

January 31, 2024

KCC Buildcon 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/ Cash credit	300.00	400.00	[ICRA]A (Stable); reaffirmed/assigned for enhancement
Short-term – Non-fund based/ Bank guarantee	1500.00	1800.00	[ICRA]A2+; reaffirmed/assigned for enhancement
Total	1800.00	2200.00	

*Instrument details are provided in Annexure-I

Rationale

ICRA has reaffirmed/assigned ratings of [ICRA] A (Stable) / [ICRA] A2+ to the bank facilities of KCC Buildcon Private Limited (KCC). ICRA has recently revised its outlook on the long-term rating to Stable vide its previous Rationale date January 12, 2024 ([Click Here](#) for previous Rationale).

The ratings continue to favourably factor in the healthy growth in its scale of operations, driven by ramp-up in the pace of execution of the outstanding order book under engineering, procurement and construction (EPC) and Hybrid-annuity mode (HAM) model. KCC has reported an operating income (OI) of Rs. 3,977 crore in FY2023 and achieved billings of ~Rs. 2,850 crore in 8M FY2024. Although the revenues are expected to grow by ~5-10% in FY2024, the revenues may witness decline in FY2025 due to low order addition in the current year. The order book decreased to Rs. 5,643 crore as on September 30, 2023 (OB/OI of ~1.5 times) from Rs. 7,388 crore as on September 30, 2022 (OB/OI of ~2.9 times). The company's ability to sustain its scale of operations and profitability and improve its order-book remains a key monitorable. The order book is diversified across India with presence in 15 states and the outstanding order book position includes primarily road projects from the National Highways Authority of India [NHAI, rated [ICRA]AAA(Stable)] under EPC and HAM model, resulting in low counterparty credit risk. This apart, the ratings derive strength from KCC's execution track record and extensive experience of its promoters in the construction sector.

The ratings are, however, constrained by the execution risk associated with construction contracts, as ~50% of the orders are in the early stages of execution (less than 20% progress), along with its exposure to HAM projects, which will require investments from KCC. This apart, sizeable debt repayments and the elongated working capital cycle are expected to exert pressure on the liquidity. However, the additional debt raised, along with recent enhancement in the working capital limits will provide some cushion. The ratings note the stiff competition in the construction sector, which could put pressure on the new order inflows and the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and retention money. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past.

KCC has undertaken multiple build-operate-transfer (BOT) road projects, which are housed under various special purpose vehicles (SPVs). It has two BOT-annuity road projects and seven HAM-based road projects. Three of these projects [two BOT annuity projects from Madhya Pradesh Road Development Corporation Limited (MPRDC) and one HAM project from the Ministry of Road Transport and Highways (MoRTH)] are operational, while the remaining six HAM projects are under implementation, awarded by NHAI. KCC has extended corporate guarantee (CG) for the full debt tenure for the two BOT annuity projects (debt outstanding of Rs. 80.65 crore, as on November 30, 2023) and two under-implementation HAM projects until receipt of one/two semi-annuities, which are expected to fall off in FY2025 itself. ICRA has fully consolidated the two operational annuity project SPVs (for which CG has been extended for full tenure) and has done limited consolidation for the remaining SPVs. The total balance equity requirements in the six HAM projects is Rs. 186.9 crore (Rs. 96.9 crore in remainder

of FY2024 and the balance Rs. 90.0 crore in FY2025), which are likely to be met partially through internal cash accruals of company generated from business operations and partially through Rs. 200 crore loan availed in November 2023. ICRA had earlier expected the first tranche of monetisation proceeds to be realised in FY2024 from the sale of three (out of five) HAM SPVs to Cube Highways and Infrastructure V Pte. Ltd (Cube Highways), which is now deferred to Q1 FY2025. Timely realisation of proceeds from asset monetisation remains crucial from liquidity perspective and remains a key rating monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that KCC's favourable operational track record in the road construction segment and its comfortable coverage metrics will support its credit profile over the medium term.

