

## NKG Infrastructure Limited

Instrument	Amount (Rs. Crore)	Rating Action May 2016
Fund-based Limits	230	[ICRA] BBB+ (stable); rating revised from [ICRA]A- and outlook changed from negative to stable
Term Loans (including External Commercial Borrowing)	70	[ICRA] BBB+ (stable); rating revised from [ICRA]A- and outlook changed from negative to stable
Non-fund-based Limits	900	[ICRA]A2; revised from [ICRA]A2+
Proposed	100	[ICRA] BBB+ (stable); rating revised from [ICRA]A- and outlook changed from negative to stable

ICRA has revised the rating assigned to Rs. 230 crore cash credit limits, Rs. 70 crore terms loans (including external commercial borrowing), and Rs. 100 crore proposed long term bank lines of NKG Infrastructure Limited (NKG) from [ICRA]A- (pronounced ICRA A minus) to [ICRA]BBB+ (pronounced ICRA triple B plus). Outlook on the long-term rating has been changed from negative to stable. ICRA has also revised the short-term rating assigned to Rs. 900 crore non-fund-based limits of NKG from [ICRA]A2+ (pronounced ICRA A two plus) to [ICRA]A2 (pronounced ICRA A two).

The ratings' revision reflects stretch in NKG's liquidity position resulting from elongated collection cycle of debtors, retention money and variation escalation receipts. The collection cycle has been impacted due to milestone linked payments from DGMAP (Direct General of Married Accommodation project) and significant retention money stuck in projects executed for various state electricity boards. Company's working capital utilisation has remained elevated despite the decline in turnover from Rs. 1633 crore in FY2015 to Rs. 1478 crore (provisional) in FY2016.

While revising the rating, ICRA has also noted ongoing investigation with respect to few projects awarded to the company in the state of Uttar Pradesh but the impact of the same on credit risk profile of the company cannot be ascertained as matter is under investigation.

The ratings continue to be constrained by high concentration of NKG's current order book on a single project i.e. National Building Construction Corporation's (NBCC) East-Kidwai Nagar re-development project in Delhi, as the same accounts for ~33% of total work in hand as on March 31, 2016. Project concentration risk gets further accentuated by the fact that this project is currently facing land acquisition problems and a delay in removing encroachments may impact company's cash flows. The ratings further take into account high competitive intensity in the construction industry due to low entry barriers and limited capital requirements.

The ratings, however, draw comfort from improvement in order book position from Rs. ~1870 crore as on March 31, 2015 to Rs. ~2350 crore as on March 31, 2016, which improves visibility of revenues. If the pending variation and escalation amount is included, then the order book will further increase to Rs. ~2950 crore as on March 31, 2016. The ratings also factor in healthy and stable inflows from company's 10MW solar power plant in Gujarat, which can be securitised to raise additional funds, if and when required.

The ratings continue to derive comfort from NKG's long and established track record in construction business, its reputed customer base consisting mainly of public sector clients, its track record of successfully executing large projects across various segments (roads, bridges, buildings, electrical, hydro power, solar power, water and sewer) and its geographically diversified operations, with experience of managing projects in 15 states through eight regional offices in India.

Going forward, the ability of the company to improve its working capital management while maintaining its scale of operations and profitability levels will be the key rating sensitivities. Further, the impact of ongoing investigation on credit risk profile of the company will be a key rating monitorable.



### **Company's Profile**

NKG Infrastructure Limited (NKG) was incorporated in 1987 as N.K. Garg and Company Private Limited and its name was changed to NKG Infrastructure in 2005. It is a closely held company with entire shareholding with promoters and their group companies. NKG is an ISO 9001:2000 certified Construction Company and has been registered as a Grade A civil contractor in the states of Uttar Pradesh, Uttarakhand and Madhya Pradesh. The company executes work mainly for public sector clients. NKG has also established a 10 MW solar power plant in Gujarat which became operational in March 2012.

### **Recent Results**

As per provisional financials, NKG Infrastructure Limited (NKG) reported operating income of Rs. 1478 crore and net profit of Rs. 37 crore in FY2016 as against operating income of Rs. 1633 crore and net profit of Rs. 37 crore in FY2015.

**May 2016**

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