

May 08, 2023

J. Kumar Infraprojects Limited: [ICRA]A+ (Stable) assigned and [ICRA]A1 Reaffirmed for Commercial paper

Summary of rating action

Instrument*	Previous Rated Amount: Rs Crore	Current Rated Amount (Rs. crore)	Rating Action
Long Term-Fund Based-Working Capital Facilities	0.00	600.00	[ICRA]A+ (Stable); assigned
Long Term-Fund Based/Non-Fund Based-Unallocated	0.00	186.40	[ICRA]A+ (Stable); assigned
Long Term-Fund Based-Term Loan	0.00	158.40	[ICRA]A+ (Stable); assigned
Long Term-Non-Fund Based-Bank guarantee/Letter of Credit	0.00	3355.20	[ICRA]A+ (Stable); assigned
Commercial Paper	100.00	100.00	[ICRA]A1; Reaffirmed
Total	100.00	4400.00	

*Instrument details are provided in Annexure-I

Rationale

The rating action favourably factors in J. Kumar Infraprojects Limited's (JKIL) strong order book position (order book to FY2022 revenues ratio of 3.3 times), which provides medium-term revenue visibility. The company received fresh order inflows worth Rs. 6,027 crore over the last 21 months ending in December 2022. The rating takes comfort from JKIL's healthy increase in operating income (OI) at a CAGR of 17.07% during FY2017-FY2022. It is expected to witness a growth of 18% and 15% in FY2023 and FY2024, respectively. The operating profit margin remained healthy within 12.1%-15.7%, supported by ownership of machines, in-house project execution (minimal sub-contracting), geographical clustering of project, centralised procurement of raw materials and is estimated to remain above 14% over the medium term. The rating notes the comfortable debt protection metrics, with estimated interest cover of above 5.5 times and DSCR of above 3.0 times over the medium term and the extensive experience of the promoters, spanning over four decades in the civil construction segment and demonstrated capabilities in executing relatively complex infrastructure projects including underground metro projects at geographically diverse locations. The company has a fleet of well-maintained specialised equipment in its portfolio and a strong technical team, which supports its project execution capabilities.

The rating strengths are offset by the moderate order book concentration in terms of geography, segment as well as clients. ICRA notes that around 53% of the order book as on December 31, 2022 is in the nascent stages of execution (less than 25% executed). Of this, work was yet to commence for ~19% of the order book as on December 31, 2022, as majority of these contracts were recently awarded to the company. However, necessary approvals are in place and ICRA is given to understand that work has started for most of the projects in Q4 FY2023. The heightened competition in the construction sector, along with the volatility in input costs (steel, cement, etc) could exert pressure on JKIL's profitability, despite the presence of price escalation clauses in these contracts. JKIL's working capital intensity has remained relatively high with NWC/OI being 24.6% as on September 30, 2022. The company has funded a sizeable share of its working capital requirement through extended credit period and advance from customers. Any decline in either of these would have a bearing on its liquidity position. In the backdrop of sizeable growth over the next three fiscals, which will entail increase in working capital requirement, the company's ability to judiciously manage its working capital cycle and maintain adequate liquidity remains important from the credit perspective.

The Stable outlook on the rating reflects ICRA's expectation that the company will continue to benefit from its healthy order book position, strong execution capabilities and comfortable financial risk profile.

Key rating drivers and their description

Credit strengths

Order book position provides medium-term revenue visibility – The company's fresh order inflows over the past few years remained healthy, with orders worth Rs. 6,027 crore added over the last 21 months ending December 31, 2022. The outstanding order book stood at Rs. 11,209 crore as on December 31, 2022. Its OB/OI ratio remains healthy at 3.3 times of the OI in FY2022, providing medium-term revenue visibility. Timely commencement and execution of these orders are critical to sustain the revenue growth going forward.

