

## JMC Projects (India) Limited

August 17, 2018

### Ratings

Instrument	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Proposed Non-Convertible Debenture Issue	150.00 (Rupees One Hundred Fifty Crore Only)	CARE A+; Stable (Single A Plus; Outlook: Stable)	Assigned

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the proposed NCD issue of JMC Projects (India) Ltd. (JMC) continues 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 continue to take into account focus of the government to develop infrastructure in the country to boost the economy, which is envisaged to translate into growth for the construction sector.

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, sizeable 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 further improvement in its profitability, debt coverage indicators and improvement in collections, 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

#### Key Rating Strengths

**Strong parentage of KPTL:** JMC is a subsidiary of KPTL (67.19% equity stake as on June 30, 2018), 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. KPTL has supported the operations of JMC with infusion of additional equity at regular intervals with the most recent infusion of Rs.150 crore in FY16. Further, JMC has also ventured into couple of international markets backed by the presence and experience of KPTL in those markets.

**Established presence in diversified areas of infrastructure construction:** 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 77% of JMC's total construction income in FY18), construction for roads, bridges, metro-rail systems and sewerage pipelines (22%) and railways (1%). JMC's presence in diversified segments of construction industry and pan-India presence shields it from slowdown in a particular segment and geography.).

**Healthy order book:** JMC had a strong order book of Rs.9,814 crore as on June 30, 2018 (3.52x its FY18 total operating income), spread over various segments including factories & buildings and other 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.

**Stable scale of operations and profitability:** JMC's total operating income showed growth of 18% on y-o-y basis during FY18 led by healthy execution of its order book. Its operating profitability remained stable with continued focus on controlling execution costs and maintaining profitability. Interest costs reduced due to reduction in debt with regular repayments and utilization of proceeds of the rights issue concluded in February 2016 to reduce both long term and working capital borrowings. Interest cost continued to remain under control during FY18 despite increase in long term borrowings. JMC's liquidity also remained comfortable in FY18 and Q1FY19, with moderate utilization of working capital limits and control over the working capital cycle aided by stable collections, extension of creditors, in flow of advances from customers leading to healthy cash accruals from operations. Further, it has flexibility available in terms of excess drawing power over the current sanctioned limits.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

**Continued focus of Government to develop infrastructure:** Growth in infrastructure is critical for the development of the economy and hence, the construction sector, which contributes around 8% of the GDP, assumes an important role. The sector was marred by varied challenges during the last few years on account of economic slowdown, regulatory changes and policy paralysis which had adversely impacted the financial and liquidity profile of players in the industry. Government of India has undertaken several steps for boosting the infrastructure development and reviving the investment cycle. The same has gradually resulted in increased order inflow and movement of passive orders in existing order book. The focus of the government on infrastructure development is expected to translate into huge business potential for the construction industry in the long-run. In the short to medium term (1-3 years), projects from transportation and urban development sector are expected to dominate the overall business for construction companies.

#### **Key Rating Weaknesses**

**Lower than expected toll collections in its BOT-toll SPVs necessitating support from JMC:** JMC had a portfolio of four road projects taken on BOT-toll basis, all of which were fully operational as on March 31, 2018. However, the traffic and toll collection on the roads has been lower than expected, which has necessitated fund infusion by JMC in some of these SPVs to meet their operational and debt servicing requirements. Till March 31, 2018, JMC had infused Rs.704 crore in all its SPVs, (Rs.285 crore more than the initial planned investment towards the initial project costs of these SPVs). In the medium term also, JMC is expected to infuse around Rs.60-75 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 resources. Nature and amount of resources raised by JMC for supporting its SPVs as well as for its EPC business would be crucial from the credit perspective.

**Working capital intensive nature of operations:** The working capital cycle of JMC remained stable in FY18, with reduction in collection period and creditors' period along with stable inventory holding. Average collection period was at 114 days in FY18 (116 days in FY17), with increase in revenue from factories and buildings segment which generally has a longer collection period on account of milestone based payments. The long collection period was, however, funded to a sizeable extent by a significant creditors' period due to JMC's back-to-back arrangement with majority of its sub-contractors for paying them on receipt of money from JMC's employer. Further, JMC also had sizeable advances from its clients, which helps to fund its working capital requirements. The average utilization of the fund based working capital limits was moderate at around 70% during the 12 months ended July 2018.

**Analytical approach:** Standalone along with cash flow support extended to its SPVs

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](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Manufacturing Companies](#)

[Rating Methodology – Factoring Linkages in Ratings](#)

#### **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 June 30, 2018. 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, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	2,364	2,784
PBILDT	233	310
PAT	59	106
Overall gearing (times)	0.97	0.99
Interest coverage (times)	2.48	3.18

A: Audited

Further, during Q1FY19, JMC reported a PAT of Rs.27 crore on a total operating income of Rs.695 crore, compared with a PAT of Rs.21 crore on a total operating income of Rs.671 crore during Q1FY18.

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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## 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
Proposed-Non-Convertible Debentures	-	-	-	150.00	CARE A+; Stable

## 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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Proposed-Non Convertible Debentures	LT	150.00	CARE A+; Stable	-	-	-	-
2.	Debentures-Non Convertible Debentures	LT	-	-	-	-	-	1)Withdrawn (14-Jan-16)
3.	Commercial Paper-Commercial Paper (Carved out)	ST	150.00	CARE A1+	-	1)CARE A1+ (05-Oct-17)	1)CARE A1+ (20-Jan-17)	1)CARE A1+ (14-Jan-16) 2)CARE A1+ (20-Jul-15)
4.	Fund-based - LT-Term Loan	LT	90.00	CARE A+; Stable	-	1)CARE A+; Stable (05-Oct-17)	1)CARE A+; Stable (20-Jan-17)	1)CARE A+ (14-Jan-16)
5.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	3500.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (05-Oct-17)	1)CARE A+; Stable / CARE A1+ (20-Jan-17)	1)CARE A+ / CARE A1+ (14-Jan-16)
6.	Fund-based - LT-Cash Credit	LT	418.75	CARE A+; Stable	-	1)CARE A+; Stable (05-Oct-17)	1)CARE A+; Stable (20-Jan-17)	1)CARE A+ (14-Jan-16)
7.	Term Loan-Long Term	LT	316.21	CARE A+; Stable	-	1)CARE A+; Stable (05-Oct-17)	1)CARE A+; Stable (20-Jan-17)	1)CARE A+ (14-Jan-16)
8.	Fixed Deposit	LT	-	-	-	-	1)Withdrawn (20-Jan-17)	1)CARE A+ (FD) (14-Jan-16)

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