October 24, 2024

KCC Buildcon Private Limited: Ratings reaffirmed; outlook revised to Negative

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ Cash credit	400.00	400.00	[ICRA]A; reaffirmed; Outlook revised to Negative from Stable
Short-term – Non-fund based/ Bank guarantee	1800.00	1800.00	[ICRA]A2+; reaffirmed
Total	**2200.00**	**2200.00**	

**Instrument details are provided in Annexure-I*

Rationale

The revision in outlook to Negative on the long-term rating of KCC Buildcon Private Limited (KCC) reflects the likely moderation in its credit risk profile due to the expectation of lower operating profitability margins and moderation in debt coverage metrics in FY2025. KCC's operating margins declined to ~5.4% in FY2024 from 12.1% in FY2023 owing to cost escalations, coupled with fixed-price nature of the engineering, procurement and construction (EPC) agreements with hybrid annuity model (HAM) special purpose vehicles (SPVs). Consequently, the interest coverage ratio reduced to 2.2 times in FY2024 from 5.0 times in FY2023. The operating margins are expected to remain lower than the historic levels in FY2025 and the extent of recovery going forward will remain a key rating monitorable. Further, there are delays in realisation of proceeds from asset monetisation, which resulted in higher-than-expected leverage levels and moderation in debt coverage metrics, in contrast with the earlier expectation of substantial deleveraging post cash inflow from stake sale in HAM SPVs. The limit utilisation is also high at around 88% in the past 6 months till September 2024, owing to higher inventory levels post withdrawal of Atma Nirbhar Bharat Scheme after March 2024. Nevertheless, the liquidity position is likely to be supported by upstreaming of top-up debt availed at four operational HAM SPVs aggregating to ~Rs. 595 crore, which is expected to be received in Q3 FY2025. Timely upstreaming of proceeds from debt top-up remains a key rating monitorable. 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.

The ratings, however, factor in the large scale of operations with KCC's consolidated revenues increasing by ~19% to Rs. 4,742.7 crore in FY2024 from Rs. 3,984.3 crore in FY2023, driven by the healthy execution. Nevertheless, the revenues are projected to decline to ~Rs. 2,500-2,600 crore in FY2025 and FY2026 due to low order book, while the scale of operations are expected to remain adequate. The order book reduced to ~Rs. 4,400 crore as on July 31, 2024 (OB/OI of ~0.9 times) from ~Rs. 5,600 crore as on September 30, 2023 (OB/OI of ~1.5 times), on account of low order addition and healthy execution. KCC's order book is diversified across India with presence in 12 states and the order book primarily includes 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. KCC has undertaken multiple build-operate-transfer (BOT) road projects, which are housed under SPVs. It has two BOT-annuity road projects and seven HAM-based road projects. Seven of these projects [two BOT annuity projects from MPRDC and five HAM project from the Ministry of Road Transport and Highways (MoRTH)/ NHAI] are operational, while the remaining two HAM projects are under implementation, awarded by NHAI. The company has received PCOD for four HAM projects over the past 6 months period, which has resulted in sizeable reduction of execution risk. This apart, the ratings derive strength from KCC's execution track record and extensive experience of its promoters in the construction sector.

KCC has extended corporate guarantee (CG) for the full debt tenure for the two BOT-annuity projects (debt outstanding of Rs. 66.4 crore, as on March 31, 2024) and two of the HAM projects until receipt of one/two semi-annuities. 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. As on September 30, 2024, the total pending equity requirements in the two under-construction HAM projects is Rs. 46.5 crore in FY2025, and ~Rs. 60 crore over the next two financial years towards another HAM project where LOA is yet to be received. These equity commitments are expected to be met through cash flow from operations and available cash and bank balances.

Key rating drivers and their description

Credit strengths

Adequate scale of operations – KCC's consolidated revenues increased by ~19% to Rs. 4,742.7 crore in FY2024 from Rs. 3,984.3 crore in FY2023, driven by the healthy execution. However, the revenues are expected to decline to ~Rs. 2,500-2,600 crore in FY2025 and FY2026 due to low order addition in the last 12 months. The order book reduced to ~Rs. 4,400 crore as on July 31, 2024 (OB/OI of ~0.9 times) from ~Rs. 5,600 crore as on September 30, 2023 (OB/OI of ~1.5times) owing to low order addition and healthy execution. Given this, timely receipt of new orders and ramp-up in billing in these orders would remain critical to sustain the scale of operations.

Low residual execution risk with majority of HAM projects receiving PCOD – KCC has undertaken multiple build-operate-transfer (BOT) road projects, which are housed under SPVs. It has two BOT-annuity road projects and seven HAM-based road projects. Seven of these projects [two BOT annuity projects from MPRDC and five HAM project from the Ministry of Road Transport and Highways (MoRTH)/ NHAI] are operational, while the remaining two HAM projects are under implementation, awarded by NHAI. The company has achieved PCOD for four of the HAM projects over the past 6 months period, which has resulted in sizeable reduction of execution risk. It has infused the requisite equity for HAM projects and the balance commitment of Rs. 46.5 crore in H2 FY2025 can be comfortably met from its cash flows and available cash balances.

