NKC Projects Private Limited

July 19, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating1	Rating Action
Long-term Bank Facilities	57.50	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Reaffirmed**
Long term/Short term Bank Facilities	422.50	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable) / CARE A3+ (A Three Plus)**	**Reaffirmed**
Total Facilities	**480.00 (Rupees Four hundred and eighty crore only)**		

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 and its moderate financial risk profile

The ratings strengths are partially tempered by project concentration risk, and its presence in tender-based nature of operations along with high competitive intensity.

Going forward, the ability of company to further improve its scale of operations with increased number of orders and profitability coupled with timely execution of the current order book without adversely impacting its capital structure and efficient management of its working capital requirement shall be the key rating sensitivities.

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

The company has unexecuted order book of Rs. 1584.23 cr as of 31st March 2019 (Rs. 1,102 crore as on November 30, 2018) i.e. 2.91 times of FY19 income. Apart from this the company has received Letter of Intent (LOI) from NHAI for a project worth Rs. 454.62 cr in June'19. Further, the company has been declared L1 in orders worth Rs. 1280.66 cr of NHAI. The company has recently been awarded three packages and is L1 in 3 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 94% of the order book as on 31st March 2019. 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. 544.27 cr (prov) as against Rs. 344.55 cr in FY18 majorly on account of healthy order book position and smooth execution of the orders. Till Q1FY20, the company has reported total revenue of Rs. 154.56 cr. Further, due to increased turnover, GCA (Gross cash accruals) has improved from Rs.19.19 cr in FY18 to Rs. 30.24 cr in FY19 (prov).

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

However despite increase in scale, operating profitability of the company have moderated as reflected from PBILDT and PAT margin of 10.77% (PY: 13.52%) in FY19 (prov) 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 3.84% in FY19 (prov) as against 3.58% in FY18.
The capital structure of the company has improved as reflected from overall gearing of 0.57x 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 2.07x as on March 31, 2019 vis-à-vis 5.90x as on March 31, 2018 and interest coverage ratio of 3.16x 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. The top-three orders account for ~68% of the outstanding order book as on March 31, 2019, exposing the company to high project concentration risk. The central government (NHAI) projects cater to approximately 94% of the unexecuted order book.

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.

Liquidity

The liquidity profile of the company is moderate with average cash credit utilization levels at 77% in 12 months ended March 2019 though reduced from 83% in previous year (12 months ended March 2018). This is primarily on account of lower debtors levels as the company realized majority of the payments during FY19. Further, lower inventory levels are required in the ongoing projects in comparison to the earlier projects in Odisha and north eastern regions where inventory levels needed to be maintained at higher levels. The operating cycle of the company stood at 49 days as on 31st March 2019 as against 83 days as on 31st march 2018. Further, the company has free cash and cash equivalents of Rs. 5.56 cr as on June 30, 2019.
The company has generated gross cash accruals of Rs. 30.24 cr (PY:Rs. 19.19 cr) in FY19 (prov) against scheduled debt repayments of around Rs. 6.32 cr in FY 20.

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 (2017-18), total outlay of Rs.3,96,135 crore (increase of 79% over previous budget) has been planned for infrastructure sector with emphasis over the transportation sector i.e. railways, roads and shipping development. Urban development is another sector which has been given an impetus in the budget allocation. Further, to revitalize Public-Private-Partnerships (PPPs), the budget proposed mechanism for resolution of disputes through suitable amendment to Arbitration and Conciliation Act. 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. 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 Outlook to Credit Ratings
CARE's Policy on Default Recognition
Criteria for Infrastructure Sector Ratings
Criteria for Short Term Instruments
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.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Prov)
Total operating income	344.55	544.27
PBILDT	46.58	58.64
PAT	12.32	20.91
Overall gearing (times)	1.28	0.57
Interest coverage (times)	2.36	3.16

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	-	-	-	57.50	CARE BBB+; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	422.50	CARE BBB+ / 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	57.50	CARE BBB+; Stable	-	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	422.50	CARE BBB+; Stable / CARE A3+	-	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)

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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