NKC Projects Pvt Ltd

March 21, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	57.50 (enhanced from 52.00)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	**Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable)**
Long-term / Short-term bank facilities	422.50 (enhanced from 291.00)	**CARE BBB; Stable (Triple B; Outlook: Stable) / CARE A3 (A Three)**	**Revised from CARE BBB-; Stable (Triple B Minus; Outlook: Stable) / CARE A3 (A Three)**
Total	**480.00 (Rupees Four Hundred And Eighty Crore Only)**		

Detailed Rationale & Key Rating Drivers

The revision in the long term rating of NKC Projects Pvt. Ltd. (NKC) takes into account the company's improved operating and financial performance during 9MFY18 (refers to the period April 1 to December 31) owing to strong order book with reduced exposure to difficult terrains in NE region, . The company has strong order book to sales ratio of 4.10x as on February 28, 2018 providing healthy revenue visibility.

The ratings further continue to derive strength from extensive experience of the promoters with established track record of operations, NKC's 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 its modest scale of operations, working capital intensive nature of operations and its presence in highly fragmented industry with high competitive intensity.

Going forward, the ability of company to improve its scale of operations 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

Strong order book with reduced exposure to risky geographies citing good revenue visibility

The company has a healthy unexecuted order book of Rs.1,285.75 crore as on February 28, 2018 with order book to sales ratio of 4.10x times as against unexecuted order book of Rs.1069 crore with order book to sales ratio of 3.30x times as on March 1, 2017. The increase in order book is largely on account of new order bagged from NHAI with contract value about Rs.609 crore. As NKC has diversified its order book in Himachal Pradesh, Madhya Pradesh and Uttar Pradesh, it has reduced its reliance on the North East region and Odisha which are difficult terrains in terms of availability of raw materials, mobilization of laborers and lesser operating days due to heavy monsoon.

Experienced promoters and professional management with established track record of operations

NKC, incorporated in 2003, has been engaged in the construction business for last 15 years. The company has been only executing road construction 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.

Lower counter party risk however, project concentration persists

NKC focuses on execution of road contracts with NHAI or other government funded projects which reduced counter-party risk, though, at the same time leading to higher collection period. Furthermore, though NKC has sizeable order book, it is concentrated on a few large projects with the top-three orders account for ~86% of the outstanding order book as on February 28, 2018.

Improvement in financial risk profile marked by high profitability and moderate capital structure

Despite the marginal moderation in operating income in FY17 to Rs.313.69 crore, the the PBILDT margin improved to 12.31% as against 11.59% in FY16 on account of advance stage of execution in projects which generally yield higher margins at later stage of completion. The capital structure of the company improved significantly as on March 31, 2017 on account of lower mobilization advance in hand but still remained moderate with overall gearing ratio of 1.15x as on March 31, 2017 against 1,87 times as on March 31, 2016,.

In 9MFY18, the company has registered operating income of Rs.241.83 crore (PY:Rs.220.75 crore) along with PBILDT margin of 14.75% (PY: 12.87%) owing to improved pace of execution. Also, overall gearing moderated to 1.56x as on December 31, 2017 owing to mobilization advances received from recently awarded projects.

Limited price risk due to escalation clause in contracts

The company, as a policy, undertakes projects with cost escalation clause, which reduces the company's exposure towards volatility in the raw material prices. Although the same also results in lower profit margins in the case of decline in the price of raw material and price escalation clause due to which the company won't be able to get benefit of the price decline.

Industry outlook and prospects

The Government of India has been taking 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).

Key Rating Weaknesses

Working capital intensive nature of operations

NKC has working capital intensive operations as characterized by high inventory holding period of 83 days in FY17 (PY: 99 days) and collectiom period of 101 days in FY17 (PY: 93 days). The inventory period remains high as the company has to keep large amount of raw material stock at various project sites for the smooth functioning of the project work apart from the work in process at the project sites. Also, the collection period remains high due to long process of submission of bills, verification and approval from the government department. The average fund based working capital utilization remained high at 85.50% during last 12 months ending December 31, 2017.. Further, non fund based working capital utilization remained high at 83.68% during last 12 months ending December 31, 2017.. . Going forward, the ability of the company to manage its working capital in an efficient manner would be the key rating sensitivity.

Relatively small scale of operations and competitive pressure in fragmented construction sector

Even though the turnover of the company stood at Rs.313.69 crore in FY17, the scale of operations remains moderately small in an industry dominated by large players. Also, the Indian construction sector is highly competitive and fragmented.

