

May 29, 2023

## GKC Projects Limited: Issuer rating reaffirmed while rating continues to remain under Issuer Not Cooperating category for bank facilities

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Issuer rating	0.00	0.00	[ICRA]B+ (Stable); reaffirmed
Working capital facilities	334.08	334.08	[ICRA]B+ (Stable) ISSUER NOT COOPERATING; rating continues to remain under ISSUER NOT COOPERATING
Term loans	546.57	546.57	
Bank guarantee	1116.83	1116.83	
Letter of credit	195.00	195.00	
Unallocated limits	7.52	7.52	
<b>Total</b>	<b>2200.00</b>	<b>2200.00</b>	

\*Instrument details are provided in Annexure I

### Rationale

The rating is constrained by the expected weak operating performance of GKC Projects Limited (GKC) and absence of adequate working capital facilities, which limits its ability to improve order execution. It has an order book of Rs. 334.4 crore as on March 31, 2023 resulting in limited medium-term revenue visibility. Therefore, the company's ability to improve its order book remains a key rating monitorable. Its order book is also exposed to high sector and project concentration risks.

ICRA notes that GKC is timely in debt servicing since April 2021, post the company's takeover by SMC Infrastructures Private Limited (SMC) as per the National Company Law Tribunal's (NCLT) order dated March 30, 2021. The resolution applicant (SMC) proposed a resolution amount of Rs. 428.3 crore for secured financial creditors, which includes: (i) upfront payment of Rs. 20 crore, (ii) issue of non-convertible debentures (NCDs) of Rs. 62 crore and (iii) bank guarantees (BGs) worth Rs. 346.3 being protected from invocation thereof by the respective beneficiaries of these BGs and to be returned within 48 months from the NCLT approval date. GKC has made an upfront payment of Rs. 20 crore as per the resolution plan and has repaid the entire NCDs to the secured financial creditors through fund infusion from the resolution applicant and realisation of old receivables. Further, out of Rs. 346.3-crore protected BGs, the company has got back BGs worth Rs. 272.3 crore as on March 31, 2023. The rating factors in GKC's established track record of over two decades in executing various projects under highways, irrigation and water supply segments. ICRA has considered GKC's established track record of over two decades in executing projects under highway, irrigation and water supply segments.

The Stable outlook reflects ICRA's opinion that GKC will benefit from its technical capabilities in execution of highway and water supply works.

### Key rating drivers and their description

#### Credit strengths

**Established track record in execution of highway, irrigation and water supply works** – The company has over two decades experience and successfully executed projects in highway, irrigation and water supply works.

#### Credit challenges

**Limited revenue visibility** – GKC has an order book of Rs. 334.4 crore (OB/OI of 1.2 times) as on March 31, 2023, thereby providing near-term revenue visibility. Although the company has not won any orders in the past five financial years, it

emerged as an L1 bidder for projects worth Rs. 297.0 crore in Q1FY2024. Its ability to secure and execute new orders remains a key rating monitorable in the near term.

**Delay in enhancement of working capital limits to constrain its operations** – The company does not have sanctioned working capital facilities from the lenders, which constrains its ability to execute projects in a timely manner. Also, a majority of the ongoing projects are sub-contracted due to lack of working capital limits. Given this, enhancement in working capital limits remains critical to support its growth prospects.

**Continued operating losses** – The company's project execution was hampered due to delays in securing necessary approvals. Further, GKC is reporting operating losses with sizeable cost escalations and limited pass-through of these escalations. With GKC expecting to derive large portion of FY2024 revenues from old orders, the extent of improvement in profitability margins remains to be seen despite approval of cost escalations for few projects.

**High order book concentration** – GKC's current order book is concentrated towards highways (constituting 70% of orders) and water supply segments, which accounted for 30% of its order book as on March 31, 2023. Further, the top three projects contributed to 80% of the outstanding order book, thereby exposing it to project concentration risk.

### Liquidity position: Stretched

GKC's liquidity position is stretched, in absence of any sanctioned working capital facilities and limited liquidity available with the company. Timely sanction of working capital limits remains important for securing new orders.

### Rating sensitivities

**Positive factors** – ICRA could upgrade the rating if the company demonstrates healthy growth in operating profitability and improvement in liquidity position, on a sustained basis, supported by order book addition and securing working capital limits.