Key rating drivers and their description

Credit strengths

Healthy scale of operations – KCC's consolidated revenues increased by 52% to Rs. 3,977.3 crore in FY2023 from Rs. 2,621.1 crore in FY2022, driven by the healthy pace of execution. Further, it achieved billings of ~Rs. 2,850 crore in 8M FY2024. Although the revenues are expected to grow by ~5-10% in FY2024, ICRA expects the revenues to decrease in FY2025 due to low order addition in the current year. The order book declined to Rs. 5,643 crore as on September 30, 2023 (OB/OI of ~1.5 times) from Rs. 7,388 crore as on September 30, 2022 (OB/OI of ~2.9 times).

Geographically diversified operations and reputed client profile – The order book is diversified across India with presence in 15 states. The top three states contribute to around 56% of pending order book, reflecting moderate geopolitical concentration. Of this, Haryana comprises 26% of the total pending order book, followed by 17% from Kerala, 12% from Andhra Pradesh. The outstanding order book position includes primarily road projects from the NHAI under EPC and HAM model, resulting in low counterparty credit risk.

Comfortable coverage metrics – KCC's coverage metrics was comfortable with interest coverage of 5.0 times in FY2023. Nevertheless, the same is estimated to moderate in FY2024 owing to increased interest expenses. ICRA notes that the leverage (TOL/TNW) was high at 1.7 times as on March 31, 2023, though the same is likely to reduce substantially with realisation of proceeds from monetisation of HAM projects, expected to start from March-April 2024 for at least two HAM projects **which have scheduled COD in Q4 FY2024. Moreover, for other three HAM assets, the monetization proceeds will be realized in FY2025.** KCC has signed a definitive agreement with Cube Highways for divestment of its equity stake in five under-construction HAM SPVs. As a part of the deal, 74.5% would be realised on achieving COD and the remaining 25.5% are to be realised post six months from COD, subject to approvals from the NHAI and respective lenders.

Credit challenges

Moderate order book position providing limited revenue visibility; concentrated order book in terms of clients, segments, and projects – KCC's outstanding order book position declined to Rs. 5,643 crore as on September 30, 2023 from Rs. 7,388 crore as of September 2022, and is ~1.5 times of its OI in FY2023 providing limited revenue visibility. The order book position has contracted in the last 12 months due to low addition of new orders. Majority of its order book comprises mainly road construction orders from the NHAI, and accounts for 65% of the order book. Around 90% of the outstanding order book is concentrated towards the road sector. It remains exposed to execution risk as around 50% of the contracts are in the nascent stages (with less than 20% execution). All these new orders were received in the past 6-12 months period.

Working capital intensive operations; sizeable equity commitment towards HAM projects to constrain liquidity position – The working capital intensity has increased in FY2023 owing to rise in debtor days. Further, delay in asset monetisation, reduction in mobilisation advances and equity investments in HAM projects constrained the liquidity position with average fund-based utilisation at 88% during the past nine months period that ended in November 2023. With six under-construction HAM projects, the company is exposed to the project implementation risks including sizeable equity commitment required over the next two years. The total equity requirement towards these six HAM projects is estimated at around Rs. 700 crore to be infused by FY2025, of which Rs. 512.5 crore (~73%) has been infused by KCC till November 30, 2023. The remaining Rs.186.9

crore shall be infused, as per the requirement of the respective project (Rs. 96.9 crore in remainder of FY2024 and balance Rs. 90.0 crore in FY2025). The company plans to infuse the remaining equity from the fresh term loan availed, cash flow from operations and expected monetisation proceeds from the sale of five HAM projects to Cube Highways.

