JMC Projects (India) Limited (Revised)

September 29, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	935.29 (Enhanced from 812.77)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	4,900.00 (Enhanced from 4,200.00)	**CARE A+; Stable / CARE A1 (Single A Plus; Outlook: Stable / A One)**	**Revised from CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable / A One Plus)**
Total Facilities	**5,835.29 (Rs. Five thousand eight hundred thirty five crore and twenty nine lakh only)**		
Commercial Paper Issue (carved out of working capital limits)	150.00 (Rs. One hundred fifty crore only)	**CARE A1 (A one)**	**Revised from CARE A1+ (A One Plus)**
Non-Convertible Debentures	250.00 (Rs. Two hundred fifty crore only)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**

Details of facilities/instruments in Annexure – 1;

Detailed Rationale & Key Rating Drivers

The revision in short term rating assigned to bank facilities and instruments of JMC Projects (India) Ltd. (JMC) is on account of high working capital intensity of operations which is likely to remain high amidst heightened execution challenges due to Covid-19 pandemic along with continued funding requirement for its underperforming operational toll projects.

The ratings assigned to the 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 Limited (KPTL; rated CARE AA; Stable/CARE A1+) and as per management's articulation, KPTL shall extend need based support to JMC as and when required. Ratings continue to derive comfort from its established presence in diversified areas of construction business with reputed clientele having strong credit profile and professional management. The ratings also derive strength from healthy and diversified order book position providing good revenue visibility along with healthy order inflow in current year. The ratings also factor in steady growth in scale of operations for the past three years with growth in Total Operating Income (TOI) by around 14% during FY20 (refers to the period April 1 to March 31) on the back of higher order execution.

The ratings also factors in proposed debt restructuring in two of its four operational road special purpose vehicles (SPVs) which could lead to lower financial support required to be extended to SPVs which however, is crucial as the requirement of support was expected to be higher otherwise. CARE also takes cognizance of management plans of debt rationalization with reduction on reliance on debt through deployment of internal accruals for growth and repayment along with proposed debt restructuring of SPVs leading to higher availability of cash flows for funding growth.

The ratings take cognizance of dip in scale and profitability in Q1FY21 on account of disruptions caused by nation-wide lockdown leading to net loss in Q1FY21. As informed by management and confirmed by lenders, JMC had requested moratorium for principal repayments on some of its loans which was approved by lenders.

The above rating strengths, however, continue to be tempered on account of moderate profitability of its operations although improved over last four years ended FY20, high leverage, low adjusted networth, working capital intensive nature 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 leading to high exposure to its BOT based road projects. The ratings are also constrained by delay in materialization of various long term fund raising plans for rationalization exposure to BOT projects and debt levels.

Rating Sensitivities

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

- Growth in scale of operations along with improvement in profitability on a sustained basis

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

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

- De-growth in scale of operations or decline in operating profitability below 10%
- Further increase in working capital intensity along with significant deterioration in debtors ageing profile
- Delay in rationalization of debt in JMC and debt restructuring of SPVs beyond March 2021

Detailed description of the key rating drivers

Continued high level of working capital intensity, leveraged capital structure along with moderation in debt coverage indicators

JMC's working capital intensity continued to remain high marked by gross current asset days of 277 days in FY20 reflecting high working capital intensity in comparison to its peers. Further, higher reliance on debt to fund capex and support SPVs along with relatively higher reliance on mobilization advances has led to leveraged capital structure marked by overall gearing (including mobilization advances) of 1.76x as on March 31, 2020. Total Debt / PBILDT continued to remain moderate at 3.68 times during FY20. TOL/TNW continued to remain high at 3.32 times as on March 31, 2020 on account of part funding of working capital requirements through creditors and mobilization advances while TOL/adjusted TNW remained high at 5.79 times as on March 31, 2020. High scheduled repayment obligations along with continued support extended to SPVs are expected to lead to moderation in debt coverage indicators in medium term.

<u>Key Rating Strengths</u>

Strong parentage of KPTL: JMC is a subsidiary of KPTL (67.75% equity stake as on June 30, 2020), 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. Further, as articulated by the management of KPTL and CARE's belief, KPTL shall extend need based support to JMC as and when required. Moreover, overall management of JMC is quite professional and competent due to strategic presence of KPTL.