Geographically diversified operations and reputed client profile – KCC's order book is diversified across India with presence in 12 states. The top three states contribute to around 63% of pending order book, reflecting moderate geo-political concentration. Of this, Uttar Pradesh comprises 34% of the total pending order book, followed by 19% from Kerala, 9% from Assam. The order book primarily includes road projects from the NHAI under EPC and HAM model, resulting in low counterparty credit risk.

Credit challenges

Moderation in coverage metrics due to decline in profitability levels – KCC's operating margins declined to ~5.4% in FY2024 from 12.1% in FY2023 owing to cost escalations, coupled with fixed-price nature of the EPC agreement with HAM SPVs. Consequently, the interest coverage ratio has reduced to 2.2 times in FY2024 from 5.0 times in FY2023. With completion of the fixed-price HAM EPC works and billing of pending cost escalations in FY2025, the profitability is expected to improve in the near term from FY2024 levels, though is likely to remain much lower than the historical levels. The extent of recovery in margins hence will remain a key rating monitorable. The leverage as reflected by TOL/TNW remains high at 1.65 times as on March 31, 2024 against ICRA's expectation of reduction. However, the same is likely to reduce substantially with receipt of top-up debt proceeds from SPVs.

Cost escalations constrained liquidity position; expected to improve with receipt of top-up debt from HAM SPVs – Despite decline in working capital intensity to 8% in FY2024, the utilisation of working capital limits remained high at around 88% over the past 6 months owing to higher inventory levels post withdrawal of Atma Nirbhar Bharat Scheme after March 2024 and revert to milestone-based billing from the earlier monthly billing. Nevertheless, the limit utilisation is likely to reduce with expected cash inflows from SPVs. The recently operational HAM SPVs have availed top-up debt to fund the cost escalations and is likely to be used for retiring the unsecured loans infused by KCC and thereby supporting its liquidity profile in the near term. ICRA notes that four of the HAM SPVs have sanctions in place for aggregate top-up debt of ~Rs. 595 crore, of which Rs. 100 crore has been availed as on September 30, 2024. The SPVs are likely to raise a total of Rs. 850-900 crore of top-up debt and the timelines of cash inflows to KCC would remain a key rating monitorable in the near term.

Moderate order book position providing limited revenue visibility; concentrated in terms of clients, segments, and projects – KCC's order book position declined from Rs. 5,643 crore as on September 30, 2023 to Rs. 4,432 crore as on July 31, 2024, and is ~0.9 times of its OI in FY2024 providing limited revenue visibility. The order book position has contracted over the last 18 months due to low order addition. Majority of its order book comprises mainly road construction orders from the NHAI and MORTH, which accounts for 79% 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). Majority of these orders are received in the past 6-12 months period and are expected to commence execution in the near term.

Liquidity position: Adequate

KCC's liquidity position is adequate with Rs. 56.8 crore of unencumbered fixed deposits and cash balances, as on September 30, 2024. It has equity commitments of ~Rs. 46.5 crore towards two ongoing under-construction HAM projects in H2 FY2025, debt repayments of around Rs. 140 crore in FY2025 and is likely to be supported by healthy cash flow from operations and expected proceeds of top-up debt availed under HAM SPVs.

Rating sensitivities

Positive factors – The rating outlook could be revised to Stable if the company is able to improve its earnings, order book position, along with significant reduction in leverage resulting in improvement in credit metrics and liquidity position.

Negative factors – Pressure on the ratings could arise if material decline in order book position leads to sizeable reduction in scale of operations or inability to improve the profitability margins results in weakened debt coverage metrics. Further, delay in receipt of planned proceeds from top-ups availed in various HAM SPVs/monetisation of assets or material increase in funding commitment towards BOT/HAM projects, or a substantial rise in working capital intensity resulting in deterioration in its coverage metrics and liquidity position, could also put pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction
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. KCC was founded 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.

Key financial indicators (audited)

Consolidated	FY2023	FY2024
Operating income	3984.3	4742.4
PAT	251.4	70.3
OPBDIT/OI	12.1%	5.4%
PAT/OI	6.3%	1.5%
Total outside liabilities/Tangible net worth (times)	1.7	1.7
Total debt/OPBDIT (times)	1.2	3.1
Interest coverage (times)	5.0	2.2

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2025)					Chronology of rating history for the past 3 years	
		Type	Amount rated (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024		Date & rating in FY2023	Date & rating in FY2022
				Oct 24, 2024	Jan 31, 2024	Jan 12, 2024	Jan 06, 2023	Dec 15, 2021
1	**Fund-based – CC**	Long term	400.00	**[ICRA]A (Negative)**	**[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+**	**[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(Negative)
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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About ICRA Limited:

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