NKC Projects Pvt Ltd

January 31, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	57.50	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable)**	**Revised from CARE BBB; Stable (Triple B; Outlook: Stable)**
Long-term / Short-term bank facilities	422.50	**CARE BBB+; Stable (Triple B Plus; Outlook: Stable) / CARE A3+ (A Three Plus)**	**Revised from CARE BBB; Stable (Triple B; Outlook: Stable)/ CARE A3 (A Three)**
Total Facilities	**480.00 (Rupees Four hundred and eighty crore only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of NKC Projects Pvt. Ltd. (NKC) takes into account the company's significantly improved operating and financial performance during FY18 & 9MFY19 (refers to the period April 1 to December 31) owing to strong order book with reduced exposure to difficult terrains. The company has strong order book to sales ratio of 3.21x as on November 30, 2018 providing healthy revenue visibility.

The ratings further continue 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 characterized by moderate gearing and debt coverage indicators.

The ratings, however, continue to be constrained by working capital intensive nature of operations 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. Over the last few years, the company has been only executing road construction projects funded by government to reduce the counter party risk. 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 though project concentration persists

The company has unexecuted order book of Rs. 1,102 crore as on November 30, 2018 providing good revenue visibility for the medium term. NKC is having major focus on the road contracts with NHAI or other government funded projects. While NKC has sizeable order book, it is concentrated on a few projects with the top-three orders account for ~87% of the outstanding order book as on November 30, 2018, The central government (NHAI) projects cater to approximately 72% of the unexecuted order book. Thus there is minimal counter party risk as major portion of project funding is by the government/ government entities. Further, the company has already completed all its projects in North East region and has now diversified its order book in Himachal Pradesh, Madhya Pradesh, Uttar Pradesh and Odisha

Limited price risk due to escalation clause in contracts

The company as a policy takes projects with escalation clause, which reduces the company's exposure towards volatility in the raw material prices.

[2] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications*

Financial risk profile marked by significant improvement in 9MFY19 performance

In FY18, the company witnessed a y-o-y growth of 9.28% in the total operating income to Rs. 344.84 crore against Rs. 315.56 crore in FY17. The PBILDT margin & PAT Margin improved to 13.72% and 3.61% respectively in FY18, vis-à-vis 12.82% and 3.08% in FY17.

The capital structure of the company witnessed some moderation with overall gearing ratio of 1.28x as on March 31, 2018 as against 1.15x as on March 31, 2017, the moderation was owing to increase in mobilization advance in hand (Rs. 44.66 crore as on March 31, 2018; PY: Rs.5.21 crore). The debt coverage indicators remained moderate during FY18, with interest coverage ratio at 2.41x and total debt to GCA of 5.99x as on March 31, 2018

9MFY19 Performance

In 9MFY19, NKC witnessed 83% growth in its total operating income to Rs. 398.67 crore from Rs. 218.38 crore in 9MFY18 on account of strong execution of projects and completion of projects in Assam. Further, the company achieved 33% growth in PBILDT to Rs. 47.28 crore. The PBILDT margin moderated as the company took some equipments on lease, however the PAT margin improved to 5.06% in 9MFY19 from 3.84% in 9MFY18

Liquidity Profile

NKC has working capital intensive operations, however improving as characterized by inventory holding period of 61 days in FY18 (PY: 83 days) and receivable period of 84 days in FY18 (PY: 101 days). The inventory period improved as on March 31, 2018 owing to lower inventory holding required due to near completion projects at North East region. The part of the working capital requirements are met through mobilization advance and trade creditors. However, the mobilization advances received from NHAI are interest bearing in nature, thereby increasing the reliance of the company on interest bearing funding. The average working capital utilization remained at 77.79% during last 12 months ending December 2018. Going forward, the ability of the company to manage its working capital in efficient manner would be the key rating sensitivity.

Key Rating Weakness

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.

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 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. As on November 30, 2018, the company has unexecuted order book of Rs.1102 crore to be executed over period of 1 to 2 years. Majority of contracts are granted by NHAI and other Govt depts.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	315.56	344.84
PBILDT	40.47	47.30
PAT	9.71	12.32
Overall gearing (times)	1.15	1.28
Interest coverage (times)	2.14	2.41

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

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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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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	57.50	CARE BBB+; Stable	-	1)CARE BBB; Stable (21-Mar-18) 2)CARE BBB-; Stable (02-May-17)	1)CARE BBB- (20-Apr-16)	1)CARE BBB- (16-Apr-15)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	422.50	CARE BBB+ / CARE A3+	-	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)	1)CARE BBB- / CARE A3 (16-Apr-15)

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