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 which contributed 68% of JMC's total construction income during FY20, 18% from infrastructure segment and balance from pipeline segment. JMC's presence in diversified segments of construction industry and pan-India presence shields it from slowdown in a particular segment and geography. Furthermore, strong execution capabilities of JMC is 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 realization of debtors and order inflows during lockdown period.

Healthy order book translating in healthy revenue visibility in medium term along with steady growth in scale of operations: JMC had a strong order book of Rs.11,412 crore as on June 30, 2020 (3.07x its FY20 net sales), spread over various segments including factories and buildings, infrastructure and water pipelines segment translating in a healthy revenue visibility in the medium term. Further, till date, JMC had healthy order inflow of around Rs.5,313 crore which was significantly higher than FY20 order inflow of Rs.3,364 crore. CARE also takes cognizance of JMC's efforts of order book and diversification through increased presence in international geographies with award of latest order of Rs.723 crore in September 2020. The share of pipeline segment has increased in its order book to 31% as on June 30, 2020 as compared to 23% as on June 30, 2019 indicating reduced dependence on single segment. Order book is geographically diversified with significant presence in construction of residential and commercial complex in Karnataka constituting 22% of order book. 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 an extent. JMC's scale of operations has grown steadily with CAGR of 16.83% for the past four years ended FY20 on the back of healthy order execution. JMC's net sales grew by around 14% on y-o-y basis to Rs.3,713 crore in FY20 with higher incremental share of revenues from infrastructure and water pipeline segment.

<u>Key Rating Weaknesses</u>

Improvement in operating profitability albeit continues to remain moderate: Operating profitability of JMC has improved from 10.62% during FY17 to 12.18% in FY20 on account of growth in scale of operations leading to higher absorption of fixed costs coupled with better variable cost management. PBILDT margin of JMC improved by 61 bps on y-o-y basis to 12.18% during FY20, although continued to remain moderate as compared to its peers on account of relatively higher overheads due to more number of project sites.

Continued funding requirement for its underperforming operational toll projects; albeit the same is expected to reduce: JMC has a portfolio of four operational toll road projects on BOT basis as on March 31, 2020 which due to lower than expected traffic and toll collection has necessitated fund infusion by JMC to meet their operational and debt servicing requirements. Till March 31, 2020, JMC had infused Rs.742 crore in all its BOT Road SPVs, (Rs.322 crore more than the initial planned investment towards the initial project costs of these SPVs). During Q1FY21, JMC did not extend any support to SPVs on account of moratorium availed by SPVs. As articulated by management, JMC has initiated restructuring of debt in two of its four SPVs which is expected to lead to significant reduction in overall support requirement of SPVs. In one SPV, lenders have signed the inter-creditor agreement while in other SPV; the process is at nascent stage. CARE would continue to monitor the developments on debt restructuring of SPVs. The reduction in support requirement of SPVs is expected to release internal accruals which may be utilized for fueling growth in medium term.

Liquidity*: Adequate*
The working capital cycle of JMC remained stable in FY20 at 76 days against 74 days in FY19 with increase in inventory period offset by increase in creditor's period. Increase in working capital requirement had been funded through payables and mobilization advances leading to healthy cash flow from operations of Rs.327 crore during FY20. Receivables more than six months increased during Q1FY21 from Rs.220.08 crore as on March 31, 2020 to around Rs.301.22 crore as on June 30, 2020. JMC's liquidity remained adequate as reflected by sufficient cushion through unutilized working capital limits along with free cash balance of Rs.53.74 crore as on March 31, 2020. Average utilization of the fund based working capital limits was moderate at around 78% during the 12 months ended August 2020 and has flexibility available in terms of excess drawing power over the current sanctioned limits. High scheduled repayment obligations along with continued support extended to SPVs are expected to lead to moderation in debt coverage indicators in medium term. In case of successful and timely restructuring of debt of SPVs, the support requirement of SPVs is expected to reduce significantly leading to availability of higher cash accruals for debt servicing in medium term.
As informed by management and confirmed by lenders, JMC had requested moratorium for principal repayments on some of its loans which was approved by lenders. JMC plans to enhance its working capital limits to meet increasing requirements due to large order book position and stage based payment terms.

Analytical approach: CARE has considered standalone approach while factoring in availability of need based support from the parent entity, KPTL which has strong credit profile and has demonstrated its support for JMC through infusion of additional equity at regular intervals in the past. CARE has also considered JMC's continued support to its operational toll road projects on BOT basis and the cash flow support to be extended to its SPVs and the support expected to be extended to these entities has also been suitably adjusted in the cash flows of JMC.

