

About the company

Established in 1986, JMC has presence in diverse areas of construction including industrial, commercial, institutional and residential buildings, roads and bridges, power plants and railway projects. In FY05, KPTL, an established player in the domestic power Transmission and Distribution Infrastructure (TDI) industry, acquired 32.28% stake from JMC's erstwhile promoters to diversify into construction and infrastructure sector. Over the years, KPTL increased its holding in the company, which stood at 67.75% as June 30, 2022. In addition to infrastructure construction on EPC basis, JMC also took up four road projects on Build, Operate and Transfer (BOT) toll basis, all of which were operational as on March 31, 2022.

Brief Financials – Standalone (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	Q1FY23 (UA)	H1FY23 (UA)
Total operating income	3,715	5,418	1,620	NA
PBILDT	361	476	136	NA
PAT	71	-152	51	NA
Overall gearing (times)	1.72	2.61	NA	NA
Interest coverage (times)	2.56	2.79	NA	NA

A: Audited; UA: Unaudited; NA: Not available

Losses in FY22 were on account of impairment of investment in weaker SPVs.

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

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

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

Complexity level of various instruments rated for this company: Annexure-4

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
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	6000.00	CARE AA- / CARE A1+ (CWP)
Fund-based - LT-Cash Credit	-	-	-	-	750.00	CARE AA- (CWP)
Term loan-Long term	-	-	-	March 31, 2025	484.75	CARE AA- (CWP)
Debentures-Non-convertible debentures	INE890A07054	August 28, 2018	9.95	August 28, 2023	75.00	CARE AA- (CWP)
Debentures-Non-convertible debentures	INE890A08011	October 24, 2019	10.55%	October 23, 2022	100.00	CARE AA- (CWP)
Debentures-Non-convertible debentures	INE890A08029 INE890A08037 INE890A08045 INE890A08052	December 15, 2021	9.80%	December 13, 2024	99.00	CARE AA- (CWP)
Debentures-Non-convertible debentures - Proposed	-	-	-	-	175.00	CARE AA- (CWP)
Commercial paper-Commercial paper (Carved out)	-	-	-	7-364 days	150.00	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Commercial paper-Commercial paper (Carved out)	ST	150.00	CARE A1+	-	1)CARE A1+ (03-Mar-22) 2)CARE A1+ (07-Sep-21)	1)CARE A1 (29-Sep-20)	1)CARE A1+ (01-Oct-19)
2	Fund-based - LT-Term loan	LT	-	-	-	1)Withdrawn (07-Sep-21)	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (01-Oct-19)
3	Non-fund-based - LT/ ST-BG/LC	LT/ST*	6000.00	CARE AA- / CARE A1+ (CWP)	-	1)CARE AA- / CARE A1+ (CWP) (03-Mar-22) 2)CARE AA-; Stable / CARE A1+ (02-Nov-21) 3)CARE AA-; Stable / CARE A1+ (07-Sep-21)	1)CARE A+; Stable / CARE A1 (29-Sep-20)	1)CARE A+; Stable / CARE A1+ (01-Oct-19)
4	Fund-based - LT-Cash credit	LT	750.00	CARE AA- (CWP)	-	1)CARE AA- (CWP) (03-Mar-22) 2)CARE AA-; Stable (02-Nov-21) 3)CARE AA-;	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (01-Oct-19)

						Stable (07-Sep-21)		
5	Term Loan-Long term	LT	484.75	CARE AA- (CWP)	-	1)CARE AA- (CWP) (03-Mar-22) 2)CARE AA-; Stable (02-Nov-21) 3)CARE AA-; Stable (07-Sep-21)	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (01-Oct-19)
6	Debentures-Non-convertible debentures	LT	75.00	CARE AA- (CWP)	-	1)CARE AA- (CWP) (03-Mar-22) 2)CARE AA-; Stable (07-Sep-21)	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (01-Oct-19)
7	Debentures-Non-convertible debentures	LT	100.00	CARE AA- (CWP)	-	1)CARE AA- (CWP) (03-Mar-22) 2)CARE AA-; Stable (07-Sep-21)	1)CARE A+; Stable (29-Sep-20)	1)CARE A+; Stable (17-Oct-19)
8	Debentures-Non-convertible debentures	LT	99.00	CARE AA- (CWP)	-	1)CARE AA- (CWP) (03-Mar-22) 2)CARE AA-; Stable (09-Dec-21)	-	-
9	Debentures-Non-convertible debentures	LT	175.00	CARE AA- (CWP)				

*Long term/Short term.

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

Name of the Instrument	Detailed Explanation
A. Financial covenants	
I. Consolidated Debt to Tangible Net Worth	The ratio of Consolidated Debt to Tangible Networth shall not exceed 5 times
II. Standalone Debt to EBITDA	Ratio of standalone Debt (including financial guarantees) to EBITDA shall not exceed 4 times
III. Standalone Debt to Tangible Net Worth	Total standalone Debt (including financial guarantees) to Tangible Networth shall not exceed 1.60 times
B. Non-financial covenants	
I. For INE890A07054	Put Option: November 25, 2022

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Commercial Paper-Commercial Paper (Carved out)	Simple
2	Debentures-Non Convertible Debentures	Complex
3	Fund-based - LT-Cash Credit	Simple
4	Non-fund-based - LT/ ST-BG/LC	Simple
5	Term Loan-Long Term	Simple

Annexure-5: Bank lender details for this company

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

Note on 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.

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About us:
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