JMC Projects (India) Limited

January 20, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	687.32 (reduced from Rs.726.88 crore)	**CARE A+; Stable (Single A Plus; Outlook : Stable)**	Reaffirmed
Long Term / Short Term Bank Facilities	2,575.50	**CARE A+; Stable / CARE A1+ (Single A Plus; Outlook : Stable / A One Plus)**	Reaffirmed
Total Facilities	**3,262.82 (Rupees Three Thousand Two Hundred Sixty Two Crore and Eighty Two Lakh Only)**		
Commercial Paper Issue (carved out of working capital limits)	150.00 (Rupees One Hundred Fifty Crore Only)	**CARE A1+ (A One Plus)**	Reaffirmed
Fixed Deposits Issue*	-	-	Withdrawn

*Details of instruments/facilities in Annexure-1; * Withdrawal on full redemption*

Detailed Rationale

The ratings assigned to the various bank facilities and instruments of JMC Projects (India) Ltd. (JMC) continue to draw strength from its strong parentage, being a subsidiary of Kalpataru Power Transmission Ltd. (KPTL; rated CARE AA; Stable / CARE A1+), which translates into strong financial flexibility, its established presence in diversified areas of construction business and comfortable revenue visibility backed by a healthy order book.

The ratings also take into account infusion of fresh equity through a rights issue concluded in February 2016 which has also improved its overall gearing on previously expected lines.

The long-term rating, however, continues to remain constrained on account of the low profitability of its operations, which has albeit improved over the last three years, high debt repayments over the medium-term, working capital intensity of its operations and the financial support being extended to its special purpose vehicles (SPVs) operating road projects on account of their lower than projected toll revenue.

Growth in its scale of operations along with improvement in its profitability, debt coverage indicators and improvement in collections with realization of long-pending receivables, nature and extent of support provided to its BOT projects and any large-sized investment plans are the key rating sensitivities. Timely conclusion of debt structuring plans in its SPVs/their becoming self-sufficient through better toll collection so as to reduce the support required from JMC would also be crucial from the credit perspective.

Detailed description of the key rating drivers

JMC is a subsidiary of KPTL (67.19% equity stake as on September 30, 2016), which is one of the leading players in the domestic transmission and distribution infrastructure (TDI) industry with growing international presence. The parentage of KPTL provides JMC with strong financial flexibility required for taking up large projects and in times of any exigencies. Further, KPTL has continued to demonstrate its support to JMC by way of equity infusion of Rs.101 crore through participation in JMC's rights issue of Rs.150 crore concluded in February 2016.

JMC has an established track record in infrastructure construction business of over two decades in various areas including industrial, commercial and residential buildings (which contributed 79% of JMC's total construction income in FY16), construction for roads, bridges, metro-rail systems, sewerage pipelines, etc. (17%), power plants (3%) and railways (1%).

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

JMC's presence in diversified segments of construction industry and pan-India presence shields it from slowdown in a particular segment and geography. During FY14, backed by KPTL's experience, JMC also took upon its maiden overseas project for road construction in Ethiopia in FY14 and has recently ventured in Sri Lanka for a water pipeline project.

JMC had a strong order book of Rs.5,752 crore as on August 31, 2016 (2.29x its FY16 total operating income), spread over various segments including factories and buildings and infrastructure. Almost the entire order book had some form of price variation built-in the contracts, with presence of clauses like free-issue of key materials viz. steel and cement, material price variation clauses and full fixed price sub-contracts, insulating it from adverse movements in material prices to some extent.

JMC had a portfolio of four road projects taken on BOT-toll basis, all of which were fully operational as on March 31, 2016. However, the traffic and toll collection on the roads has been lower than that expected, which has necessitated fund infusion by JMC in some of these SPVs to meet their operational and debt servicing requirements. Till September 30, 2016, JMC had infused Rs.598 crore in all its SPVs, (Rs.179 crore more than the initial planned investment towards the initial project costs of these SPVs). In FY17, JMC is expected to infuse around Rs.50-55 crore in its SPVs, primarily towards funding shortfall for their operational and debt servicing requirements, which is expected to be met from internal accruals and raising of additional long-term debt. Amount of debt raised by JMC for its SPVs as well as for its EPC business would be crucial from the credit perspective. In this regard, the equity infusion in end-FY16 has improved JMC's financial flexibility.

The working capital cycle of JMC remained stable at 36 days in FY16. Its collection period increased to 126 days in FY16, with increase in revenue from factories and buildings segment, which generally has a longer collection period on account of milestone based payments. Further, some of the receivables have been pending for a long period owing to either financial difficulties faced by the clients or disputes regarding the work done and amount payable to JMC. However, the elongation in the collection period was matched by a similar elongation in the creditors' period to 126 days in FY16. The average utilization of the fund based working capital limits was moderate at 67% during the 12 months ended October 2016.