Applicable Criteria
Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Short Term Instruments
Rating Methodology: Consolidation and Factoring Linkages in Ratings
Rating Methodology – Construction Sector
Liquidity Analysis of Non-Financial Sector Entities
Financial Ratios – Non Financial Sector

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 (FY refers to period from April 1 to March 31), Kalpataru Power Transmission Ltd. (KPTL; rated CARE AA; Stable / CARE A1+), 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, 2020. 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, 2020.

Covenants of rated instruments: Detailed explanation of covenants of rated facilities is given in ***Annexure -3***.

Brief Financials (Rs. crore)	**FY19 (A)**	**FY20 (A)**
Total Operating Income	3,308	3,375
PBILDT	383	460
PAT	142	79*

Overall gearing (times)	1.61	1.76
Interest coverage (times)	3.36	3.14

*A: Audited; *-includes expected credit loss provision for loans given to one of the BOT road project (JV)*

JMC reported net loss of Rs.21.84 crore on total operating income (TOI) of Rs.475 crore during Q1FY21 against profit after tax of Rs.36 crore on TOI of Rs.909 crore in Q1FY20.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

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

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 (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Term Loan	-	-	-	June 2021	30.60	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	-	4,900.00	CARE A+; Stable / CARE A1
Fund-based - LT-Cash Credit	-	-	-	-	532.24	CARE A+; Stable
Term Loan-Long Term	-	-	-	March 2025	372.45	CARE A+; Stable
Debentures-Non Convertible Debentures	INE890A07062 INE890A07047, INE890A07054	August 28, 2018	9.95%	August 28, 2023	150.00	CARE A+; Stable
Debentures-Non Convertible Debentures	INE890A08011	October 24, 2019	10.55%	October 23, 2022	100.00	CARE A+; Stable
Commercial Paper-Commercial Paper (Carved out)*	INE890A14944	May 8, 2020	7.15%	7-364 days	150.00	CARE A1

**Rs.50 crore outstanding as on August 31, 2020*

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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Commercial Paper-Commercial Paper (Carved out)	ST	150.00	CARE A1	-	1)CARE A1+ (01-Oct-19)	1)CARE A1+ (24-Sep-18)	1)CARE A1+ (05-Oct-17)
2.	Fund-based - LT-Term Loan	LT	30.60	CARE A+; Stable	-	1)CARE A+; Stable (01-Oct-19)	1)CARE A+; Stable (24-Sep-18)	1)CARE A+; Stable (05-Oct-17)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	4,900.00	CARE A+; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1+ (01-Oct-	1)CARE A+; Stable / CARE A1+ (24-Sep-	1)CARE A+; Stable / CARE A1+ (05-Oct-

						19)	18)	17)
4.	Fund-based - LT-Cash Credit	LT	532.24	CARE A+; Stable	-	1)CARE A+; Stable (01-Oct-19)	1)CARE A+; Stable (24-Sep-18)	1)CARE A+; Stable (05-Oct-17)
5.	Term Loan-Long Term	LT	372.45	CARE A+; Stable	-	1)CARE A+; Stable (01-Oct-19)	1)CARE A+; Stable (24-Sep-18)	1)CARE A+; Stable (05-Oct-17)
6.	Debentures-Non Convertible Debentures	LT	150.00	CARE A+; Stable	-	1)CARE A+; Stable (01-Oct-19)	1)CARE A+; Stable (24-Sep-18) 2)CARE A+; Stable (17-Aug-18)	-
7.	Debentures-Non Convertible Debentures	LT	100.00	CARE A+; Stable	-	1)CARE A+; Stable (17-Oct-19)	-	-

Annexure-3: Complexity levels of various rated instruments for this company

Particulars	**Covenants**			
ISIN	**INE890A07062**	**INE890A07047**	**INE890A07054**	**INE890A08011**
A. Financial Covenants	1. Ratio of consolidated debt/ TNW not to exceed 5 times. 2.Debt/EBITDA should not exceed 4.00 times 3.Debt/TNW should not exceed 1.60 times			
B. Non-financial covenants	-	Put/ Call option: 3 years from deemed date of allotment	Put/ Call option: 3 years from deemed date of allotment	-

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

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

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

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About CARE Ratings:

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