**Negative factors** – Pressure on the rating could arise if the operating losses continue or elongation in the working capital cycle adversely impacts its liquidity position.

### Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Methodology for Construction entities</a> <a href="#">Policy in respect of non-cooperation by the rated entity</a>
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the rating, ICRA has consolidated the financials of the Bidar Solar Power Plant Pvt Ltd (BSPPL) with the standalone financials of GKC Projects Limited as the latter has provided a corporate guarantee to the loan of BSPPL

### About the company

GKC was originally set up as a proprietorship firm, Gokul Krishna Constructions, in 1996, in Hyderabad. The firm was reconstituted as a private limited company and renamed Gokul Krishna Constructions Pvt Ltd (GKCPL) in 2004, following an increase in its scale of operations and then reconstituted as a public limited company in 2008 as GKC Projects Limited. The company has ongoing projects in two verticals: highways and urban water supply. Based on NCLT's order dated March 30, 2021, GKC was acquired by SMC Infrastructure Pvt Ltd.

### Key financial indicators

	FY2022	FY2023*
Operating income	480.3	312.3
PAT	3.8	4.0
OPBDIT/OI	1.8%	-0.3%
PAT/OI	0.8%	1.3%
Total outside liabilities/Tangible net worth (times)	2.7	2.5
Total debt/OPBDIT (times)	14.4	- 87.5
Interest coverage (times)	0.7	-0.1

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

### Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
Infomercials	IVR D (ISSUER NOT COOPERATING)	December 12, 2022

Any other information: None

### Rating history for past three years

Instrument		Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Feb 28, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 29, 2023	April 7, 2022	-	March 26, 2021
1	Issuer rating	Long Term	0.00	-	[ICRA]B+ (Stable)	[ICRA]B+ (Stable)	-	-
2	Working capital facilities	Long Term	334.08	-	[ICRA]B+ (Stable) ISSUER NOTCOOPERATING	[ICRA]B+ (Stable) ISSUER NOTCOOPERATING	-	[ICRA] D; ISSUER NOT COOPERATING
3	Term loans	Long Term	546.57	-	[ICRA]B+ (Stable) ISSUER NOTCOOPERATING	[ICRA]B+ (Stable) ISSUER NOTCOOPERATING	-	[ICRA] D; ISSUER NOT COOPERATING
4	Bank guarantee	Long Term	1116.83	-	[ICRA]B+ (Stable) ISSUER NOTCOOPERATING	[ICRA]B+ (Stable) ISSUER NOTCOOPERATING	-	[ICRA] D; ISSUER NOT COOPERATING
5	Letter of credit	Long Term	195.00	-	[ICRA]B+ (Stable) ISSUER NOTCOOPERATING	[ICRA]B+ (Stable) ISSUER NOTCOOPERATING	-	[ICRA] D; ISSUER NOT COOPERATING
6	Unallocated limits	Long Term	7.52	-	[ICRA]B+ (Stable) ISSUER NOTCOOPERATING	[ICRA]B+ (Stable) ISSUER NOTCOOPERATING	-	[ICRA] D; ISSUER NOT COOPERATING

## Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	Not applicable
Working capital facilities	Simple
Term loans	Simple
Bank guarantee	Very Simple
Letter of credit	Very Simple
Unallocated limits	Not applicable

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	Issuer rating	*	-	*	0.00	[ICRA]B+ (Stable)
NA	Working capital facilities	-	-	-	334.08	[ICRA]B+ (Stable) ISSUER NOTCOOPERATING
NA	Term loans	-	-	-	546.57	[ICRA]B+ (Stable) ISSUER NOTCOOPERATING
NA	Bank guarantee	-	-	-	1116.83	[ICRA]B+ (Stable) ISSUER NOTCOOPERATING
NA	Letter of credit	-	-	-	195.00	[ICRA]B+ (Stable) ISSUER NOTCOOPERATING
NA	Unallocated limits	-	-	-	7.52	[ICRA]B+ (Stable) ISSUER NOTCOOPERATING

Source: Company

\* Not applicable

#### Annexure II: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Bidar Solar Power Plant Pvt. Ltd	100%	Full Consolidation

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### Branches



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