The total operating income of JMC remained largely stable during FY16. However, its PBILDT margin improved by 129 bps y-o-y to 8.90%, with increase in execution in factories & building segment and better control over various costs. This improvement continued in H1FY17 also. JMC also raised fresh equity of Rs.150 crore through a rights issue concluded in February 2016, the proceeds of which were utilized primarily towards repayment of outstanding long term loans of Rs.62.96 crore and reduction in working capital bank borrowings by Rs.50 crore. The proceeds of the rights issue also supported JMC's cash flows amidst moderate cash accruals and investment requirement to support the operational and debt servicing requirements of SPVs. JMC's overall gearing (incl. acceptances) improved to 1.13x as on September 30, 2016 from 1.69x as on September 30, 2015, with accretion to networth through the rights issue. JMC's liquidity also remained comfortable in FY16 and H1FY17, with moderate utilization of working capital limits and control over the working capital cycle. Further, it also has flexibility available in terms of excess drawing power over the current sanctioned limits. Further, JMC received long-pending tax refunds of around Rs.76 crore during October and November 2016, which also aided its liquidity while also augmenting its long-term cash flows.

Analytical approach: Standalone
Majority of JMC's revenue and cash flows are generated from its core civil EPC business. While JMC has sizeable investments in its special purpose vehicles (SPVs) engaged in operating toll road projects on Build-Operate-Transfer (BOT) basis, the debt availed by these SPVs is non-recourse in nature. Hence, standalone approach has been considered for analysis. However, JMC continues to infuse additional funds in these SPVs over and above its committed investments. Additional planned support expected to be extended to these entities has also been suitably factored in our analysis.

Applicable Criteria
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Policy on Withdrawal of Ratings
Rating Methodology: Factoring Linkages in Ratings
Financial Ratios: Non-Financial Sector

About the Company
Established in 1986, JMC Projects (India) Ltd. (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 (FY refers to period from April 1 to March 31), Kalpataru Power Transmission Ltd. (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 67.19% as on September 30, 2016. In addition to infrastructure construction on Engineering Procurement and Construction (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, 2016.

Based on the standalone audited financials, JMC registered a total operating income of Rs.2,499 crore with a PAT of Rs.41 crore in FY16 (refers to the period from April 1 to March 31) compared with a total operating income of Rs.2,431 crore with a PAT of Rs.30 crore in FY15. Further, as per unaudited results for H1FY17, the company reported a PAT of Rs.23 crore on a total operating income of Rs.1,093 crore compared with a PAT of Rs.16 crore on a total operating income of Rs.1,188 crore during H1FY16.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

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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partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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-Term Loan	-	-	December 31, 2021	268.57	CARE A+; Stable
Non Fund Based-LT/ST	-	-	-	2,575.50	CARE A+; Stable / CARE A1+
Fund Based - LT-Cash Credit	-	-	-	418.75	CARE A+; Stable
Commercial Paper - (Carved out)	-	-	7-364 days	150.00	CARE A1+
Fixed Deposit Issue	-	-	-	1.92	Withdrawn

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 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015	Date(s) & Rating(s) assigned in 2013-2014
1.	Debentures-Non Convertible Debentures	LT	55.00	Withdrawn	-	1)Withdrawn (January 14, 2016)	1)CARE A+ (January 02, 2015)	1)CARE A+ (December 02, 2013)
2.	Commercial Paper-Commercial Paper (Carved out)	ST	150.00	CARE A1+	-	1)CARE A1+ (January 14, 2016) 2)CARE A1+ (July 20, 2015)	1)CARE A1+ (January 02, 2015)	1)CARE A1+ (December 02, 2013)
3.	Fund Based - LT-Term Loan	LT	268.57	CARE A+; Stable	-	1)CARE A+ (January 14, 2016)	1)CARE A+ (January 02, 2015)	1)CARE A+ (December 27, 2013) 2)CARE A+ (December 02, 2013)
4.	Non-Fund Based-LT/ST	LT/ST	2575.50	CARE A+; Stable / CARE A1+	-	1)CARE A+ / CARE A1+ (January 14, 2016)	1)CARE A+ / CARE A1+ (January 02, 2015)	1)CARE A+ / CARE A1+ (December 27, 2013) 2)CARE A+ / CARE A1+ (December 02, 2013)
5.	Fund Based - LT-Cash Credit	LT	418.75	CARE A+; Stable	-	1)CARE A+ (January 14, 2016)	1)CARE A+ (January 02, 2015)	1)CARE A+ (December 27, 2013) 2)CARE A+ (December 02, 2013)
6.	Fixed Deposit	LT	1.92	Withdrawn	-	1) CARE A+ (FD) (January 14, 2016)	1) CARE A+ (FD) (February 10, 2015)	

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