November 06, 2023

NKC Projects Private Limited: Ratings reaffirmed; Rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based Limits	125.0	200.0	[ICRA]A (Stable); reaffirmed and assigned for enhanced amount
Short term Non-Fund based – Bank Guarantee	700.0	-	-
Long term and Short term Non-Fund based – Bank Guarantee	-	700.0	[ICRA]A (Stable)/[ICRA]A2+; reaffirmed
Total	**825.0**	**900.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for NKC Projects Private Limited (NPPL) factors in the healthy execution ramp-up in FY2023, resulting in 16% YoY growth in revenues (following a 69% YoY growth in FY2022) and a comfortable order book of ~Rs. 4,445.9 crore as on June 30, 2023, which provides healthy medium-term revenue visibility. The ratings continue to favourably note the company's comfortable financial risk profile, as reflected in its healthy operating margins (12-13% over past 3 years), moderate leverage (TOL/TNW: 1.35 times as on March 31, 2023) and robust debt coverage indicators (interest coverage of 8.5 times and DSCR of 3.0 times as on March 31, 2023). Its revenues are expected to cross Rs. 2,000 crore in FY2024 (already booked Rs. 950 crore in H1 FY2024), while the leverage and debt coverage indicators are likely to remain comfortable in the medium term. The ratings derive strength from NPPL's execution track record, extensive experience of its promoters in the civil construction business and established relation with its key clientele – the National Highways Authority of India (NHAI, rated [ICRA]AAA(Stable)/A1+). Its order book comprises road construction works from the NHAI, which is a strong counterparty.

The ratings are, however, constrained by NPPL's sizeable exposure towards hybrid annuity mode (HAM) projects, execution risks in newly awarded projects and an order book which is entirely focused on road segment projects. The company has pending equity commitments of ~Rs. 262 crore towards its six HAM projects over FY2024-FY2026 including ~Rs. 121 crore towards the recently awarded NHAI HAM project for which the appointed date is awaited. It is exposed to execution risk, as four of the company's six HAM projects have their scheduled commercial operation dates (SCOD) in FY2024 and work is yet to commence in all three projects won in Q4 FY2023 (aggregating to ~46% of the outstanding order book as on June 30, 2023). NPPL's ability to start/complete these projects in a timely manner, along with timely realisation of payments remains a key monitorable. Given the healthy profitability expected in these projects, the cash flows generated from the core construction business is likely to be sufficient to meet these funding requirements. However, addition of multiple new HAM projects in the order book, leading to higher equity commitment, could have a bearing on the liquidity and remains a key rating sensitivity. NPPL is also exposed to the cyclicality inherent in the construction industry and intense competition in the tender-based contract award system, resulting in risk of volatility in order inflows, revenues and pressure on profit margins. The ratings consider the company's exposure to sizeable contingent liabilities in the form of bank guarantees (BGs), mainly for contractual performance, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past.

The Stable outlook on the long-term rating reflects ICRA's opinion that NPPL will be able to maintain its revenue growth on the back of its adequate order book position, favourable operational track record and healthy financial position.

Key rating drivers and their description

Credit strengths

Sizeable orders-in-hand provide adequate revenue visibility – NPPL has a healthy pending order book of ~Rs. 4,445.9 crore as on June 30, 2023, which translates into OB/OI of FY2023 of 2.4 times, providing healthy medium-term revenue visibility. The company has followed a cluster-based approach for taking projects (four packages in Raipur-Vishakhapatnam Economic Corridor and six packages in Amritsar Jamnagar Corridor), which will help in faster execution ramp-up and provides operational efficiencies.

Comfortable financial risk profile and healthy coverage metrics – NPPL's financial risk profile remained comfortable in FY2023, backed by 16% YoY growth in revenues, healthy operating margins (~13%) and moderate capital structure translating to healthy debt coverage metrics (interest coverage of 8.5 times and DSCR of 3.0 times as on March 31, 2023) at the standalone level. ICRA expects the company's credit metrics to remain healthy over the medium term, driven by low debt levels and stable operational performance.

Long experience and execution track record with strong clientele – NPPL has a team of qualified and technical personnel who have been associated with the company for around two decades. The experience of the company's promoter – Mr. Naresh Kumar – and team and its established track record of operations supports its operational risk profile. Further, the order book primarily comprises road construction projects from the NHAI, which is a strong counterparty.

Credit challenges

Sizeable equity commitments towards its HAM projects – For arriving at the ratings, ICRA has done limited consolidation of NPPL with the HAM project subsidiaries (HAM SPVs), factoring in the equity commitments and support towards meeting any cash flow mismatches. It has six HAM projects (five under-construction and one newly awarded) and has a total equity commitment of ~Rs. 531 crore. Of this, it infused ~Rs. 269 crore as on August 31, 2023, and the balance equity is likely to be infused over the next three years. Given the healthy profitability expected in these projects, the cash flows to be generated from its core construction business, along with available liquidity, are likely to be sufficient to meet the forthcoming funding commitments. Further, the debt for these projects has been tied up, which reduces the funding risk. However, any significant increase in equity commitments, due to the addition of new HAM projects, would remain a key monitorable.

