# JMC Projects (India) Limited

October 5, 2017

**Ratings**

| Instruments/Facilities | Amount (Rs. crore) | Ratings[1] | Rating Action |
|---|---|---|---|
| Long Term Bank Facilities | 824.96 (enhanced from Rs.687.32 crore) | **CARE A+; Stable (Single A Plus; Outlook: Stable)** | Reaffirmed |
| Long Term/Short Term Bank Facilities | 3,500.00 (enhanced from Rs.2,575.50 crore) | **CARE A+; Stable / CARE A1+ (Single A Plus; Outlook: Stable / A One Plus)** | Reaffirmed |
| **Total Bank Facilities** | **4,324.96 (Rupees Four Thousand Three Hundred Twenty Four Crore and Ninety Six Lakh Only)** | | |
| Commercial Paper Issue (carved out of working capital limits) | 150.00 | **CARE A1+ (A One Plus)** | Reaffirmed |
| **Total Instruments** | **150.00 (Rupees One Hundred Fifty Crore Only)** | | |

*Details of instruments/facilities in Annexure-1;*

**Detailed Rationale & Key Rating Drivers**

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, comfortable revenue visibility backed by a healthy order book and its moderate leverage.

The ratings also continue to take into account the focus of the government to develop infrastructure in the country to boost the economy, which would 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, 2017), 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. 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. Further, JMC has also ventured into a 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 80% of JMC's total construction income in FY17), construction for roads, bridges, metro-rail systems and sewerage pipelines (19%) and railways (2%). 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

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

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.

***Healthy order book:*** JMC had a strong order book of Rs.7,000 as on June 30, 2017 (2.96x its FY17 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.

***Stable scale of operations and profitability:*** JMC's total operating income remained largely stable during FY17, while it improved during Q1FY18 led by a healthy 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. The reduction in outstanding debt as on March 31, 2017 also led to improvement in overall gearing to a moderate level of 0.97x as on March 31, 2017. JMC's liquidity also remained comfortable in FY17 and Q1FY18, with moderate utilization of working capital limits and control over the working capital cycle aided by stable collections, extension of creditors and inflow of advances from customers. Further, it also has flexibility available in terms of excess drawing power over the current sanctioned limits.

***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 has a portfolio of four road projects taken on BOT-toll basis, all of which were fully operational as on March 31, 2017. However, the traffic and toll collection on the roads has continuously remained 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 June 30, 2017, JMC had infused Rs.637 crore in all its SPVs, (Rs.218 crore more than the initial planned investment towards the initial project costs of these SPVs). In FY18 also, JMC is expected to infuse around Rs.60 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 and control over raising further debt in FY17 on the back of improved collections and advances from clients has improved JMC's financial flexibility.

***Working capital intensive nature of operations:*** The working capital cycle of JMC remained stable in FY17, with stable outstanding receivables and marginal increase in inventory holding being more than offset by elongation in creditors' period. Average collection period was at 190 days in FY17, with increase in revenue from factories and buildings segment which generally has a longer collection period compared with infrastructure construction 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 also provides with funding for working capital. The average utilization of the fund based working capital limits was moderate at 77% during the 12 months ended August 2017.

**Analytical approach:** Standalone along with cash flow support to 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 envisaged 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](#)
[Rating Methodology: Factoring linkages in ratings](#)
[Rating Methodology – Manufacturing Companies](#)
[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 June 30, 2017. 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, 2017.

| Brief Financials (Rs. crore) | FY16 (A) | FY17 (A) |
|---|---:|---:|
| Total operating income | 2,434 | 2,364 |
| PBILDT | 230 | 233 |
| PAT | 43 | 59 |
| Overall gearing (times) | 1.31 | 0.97 |
| Interest coverage (times) | 2.01 | 2.48 |

A – Audited

Further, during Q1FY18, JMC reported a PAT of Rs.21 crore on a total operating income of Rs.671 crore, compared with a PAT of Rs.11 crore on a total operating income of Rs.561 crore during Q1FY17.

**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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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument/Bank Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Non-Fund-based - LT/ ST-Working Capital Limits | - | - | - | 3,500.00 | CARE A+; Stable / CARE A1+ |
| Fund-based - LT-Cash Credit | - | - | - | 418.75 | CARE A+; Stable |
| Term Loan-Long Term | - | - | December 31, 2022 | 406.21 | CARE A+; Stable |
| 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 2017-2018 | Date(s) & Rating(s) assigned in 2016-2017 | Date(s) & Rating(s) assigned in 2015-2016 | Date(s) & Rating(s) assigned in 2014-2015 |
| 1. | Debentures-Non Convertible Debentures | LT | - | Withdrawn | - | - | 1)Withdrawn (14-Jan-16) | 1)CARE A+ (02-Jan-15) |
| 2. | Commercial Paper (Carved out) | ST | 150.00 | CARE A1+ | - | 1)CARE A1+ (20-Jan-17) | 1)CARE A1+ (14-Jan-16)<br>2)CARE A1+ (20-Jul-15) | 1)CARE A1+ (02-Jan-15) |
| 3. | Non-Fund-based - LT/ ST-Working Capital Limits | LT/ST | 3,500.00 | CARE A+; Stable / CARE A1+ | - | 1)CARE A+; Stable / CARE A1+ (20-Jan-17) | 1)CARE A+ / CARE A1+ (14-Jan-16) | 1)CARE A+ / CARE A1+ (02-Jan-15) |
| 4. | Fund-based - LT-Cash Credit | LT | 418.75 | CARE A+; Stable | - | 1)CARE A+; Stable (20-Jan-17) | 1)CARE A+ (14-Jan-16) | 1)CARE A+ (02-Jan-15) |
| 5. | Term Loan-Long Term | LT | 406.21 | CARE A+; Stable | - | 1)CARE A+; Stable (20-Jan-17) | 1)CARE A+ (14-Jan-16) | 1)CARE A+ (02-Jan-15) |
| 6. | Fixed Deposit | LT | - | Withdrawn | - | 1)Withdrawn (20-Jan-17) | 1)CARE A+ (FD) (14-Jan-16) | 1)CARE A+ (FD) (10-Feb-15) |

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