Stiff competition in construction industry and sizeable non-fund-based exposure – KCC is exposed to the inherent cyclicality in the construction industry and intense competition in the tender-based contract award system, resulting in volatility in new order inflows, revenues and pressure on margins, as reflected in the contraction of the order book over the last 12 months. KCC has sizeable contingent liabilities in the form of bank guarantees (~Rs. 1,118 crore as on May 31, 2023), mainly towards performance guarantee, mobilisation advance and retention money. Nonetheless, ICRA draws comfort from its execution track record and absence of any bank guarantee invocations in the past.

Liquidity position: Adequate

KCC reported Rs. 51.6 crore of unencumbered fixed deposits and cash balances, along with cushion of ~Rs. 190 crore in fund-based limits as on November 30, 2023. It has equity commitments of ~Rs. 96.9 crore and ~Rs. 90 crore of towards the six ongoing under-construction HAM projects in FY2024 and FY2025, respectively. Further, it has debt repayments of around Rs. 131 crore in FY2024 and ~Rs. 200-220 crore in FY2025. This is likely to be supported by healthy cash flow from operations, fresh term loan availed and expected monetisation proceeds from the sale of five HAM projects to Cube Highways.

Rating sensitivities

Positive factors – The ratings could be upgraded upon realisation of sale proceeds from asset monetisation leading to significant reduction in leverage and improved liquidity position. Further, sustaining the scale of operations with a healthy order book position and operating margins resulting in improvement in debt coverage metrics may trigger a rating upgrade. Specific credit metrics that could lead to a rating upgrade includes consolidated TOL/TNW below 1.20 times on a sustained basis.

Negative factors – Significant delays in realisation of sale proceeds from asset monetisation adversely affecting liquidity position would put pressure on the ratings. Any further increase in indebtedness to fund the equity commitments for the BOT/HAM projects, or higher-than-expected funding commitment towards BOT/HAM projects, or any considerable debt-funded capital expenditure, or a substantial rise in working capital intensity resulting in deterioration in its coverage metrics, could also put pressure on the ratings. Specific credit metrics that could lead to a rating downgrade includes DSCR below 1.80 times on a consistent basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has consolidated financials of KCC with its subsidiaries (Refer Annexure II). ICRA has fully consolidated the SPVs where KCC has extended corporate guarantee for the full tenure of the debt. For other SPVs, ICRA has undertaken limited consolidation factoring in the expected funding requirements (equity/ cost over-run support/ operational shortfall).

About the company

KCC Buildcon Private Limited (KCC) originally started its business as a partnership firm named Kundu Construction Company in 1999. In 2009, Kundu Construction Company was converted into a private limited company as KCC Buildcon Private Limited. From April 1, 2010, KCC took over the running business of Kundu Construction Company. KCC has a track record of over two

decades in the execution of road/highway projects, bridges and other civil construction works at various locations across India. At present, the company is executing projects across 15 different states in India with majority contribution from Haryana, Kerala, Andhra Pradesh, Uttar Pradesh and Assam. KCC was formed by Mr. Balraj Kundu and is currently managed by his brothers Mr. Shivraj Kundu and Mr. Vijay Kundu, who have more than two decades of experience. It is fully owned by its promoters, their family members and group concerns.

Key financial indicators (audited)

Consolidated	FY2022	FY2023
Operating income	2,621.1	3977.3
PAT	166.1	251.4
OPBDIT/OI	13.3%	12.0%
PAT/OI	6.3%	6.3%
Total outside liabilities/Tangible net worth (times)	1.7	1.7
Total debt/OPBDIT (times)	1.3	1.2
Interest coverage (times)	4.4	5.0

