NKC Projects Private Limited

March 31, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities	67 (enhanced from 57.5)	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long/Short-term Bank Facilities	500 (enhanced from Rs.422.5 crore)	**CARE BBB+; Stable/CARE A3+ (Triple B Plus; Outlook: Stable/A Three Plus)**	**Reaffirmed**
Total Facilities	**567 (Rs. Five hundred and sixty seven crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the rating assigned to the bank facilities of NKC Projects Pvt. Ltd. (NKC) continues to derive strength from extensive experience of the promoters with established track record of operations, strong order book position with low counterparty and price variation risk, continuous improvement in operating cycle over the last three years and moderate financial risk profile.

The ratings strengths are tempered by high project concentration risk with current order book comprising of six packages of Amritsar Jamnagar Economic Corridor that constitute 86% of the total order book, near-term disruption envisaged in all sectors including construction sector on account of the nationwide shutdown in the aftermath of the COVID-19 crisis, company's presence in tender-based nature of operations along with high competitive intensity.

Positive Factors

- Consistent increase in scale of operations by 25%-30% for 2-3 years with sustained profitability
- Diversified order book with quality counterparties
- Maintained order book position providing a revenue visibility of 2.5x-3x
- Improvement in liquidity indicators represented by healthy liquid balances and low utilization of working capital limits

Negative Factors

- Further protraction of operating cycle beyond 100 days
- Consistent decline in scale of operations and contraction in the profitability margins from the current levels
- Increased leverage with overall gearing above 1.25 x

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and professional management with established track record of operations

NKC Projects Private Limited (NKC) was incorporated in 2003 and has been engaged in the construction business for last 15 years with a focus on executing road EPC projects. The Managing Director of NKC, Mr. Naresh Kumar has experience of more than 15 years in the construction sector and prior to starting NKC he was involved in construction of building as principal contractor. The promoters of the company are further supported by professional management including Mr. MK Magoo retired Chief Engineer from Indian Railways, Mr. SC Chatterjee retired director from IRCON and Mr. PP Pathak retired Chief Engineer from PWD.

Strong order book with lower counter party risk

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

The company has unexecuted order book of Rs. 3,009 cr as of 1st February 2020 (Rs. 1,584 crore as on March 31, 2019) i.e. 5.45 times of FY19 income. The company has recently been awarded six packages of the Amritsar – Jamnagar Expressway under the Bharatmala project. This has primarily led to an increase in the order book of the company with NHAI as the counterparty for 99% of the order book as on 1st February 2020. While it is expected that these works would lead to cost synergies for the company as these are on the same road stretch, however, the growth prospects of the company would also depend upon the successful execution of these works going forward. The focus of the company continues to be road construction contracts with NHAI or other government funded projects leading to low counter party risk.

Limited price risk due to escalation clause in contracts

The orders of the company have in-built escalation clauses, thereby reducing the company's exposure towards volatility in the raw material prices.

Moderate financial risk profile

The total operating income of the company has increased by 60% in FY19 to Rs. 552.11 cr as against Rs. 344.55 cr in FY18 majorly on account of healthy order book position and smooth execution of the orders. Till 10MFY20, the company has reported total revenue of Rs. 419.96 cr. Further, due to increased turnover, GCA (Gross cash accruals) has improved from Rs.19.19 cr in FY18 to Rs. 28.94 cr in FY19.

However, despite increase in scale, operating profitability of the company have moderated as reflected from PBILDT margin of 10.17% (PY: 13.52%) in FY19 on account of higher lease charges and sub-contracting expenses incurred by the company to execute orders smoothly. Further, the PAT margins of the company have remained stable at 3.27% in FY19 as against 3.58% in FY18.

The capital structure of the company has improved as reflected from overall gearing of 0.59x as on 31st March 2019 (PY: 1.28x) owing to lower mobilization advances and working capital borrowings outstanding as on 31st March 2019. Other debt coverage indicators also improved, with total debt to GCA of 2.15x as on March 31, 2019 vis-à-vis 5.90x as on March 31, 2018 and interest coverage ratio of 3.41x in FY19 (PY: 2.36x).

Key Rating Weaknesses

Project Concentration Risk

While NKC has sizeable order book, the order book remains concentrated on a few projects. Out of the total order book outstanding as on 1st February 2020 around 86% of the orders are for development of Amritsar Jamnagar Economic Corridor, exposing the company to high project concentration risk. However, since the projects are on contiguous stretched it places the company at an advantage on account of shared equipment and labour.

Further, the central government (NHAI) projects cater to approximately 99% of the unexecuted order book as on 1st February 2020.