Concentrated order book and execution risks – NPPL's ratings factor in its highly concentrated order book with only nine projects [six underway (constituting 54% of o/s order book as on June 30, 2023) and work is yet to begin in three projects]. The execution risks persist as four of the six HAM projects in the order book have SCOD in FY2024 and ~46% of the orders in hand are yet to start (awaited appointed date). The company's projects are prone to statutory delays by clients, viz. approvals, site availability, etc. However, if the deferment is not on the part of NPPL, such delays are not expected to materially impact its credit risk profile. The order book is moderately diversified in terms of geography, with active orders spread across four states (J&K, Andhra Pradesh, Haryana, and Odisha) and new orders won in Uttar Pradesh and Madhya Pradesh. Further, the order book comprises primarily road construction works from the NHAI only resulting in high segment concentration.

Sectoral risks including BG requirement – NPPL is exposed to the cyclicality inherent in the construction industry and intense competition in the tender-based contract award system, resulting in risk of volatility in order inflows and revenues. The ratings factor in the stiff competition in the road sector for both the engineering, procurement and construction (EPC) and HAM projects, which could exert pressure on its profitability. NPPL is exposed to sizeable contingent liabilities in the form of bank guarantees (o/s BGs of ~Rs. 414.9 crore as on June 30, 2023), mainly towards performance guarantee, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from the long presence and established relationship with its clients, healthy execution track record and no invocation of guarantees in the past.

Liquidity position: Adequate

NPPL's liquidity is expected to remain adequate, with healthy cash flows from operations, supported by a stable working capital cycle and cushion available in the form of unutilised working capital limits (FB: ~Rs. 79 crore and NFB: ~Rs. 285 crore as on June 30, 2023). The average utilisation of its fund-based limits during the 12-month period that ended in June 2023 was moderate at 54%. The company has repayment obligations of ~Rs. 70 crore, equity commitment of ~Rs. 260 crore and capex plans of ~Rs. 70-80 crore over the next 12-18 months. The estimated cash flows from operations, along with lines of credit available are likely to be sufficient for meeting these obligations. In addition, it enjoys flexibility through provision to avail mobilisation advances against BGs.

Rating sensitivities

Positive factors – The ratings could be upgraded if there is a significant increase in the company's scale of operations, along with improvement in its operating profitability and credit metrics. Specific metrics for a rating upgrade includes TOL/TNW below 1.1 times and interest coverage more than 7 times on a sustained basis.

Negative factors – Negative pressure on the ratings could arise if there are significant delays in project execution, leading to decline in its scale, operating profitability, or deterioration in its liquidity position. Further, larger-than-estimated investments in BOT or HAM projects by NPPL, or considerable time or cost overrun in its ongoing HAM project resulting in higher-than-envisaged support could also exert pressure on the ratings. The specific credit metrics that could lead to a rating downgrade include TOL/TNW above 1.4 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Methodology for Construction Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has done limited consolidation of HAM special purpose vehicles (SPVs) factoring in the equity commitments and support towards meeting any cash flow mismatches. Refer Annexure II.

About the company

NKC Projects Private Limited (NPPL) was incorporated on July 14, 2003 by the Late Dharmbir Singh and Mr. Naresh Kumar. It was initially constructed residential, commercial and industrial buildings, water treatment plants, concrete drain, roads and highways, expressways, bridges, culverts, storm water drains, etc, on EPC model of business. Currently, the company is focused on executing road projects primarily for the NHAI. It has also entered in developmental business and has taken up HAM projects from NHAI. At present, NPPL has six HAM projects in its order book, out of which five are under construction and one is awaiting its appointed date.

Key financial indicators (audited)

NPPL Standalone	FY2022	FY2023
Operating income (OI)	1,611.9	1,865.9
PAT	123.5	153.8
OPBDIT/OI	12.7%	12.9%
PAT/OI	7.7%	8.2%
Total outside liabilities/Tangible net worth (times)	1.5	1.4
Total debt/OPBDIT (times)	0.5	0.7
Interest coverage (times)	7.0	8.5

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

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 Jun 30, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021	
					Nov 06, 2023	Oct 25, 2023	Aug 18, 2022	Jan 17, 2022	Mar 31, 2021	Oct 30, 2020
1	**Fund-based limits – Cash credit**	Long term	200.0	46.3	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A (Stable)**	**[ICRA]A- (Stable)**	**[ICRA]A- (Stable)**	-
2	**Non-fund based limits – Bank guarantee**	Short term	0.0	--	-	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	**[ICRA]A2+**	-
3	**Issuer rating**	Long term	-	--	-	-	-	**[ICRA]A- (Stable); Rating withdrawn**	**[ICRA]A- (Stable)**	**[ICRA]BBB+ (Positive)**
4	**Non-fund based limits – Bank guarantee**	Long term and Short term	700.0	414.9	**[ICRA]A (Stable)/ [ICRA]A2+**					

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based facilities – Cash credit	Simple
Non-fund based facilities – Bank guarantee	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	Cash credit	NA	NA	NA	200.00	[ICRA]A (Stable)
NA	Bank guarantee	NA	NA	NA	700.00	[ICRA]A (Stable)/[ICRA]A2+

Source: Company

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

Annexure II: List of entities considered for consolidated analysis

Company Name	NPPL's Ownership	Consolidation Approach
NKC Alewa Pandwa Expressway Pvt Ltd	100.00%	Limited Consolidation
NKC DH Expressway Private Limited	100.00%	Limited Consolidation
NKC KK Expressway Private Limited	100.00%	Limited Consolidation
NKC JK Expressway Private Limited	100.00%	Limited Consolidation
NKC KS Expressway Private Limited	100.00%	Limited Consolidation
NKC Kashi Expressway Private Limited	100.00%	Limited Consolidation

Source: Company data, ICRA Research

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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.

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