Source: ICRA Research, Company; 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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
				Jan 31, 2024	Jan 12, 2024	Jan 06, 2023	Dec 15, 2021	-
1 Fund-based – CC	Long term	400.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A(Positive)	[ICRA]A (Stable)	-
2 Non-fund based – BG	Short term	1800.00	-	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	[ICRA]A2+	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund based – Cash credit	Simple
Short-term – Non-fund based – 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	Fund-based – Cash credit	NA	NA	NA	400.00	[ICRA]A(Stable)
NA	Non-fund based – Bank guarantee	NA	NA	NA	1800.00	[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	KCC Ownership	Consolidation Approach
KCC Roads Construction Private Limited	100%	Full Consolidation
KCC Lateri Expressway Private Limited	100%	Full Consolidation
KCC Talgaon Kalmath Highways Private Limited	100%	Limited Consolidation
KCC Dhangaon Boregaon Expressway Pvt Ltd	100%	Limited Consolidation
KCC Chittoor Highways Private Limited	100%	Limited Consolidation
KCC Dak Package I Expressway Private Limited	100%	Limited Consolidation
KCC Walajahpet Expressway Private Limited	100%	Limited Consolidation
KCC Katra Expressway Private Limited	100%	Limited Consolidation
KCC Bethamangala Expressway Private Limited	100%	Limited Consolidation

Source: KCC; ICRA Research

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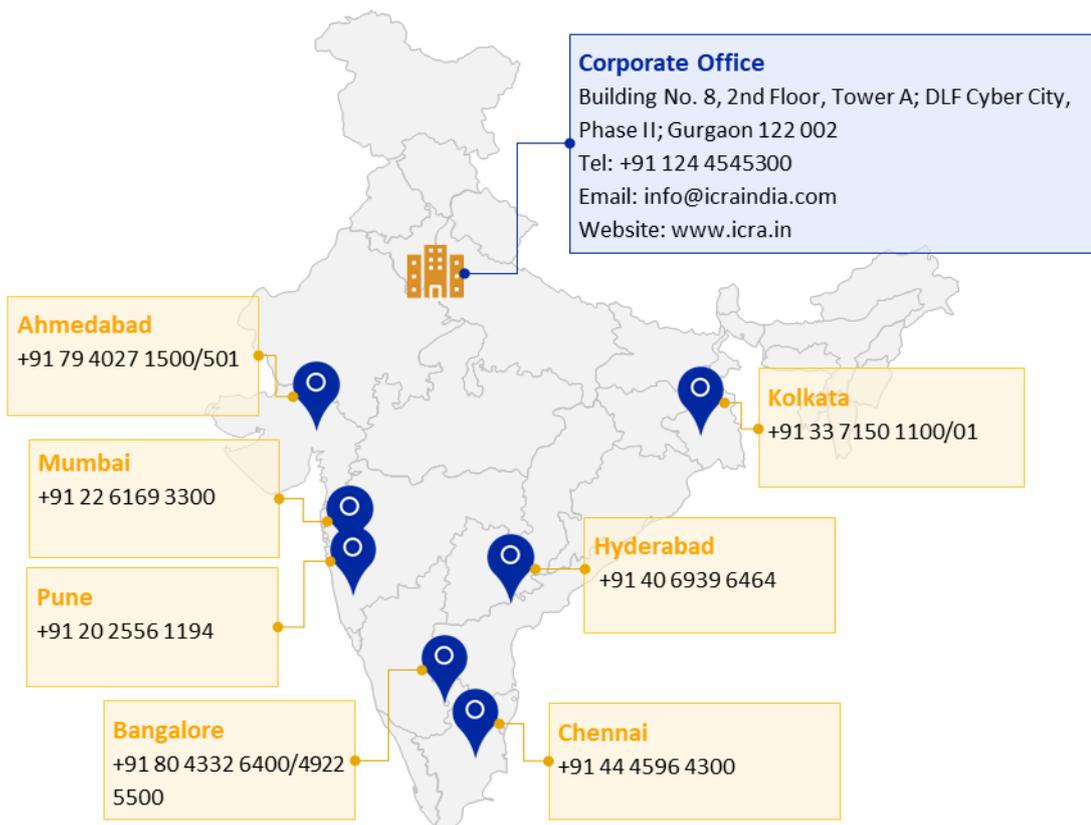
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