JMC Projects (India) Limited

October 01, 2019

Rating

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long Term Bank Facilities	812.77 (Enhanced from Rs.776.55 crore)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Long Term / Short Term Bank Facilities	4200.00 (Enhanced from Rs.3500 crore)	**CARE A+; Stable/ CARE A1+ (Single A Plus; Outlook: Stable / A One Plus)**	**Reaffirmed**
Total Facilities	**5012.77 (Rupees Five Thousand Twelve Crore and Seventy Seven 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**
Non-Convertible Debentures	150.00 (Rupees One Hundred Fifty Crore Only)	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

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+), which translates into strong financial flexibility and CARE's expectation of future need based support from KPTL for maintaining JMC's credit profile. Ratings continue to derive comfort from its established presence in diversified areas of construction business with reputed clienteles, professional management and good revenue visibility backed by healthy and diversified order book position. Ratings also take cognizance of growth in scale of operations during FY19 (refers to the period April 1 to March 31) and Q1FY20 due to execution of large order book.

The above rating strengths, however, continue to be tempered on account of moderate profitability of its operations though improved over last three years, high leverage, 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.

JMC's ability to significantly improve its profitability while managing working capital requirements and improving leverage indicators shall be the key rating sensitivities. Further, improvement in the toll collection of its SPVs to enable them to be self-sufficient so as to reduce the support required from JMC would also be crucial from the credit perspective. Materialization of various fund raising plans of JMC leading to rationalization of exposure to BOT projects and debt levels shall be key rating monitorable.

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, 2019), 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: 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 71% of JMC's total construction income during FY19 and balance from construction for roads, bridges, metro-rail systems, sewerage pipelines and flyovers. 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

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

from leading Engineering, Procurement and Construction (EPC) contractors, real estate companies as well as central and state governments.

Healthy order book translating in healthy revenue visibility in medium term: JMC had a strong order book of Rs.10,173 crore as on June 30, 2019 (3.08x its FY19 total operating income), spread over various segments including factories and buildings and infrastructure translating in a healthy revenue visibility in the medium term. The share of Infrastructure segment has increased in its order book to 35% as on June 30, 2019 as compared to 23% as on June 30, 2017 indicating reduced dependence on single segment. Order book is geographically diversified with significant presence in construction of residential and commercial complex in Karnataka constituting 28% 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.

Steady growth in scale of operations: JMC's total operating income (TOI) witnessed steady growth of 18% on y-o-y basis during FY18 as well as in FY19 led by healthy execution of its order book. Further, TOI grew by 31% during Q1FY20 as compared to Q1FY19.

Key Rating Weaknesses

Relatively moderate profitability and high leverage: PBILDT margins of JMC though improved steadily from 10.62% during FY17 to 11.57% during FY19 on account of execution of large sized projects, it continued to remain moderate as compared to its peers. It is on account of relatively higher overheads due to more number of project sites. Total Debt/PBILDT though improved continued to remain moderate at 3.85 times during FY19 on account of increase in debt for funding capex requirements in light of large order book position. TOL/TNW continued to remain high at 3.24 times as on March 31, 2019 on account of part funding of working capital requirements through creditors and mobilization advances.

Liquidity Analysis: Adequate

Working capital intensive nature of operations albeit with adequate liquidity: The working capital cycle of JMC remained stable in FY19, with increase in the collection period and reduction in the creditors' period along with stable inventory holding. Gross current asset days of JMC increased from 254 days during FY18 to 267 days during FY19 on account of large number of projects sites and increase in execution of infrastructure orders wherein there are stage payment terms. Increase in working capital requirement had been funded through payables and mobilization advances leading to healthy cash flow from operations of Rs.238 crore during FY19. Moreover, receivables more than six months were partly realized during FY19 which provide some comfort. Further, reputed clientele of JMC with comfortable credit profile mitigates the credit risk to an extent. JMC's liquidity remained adequate as reflected by sufficient cushion in accruals vis-à-vis repayment obligations and free cash balance of Rs.77 crore as on March 31, 2019. Furthermore, average utilization of the fund based working capital limits was moderate at around 68% during the 12 months ended August 2019 and has flexibility available in terms of excess drawing power over the current sanctioned limits. JMC plans to enhance its working capital limits to meet increasing requirements due to large order book position and stage based payment terms.

Lower than expected toll collections in its BOT-toll SPVs necessitating support from JMC leading to high exposure in BOT projects: JMC had a portfolio of four operational toll road projects on BOT basis as on March 31, 2019. However, the traffic and toll collection on the roads has been lower than expected, which has necessitated fund infusion by JMC in all of these SPVs to meet their operational and debt servicing requirements. Till March 31, 2019, JMC had infused Rs.743 crore in all its SPVs, (Rs.322 crore more than the initial planned investment towards the initial project costs of these SPVs). Further the support requirement shall continue in the medium term 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.

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
Rating Methodology - Infrastructure Sector Ratings (ISR)
Rating Methodology: Factoring Linkages in Ratings

[Short Term Instruments](#)
[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), 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, 2019. 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, 2019.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	2,784	3,308
PBILDT	310	383
PAT	106	142
Overall gearing (times)	1.67	1.61
Interest coverage (times)	3.18	3.36

A: Audited
Further, during Q1FY20, JMC reported total operating income (TOI) of Rs.909 crore (Q1FY19: Rs.695 crore) and PAT of Rs.36 crore (Q1FY19: 27 crore).

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/ ST-Working Capital Limits	-	-	-	4200.00	CARE A+; Stable / CARE A1+
Fund-based - LT-Cash Credit	-	-	-	418.75	CARE A+; Stable
Term Loan-Long Term	-	-	June 2023	394.02	CARE A+; Stable
Debentures-Non Convertible Debentures	August 28, 2018	9.95% p.a.	28-August-2023	150.00	CARE A+; Stable
Commercial Paper-Commercial Paper (Carved out)	-	-	7-364 days	150.00	CARE A1+

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Commercial Paper-Commercial Paper (Carved out)	ST	150.00	CARE A1+	-	1)CARE A1+ (24-Sep-18)	1)CARE A1+ (05-Oct-17)	1)CARE A1+ (20-Jan-17)
2.	Fund-based - LT/ ST-Working Capital Limits	LT/ST	4200.00	CARE A+; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1+ (24-Sep-18)	1)CARE A+; Stable / CARE A1+ (05-Oct-17)	1)CARE A+; Stable / CARE A1+ (20-Jan-17)
3.	Fund-based - LT-Cash Credit	LT	418.75	CARE A+; Stable	-	1)CARE A+; Stable (24-Sep-18)	1)CARE A+; Stable (05-Oct-17)	1)CARE A+; Stable (20-Jan-17)
4.	Term Loan-Long Term	LT	394.02	CARE A+; Stable	-	1)CARE A+; Stable (24-Sep-18)	1)CARE A+; Stable (05-Oct-17)	1)CARE A+; Stable (20-Jan-17)
5.	Fixed Deposit	LT	-	-	-	-	-	1)Withdrawn (20-Jan-17)
6.	Debentures-Non Convertible Debentures	LT	150.00	CARE A+; Stable	-	1)CARE A+; Stable (24-Sep-18) 2)CARE A+; Stable (17-Aug-18)	-	-

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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