Tender-based nature of operations in intensely competitive civil construction industry

The company receives most of its work orders from government departments. All these are tender-based and the revenues are dependent on the group's ability to bid successfully for these tenders. The Indian construction sector is highly competitive and fragmented. Due to the presence of large players as well as large number of unorganized players and project award based on competitive bidding, the sector witnesses competitive intensity. Further, profitability margins remain under pressure because of the competitive nature of the industry.

Temporary disruption envisaged because of on-going national level shutdown due to COVID-19:

In the aftermath of the worldwide COVID-19 pandemic, in March 2020, the Indian government has declared a nationwide shutdown leading to halt of all construction related activities. The period of the shutdown could also be extended if the situation does not improve, which could further impact the awarding of new orders and the execution of existing ones.

Liquidity: Adequate

The operating cycle of the company has stood at 40 days as on 31st March 2019 as against 83 days as on 31st March 2018 on the back of lower collection and inventory holding period. The working capital utilization stood moderate with average utilization of 80% for the past 12 months ending Jan'20. Further, the company has liquid cash balance of Rs. 10.26 cr as on 31st January 2020 (Rs. 5.56 cr as on June 30, 2019, Rs. 2.12 cr as on 31st March 2019).

The company has generated gross cash accruals of Rs. 28.94 cr (PY: Rs. 19.19 cr) in FY19 against scheduled debt repayments in the range of Rs. 8 cr to Rs. 11 cr in next couple of years.

Industry outlook and prospects

The Government of India has been undertaking several steps for boosting the infrastructure development and reviving the investment cycle in the segment, which was facing a slowdown since past couple of years. A few measures include relaxation

of Foreign Direct Investment (FDI) norms for the sector, infrastructure status accorded to affordable housing and fund allocation for projects like development of 100 smart cities, Housing for all by 2022 and Atal Mission for Urban Rejuvenation and Transformation (AMRUT). In the budget (2020-21), total outlay of Rs.17 lakh cr has been announced for transport infrastructure sector under which development of 2500 km of highway, 9000 km of economic corridors, 2000 km of coastal roads is targeted. The National Infrastructure Pipeline (NIP) was launched by the FM on December 31, 2019 with total project capital expenditure in infrastructure sectors in India during the fiscals 2020 to 2025 was projected at over INR 10.2 trillion.
The proposal to exempt investments by sovereign wealth funds in infrastructure projects and to further the NIP should go a long way in boosting investments in the sector. Hence, going forward, companies with better financial flexibility would be able to grow at a faster rate by leveraging upon potential opportunities.
The company's ability to raise resources in timely manner for execution of projects without any adverse impact on the capital structure would be crucial for NKC's prospects, going forward.

Analytical approach: Standalone

Applicable Criteria
Criteria on assigning Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Short Term Instruments
Rating Methodology-Construction Sector
Financial Ratios – Non-Financial Sector

About the Company
NKC Projects Private Limited (NKC) was incorporated in 2003 and has been engaged in the construction business for last 15 years with a focus on executing road EPC projects. The company is promoted by Mr. Naresh Kumar who has experience of more than 15 years in the construction sector and prior to starting NKC he was involved in construction of building as principal contractor. Over the years, the company has executed several orders as a principal contractor for road and building construction, however later on the company has started focusing only on the road projects. The company focuses majorly on road & highway EPC projects from government organizations including Ministry of Road Transport & Highways (MORTH), National Highways Authority of India (NHAI; rated CARE AAA; Stable), and State PWD's World Bank Funded Projects.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	344.48	552.11
PBILDT	46.86	56.13
PAT	12.32	18.04
Overall gearing (times)	1.28	0.59
Interest coverage (times)	2.38	3.41

A: Audited

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-Cash Credit	-	-	-	67.00	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	500.00	CARE BBB+; Stable / CARE A3+

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.	Fund-based - LT-Cash Credit	LT	67.00	CARE BBB+; Stable	1)CARE BBB+; Stable (19-Jul-19)	1)CARE BBB+; Stable (31-Jan-19)	1)CARE BBB; Stable (21-Mar-18) 2)CARE BBB-; Stable (02-May-17)	1)CARE BBB- (20-Apr-16)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	500.00	CARE BBB+; Stable / CARE A3+	1)CARE BBB+; Stable / CARE A3+ (19-Jul-19)	1)CARE BBB+ / CARE A3+ (31-Jan-19)	1)CARE BBB; Stable / CARE A3 (21-Mar-18) 2)CARE BBB-; Stable / CARE A3 (02-May-17)	1)CARE BBB- / CARE A3 (20-Apr-16)

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Long term loan	Detailed explanation
A. Financial Covenants	• TOL/TNW not to exceed 2.25:1 • Current Ratio maintained above 1.25:1
B. Non- Financial covenants	• The borrower shall undertake not to divert working capital funds for long term purposes • The borrower shall not transfer/invest funds of the company in whatsoever manner in any other concern without obtaining prior consent of the bank

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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