Comfortable financial risk profile – JKIL recorded a healthy CAGR of 17.07% in its OI over the last five years ending FY2022, along with healthy operating profit margin ranging within 12.1%-15.7%, supported by ownership of machines, in-house project execution (minimal sub-contracting), geographical clustering of project, and centralised procurement of raw materials. The company's capital structure has remained comfortable, with total outside liabilities to tangible net worth (TOL/TNW) at 0.8 times as on September 30, 2022, driven by healthy margins aiding the net worth and limited dependence on external borrowings. The coverage indicators remain comfortable, with interest coverage at 6.1 times for 9M FY2023 and DSCR of 3.2 times in H1 FY2023. Despite its capital expenditure plans in FY2023 to the extent of ~Rs. 100 crore, ICRA expects the company's credit metrics to remain comfortable with interest cover likely to remain above 5.5 times going forward.

Extensive experience of promoters in civil construction industry – JKIL has an established track record of operations of over four decades, supported by an experienced management and demonstrated capabilities in executing relatively complex underground metro projects at geographically diverse locations. The company has a fleet of well-maintained specialised equipment in its portfolio and a strong technical team, which supports its project execution capabilities.

Credit challenges

Exposed to order book concentration risk – JKIL's current outstanding order book is concentrated towards metro, roads and flyover segment, which formed ~86% of the unexecuted order book as on December 31, 2022. The company's operations are spread across Maharashtra, Delhi, Gujarat and Uttar Pradesh. However, Maharashtra contributes to 68% of the unexecuted order book as on December 31, 2022, which exposes it to geographical concentration risk. While the geographical concentration of projects supports optimal resource deployment, its impact on the company's revenues could be severe if the region of operations gets impacted by unforeseen risks. It also faces high project and client concentration with the top three clients contributing 61% to the total unexecuted order book and the top 10 orders accounting for ~75% of the unexecuted order book as on December 31, 2022. However, JKIL's clients are key government authorities¹ and hence counterparty risks are mitigated to an extent.

Exposed to execution risk as major share of order book is in nascent stages of execution – The company is exposed to moderate execution risk, given that around 53% of the order book as on December 31, 2022 is in the nascent stages of execution (less than 25% executed). Of this, work was yet to commence for ~19% of the order book as on December 31, 2022, as majority of these contracts were recently awarded to the company. However, necessary approvals are in place and ICRA is given to understand that work has started for most of the projects in Q4 FY2023.

Heightened competition, input cost spike could exert pressure on profitability – There is intense competition in the domestic civil construction industry, which is fragmented in nature. The company has made sizeable investments towards machineries/assets for project execution resulting in relatively modest asset turnover (revenue/gross block). Garnering adequate number of projects and ensuring timely execution remain the key for the optimal use of resources and ultimately profitability. The competition has increased in the recent past because of the relaxation in the bidding criteria in few segments.

¹namely MCGM - Municipal Corporation of Greater Mumbai, GMRC - Gujarat Metro Rail Corporation Limited, DMRC - Delhi Metro Rail Corporation, MMRC - Mumbai Metro Rail Corporation Ltd, MMRDA - Mumbai Metropolitan Region Development Authority, NHAI - National Highways Authority of India, IRCON - Ircan International Limited, PMC - Pune Municipal Corporation

This, coupled with the increase in input cost, could exert pressure on JKIL’s profitability. The built-in price escalation clause in majority of the contracts protects the operating margin from raw material price fluctuation risk to some extent. JKIL’s working capital intensity remained relatively high with NWC/OI being 24.6% as on September 30, 2022. The company has funded a sizeable share of its working capital requirement through extended credit period and advance from customers. Any decline in either of these would have a bearing on its liquidity position. In the backdrop of sizeable growth over the next three fiscals, which will entail increase in working capital requirement, JKIL’s ability to judiciously manage its working capital cycle and maintain adequate liquidity remains important from the credit perspective.