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 is engaged in the road construction. 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, company has executed several orders as a principal contractor for road and building construction however later on company has started focusing only on the road projects. As on February 28, 2018, the company has unexecuted order book of Rs.1,285.75 crore to be executed over period of 1 to 3 years.

(Rs. crore)

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	321.14	313.69
PBILDT	37.22	38.60
PAT	8.15	9.71
Overall gearing (times)	1.87	1.15
Interest coverage (times)	2.28	2.04

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.*

Analyst Contact:
Name: Manek Narang
Tel: 011- 45333233
Mobile: 9810596225
Email: manek.narang.careratings.com

****For detailed Rationale Report and subscription information, please contact us at www.careratings.com**

About CARE Ratings:

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.

Disclaimer

CARE's ratings are opinions on credit quality and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments.

In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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; 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 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.	Fund-based - LT-Cash Credit	LT	57.50	CARE BBB; Stable	1)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; Stable / CARE A3	1)CARE BBB-; Stable / CARE A3 (02-May-17)	1)CARE BBB- / CARE A3 (20-Apr-16)	1)CARE BBB- / CARE A3 (16-Apr-15)	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
Cell: + 91 98190 09839
E-mail: meenal.sikchi@careratings.com

Mr. Ankur Sachdeva
Cell: + 91 98196 98985
E-mail: ankur.sachdeva@careratings.com

Ms. Rashmi Narvankar
Cell: + 91 99675 70636
E-mail: rashmi.narvankar@careratings.com

Mr. Saikat Roy
Cell: + 91 98209 98779
E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD
Mr. Deepak Prajapati
32, Titanium, Prahaladnagar Corporate Road,
Satellite, Ahmedabad - 380 015
Cell: +91-9099028864
Tel: +91-79-4026 5656
E-mail: deepak.prajapati@careratings.com

BENGALURU
Mr. V Pradeep Kumar
Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
No. 30, M.G. Road, Bangalore - 560 001.
Cell: +91 98407 54521
Tel: +91-80-4115 0445, 4165 4529
Email: pradeep.kumar@careratings.com

CHANDIGARH
Mr. Anand Jha
SCF No. 54-55,
First Floor, Phase 11,
Sector 65, Mohali - 160062
Chandigarh
Cell: +91 85111-53511/99251-42264
Tel: +91- 0172-490-4000/01
Email: anand.jha@careratings.com

CHENNAI
Mr. V Pradeep Kumar
Unit No. O-509/C, Spencer Plaza, 5th Floor,
No. 769, Anna Salai, Chennai - 600 002.
Cell: +91 98407 54521
Tel: +91-44-2849 7812 / 0811
Email: pradeep.kumar@careratings.com

COIMBATORE
Mr. V Pradeep Kumar
T-3, 3rd Floor, Manchester Square
Puliakulam Road, Coimbatore - 641 037.
Tel: +91-422-4332399 / 4502399
Email: pradeep.kumar@careratings.com

HYDERABAD
Mr. Ramesh Bob
401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
Hyderabad - 500 029.
Cell : + 91 90520 00521
Tel: +91-40-4010 2030
E-mail: ramesh.bob@careratings.com

JAIPUR
Mr. Nikhil Soni
304, Pashupati Akshat Heights, Plot No. D-91,
Madho Singh Road, Near Collectorate Circle,
Bani Park, Jaipur - 302 016.
Cell: +91 – 95490 33222
Tel: +91-141-402 0213 / 14
E-mail: nikhil.soni@careratings.com

KOLKATA
Ms. Priti Agarwal
3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
10A, Shakespeare Sarani, Kolkata - 700 071.
Cell: +91-98319 67110
Tel: +91-33- 4018 1600
E-mail: priti.agarwal@careratings.com

NEW DELHI
Ms. Swati Agrawal
13th Floor, E-1 Block, Videocon Tower,
Jhandewalan Extension, New Delhi - 110 055.
Cell: +91-98117 45677
Tel: +91-11-4533 3200
E-mail: swati.agrawal@careratings.com

PUNE
Mr.Pratim Banerjee
9th Floor, Pride Kumar Senate,
Plot No. 970, Bhamburda, Senapati Bapat Road,
Shivaji Nagar, Pune - 411 015.
Cell: +91-98361 07331
Tel: +91-20- 4000 9000
E-mail: pratim.banerjee@careratings.com

CIN - L67190MH1993PLC071691