Liquidity position: Adequate

The company has adequate liquidity, reflected by cushion of Rs. 253 crore available in the undrawn fund-based limits and unencumbered cash balance of Rs. 125.8 crore as on December 31, 2022. The average working capital utilisation over the last 12-month period ending in December 2022 remained moderate at 55% for fund-based and 72% for non-fund-based limits. The annual principal debt repayment is estimated at Rs. 19.8 crore in FY2024, which is expected to be comfortably serviced from the operating cash flows.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if the company demonstrates a sustained improvement in its scale of operations while improving its profitability, debt coverage metrics and liquidity profile.

Negative factors – Negative pressure on JKIL’s rating could arise if lower-than-anticipated billing or deterioration in operating profitability or elongation of working capital cycle or significantly high debt-funded capex impacts the company’s liquidity or the overall financial profile. A specific credit metric which could result in rating downgrade is interest cover of less than 5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction Entities Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

JKIL is a public limited company that constructs elevated and underground metro projects, roads, flyovers and bridges and civil construction activities for Municipal Corporation of Greater Mumbai, Gujarat Metro Rail Corporation Limited, Delhi Metro Rail Corporation, Mumbai Metro Rail Corporation Ltd and other government companies in India. It was converted into a public company in 2007 and listed on the Bombay Stock Exchange and National Stock Exchange in 2008. At present, the company has operations in Maharashtra, Delhi, Gujarat and Uttar Pradesh.

Key financial indicators (audited)

JKIL Standalone	FY2021	FY2022	9M FY2023*
Operating income	2,570.8	3,527.2	3,068.9
PAT	63.9	205.9	200.5
OPBDIT/OI	12.1%	14.3%	14.3%
PAT/OI	2.5%	5.8%	6.5%
Total outside liabilities/Tangible net worth (times)	0.9	0.9	-
Total debt/OPBDIT (times)	1.8	0.9	-
Interest coverage (times)	3.0	5.0	6.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore, *Provisional

Source: ICRA Research, Company

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Dec 31, 2022 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				May 08 2023	April 11, 2023			
1 Working Capital Facilities	Long Term	600.0	-	[ICRA]A+ (Stable)	-	-	-	-
2 Unallocated	Long Term	186.4	-	[ICRA]A+ (Stable)	-	-	-	-
3 Term Loan	Long Term	158.4	70.2	[ICRA]A+ (Stable)	-	-	-	-
4 Bank guarantee/Letter of Credit	Long Term	3355.2	-	[ICRA]A+ (Stable)	-	-	-	-
5 Commercial paper	Short term	100.0	-	[ICRA]A1	[ICRA]A1	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long Term-Fund Based-Working Capital Facilities	Simple
Long Term-Fund Based/Non-Fund Based-Unallocated	NA
Long Term-Fund Based-Term Loan	Simple
Long Term-Non-Fund Based-Bank guarantee/Letter of Credit	Very Simple
Commercial paper	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or

complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long Term-Fund Based-Working Capital Facilities	NA	NA	NA	600.0	[ICRA]A+ (Stable)
NA	Long Term-Fund Based/Non-Fund Based-Unallocated	NA	NA	NA	186.4	[ICRA]A+ (Stable)
NA	Long Term-Fund Based-Term Loan	FY2021	NA	FY2026	158.4	[ICRA]A+ (Stable)
NA	Long Term-Non-Fund Based-Bank guarantee/Letter of Credit	NA	NA	NA	3355.2	[ICRA]A+ (Stable)
Yet to be placed	Commercial paper	NA	NA	NA	100.0	[ICRA]A1

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Rajeshwar Burla

+91 40 4547 4829

rajeshwar.burla@icraindia.com

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Chintan Dilip Lakhani

+91 22 6169 3345

chintan.lakhani@icraindia.com

Rohit Agarwal

+91 22 6169 3329

rohit.agarwal@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar

+91 22 6114 3406

shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

ICRA Limited



Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001

Tel: +91 11 23357940-45



Branches



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.