

February 07, 2025

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 – Cash credit	200.00	200.00	[ICRA]A (Stable); reaffirmed
Long-term – Fund-based – Term loan	45.00	45.00	[ICRA]A (Stable); reaffirmed
Long-term/ Short-term – Non-fund based – Bank guarantee	700.00	900.00	[ICRA]A (Stable)/ [ICRA]A2+; reaffirmed and assigned for enhanced amount
Total	945.00	1,145.00	

*Instrument details are provided in Annexure-I

Rationale

The ratings reaffirmation for NKC Projects Private Limited (NPPL) favourably factors in its comfortable financial profile, with moderate leverage (total outside liabilities to tangible net worth (TOL/TNW) of 1.3 times) and comfortable coverage metrics (interest cover of 6.3 times as of March 31, 2024), which are expected to sustain over the medium term. The ratings consider the extensive experience of the promoters in the construction business and the company's established track record in executing road construction projects for its key client, the National Highways Authority of India (NHAI, rated [ICRA]AAA(Stable)/A1+).

NPPL sustained its operating income (OI) at ~Rs. 1,910 crore in FY2024 (+2% YoY) with an operating profit margin at 12.5% (12.9% in FY2023). However, its order book (OB) declined to Rs. 2,459.6 crore as on December 31, 2024 (order book to OI of 1.3 times based on OI of FY2024) due to muted order inflows in FY2024 and 9M FY2025, which limits medium-term revenue visibility to an extent. The company's ability to successfully build-up its OB, to sustain its scale of operations and profitability, will be a key near-term monitorable. The TOL/TNW stood at 1.3 times as on March 31, 2024, and is expected to improve gradually with healthy accretion to reserves. Following the expiry of relief measures offered under the Atmanirbhar Bharat scheme and reinstatement of milestone-based billing, the company's working capital intensity (NWC/OI) increased in FY2024 (24% against 13% in FY2023). The same is likely to remain range-bound in FY2025, following which gradual improvement is expected.

The ratings are, however, constrained by the company's concentrated OB with top five projects accounting for ~93%, and execution risks, given that ~49% of orders are in the early stages of execution (with less than 20% progress as on December 31, 2024). However, ICRA draws comfort from NPPL's track record in the construction business and successful completion of projects within the time and budget. ICRA has factored in the company's exposure to six HAM projects from the NHAI, which are under various stages of development under separate special purpose vehicles (SPVs) and remain exposed to project implementation risks (as on December 31, 2024, three SPVs had achieved PCOD¹ and other three remained under construction). NPPL has pending equity commitments of ~Rs. 85 crore in these projects (out of ~Rs. 529 crore) and the same is planned to be met from its available liquidity and cash flow from operations over FY2025-FY2026. Over the medium term, the company plans to take up more BOT/HAM projects. Given the increasing scale of operations and equity commitments such projects entail, NPPL's ability to judiciously manage its working capital cycle and maintain its execution ramp-up, with an adequate liquidity position remains important from the credit perspective. NPPL is also exposed to the cyclicity inherent in

¹ Provisional commercial operations date

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 advances 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 credit profile over the medium term, driven by its strong execution capabilities, coupled with the expectations that its incremental capex and/or investments will be funded in a manner that it is able to durably maintain its debt protection metrics and liquidity profile.

Key rating drivers and their description

Credit strengths

Long experience and execution track record – NPPL has a team of qualified and technical personnel who have been associated with the company for around two decades. The experience of its promoter – Mr. Naresh Kumar – and team and its established track record of operations supports the operational risk profile. NPPL has seen repeat (and increasing) business from its clients, which reflects its strong execution capabilities.

Healthy coverage metrics and moderate leverage – NPPL's financial risk profile remained comfortable in FY2024, with healthy scale of operations (OI of ~Rs. 1,910 crore; +2% YoY) and operating margins (12.5%), along with a moderate capital structure translating into healthy debt coverage metrics (interest coverage of 6.3 times and DSCR of 2.9 times as on March 31, 2024) at the standalone level. Further, NPPL achieved revenue of ~Rs. 1,235 crore in 9M FY2025. ICRA expects the company's coverage metrics to moderate marginally, albeit remain comfortable over the medium term. The TOL/TNW, which stood at 1.3 times as of March 31, 2024, is expected to improve gradually with healthy accretion to reserves.

Reputed clientele mitigates counterparty risks – NPPL's customer and segment diversification remains low, with primary operations in the road segment with works awarded by the NHAI (rated [ICRA]AAA (Stable)). However, the concentration risks are mitigated with the presence of a strong counterparty and its robust credit profile. The entire NPPL's outstanding OB (consisting of nine projects) is from the NHAI under engineering, procurement and construction (EPC) and HAM models.

Credit challenges

Moderate OB position limiting revenue visibility; concentrated OB and execution risks – NPPL's OB moderated to Rs. 2,459.6 crore as on December 31, 2024 (order book-to-OI of 1.3 times based on OI of FY2024) from Rs. 2,828.5 crore as on August 31, 2024 due to muted order inflow. This limits the company's medium-term revenue visibility. Further, NPPL's ratings factor in its highly concentrated OB, with top five projects accounting for ~93% of the pending OB as on August 31, 2024. The execution risks persist as five of the six HAM projects in the order book have scheduled commercial operations date (COD) in FY2025-FY2026 and ~49% of the orders in hand had execution of less than 20% as on December 31, 2024.

Pending equity commitments towards its HAM projects – ICRA has undertaken limited consolidation of NPPL with its HAM project subsidiaries (HAM SPVs), factoring in the equity commitments and support towards meeting any cash flow mismatches. At present, it has six HAM projects (three achieved PCOD and other three under construction) requiring total equity of ~Rs. 529 crore. Of the same, NPPL infused ~Rs. 443 crore as on January 15, 2025, and the balance is likely to be infused over the next 18 months. Given the healthy profitability expected in these projects, the cash flows generated from its core construction business, along with available liquidity and up-streaming of funds through debt top-ups, coupled with possible monetisation avenues available in the operational projects, are likely to be sufficient to meet the forthcoming funding commitments. Nonetheless, any significant addition of new BOT projects in the OB, resulting in disproportionate equity commitments, could have a bearing on the liquidity. Hence, timely divestment of stake in completed BOT projects remains important.

Sectoral risks including BG requirement – NPPL is exposed to the cyclicity 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 stiff

competition in the road sector for both the EPC and HAM projects could exert pressure on the company’s profitability. NPPL is exposed to sizeable contingent liabilities in the form of bank guarantees (outstanding BGs of ~Rs. 485 crore as on January 15, 2025), mainly towards performance guarantee, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from the long presence and established relationships 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 cushion available in the form of unutilised working capital limits (FB: ~Rs. 51 crore and NFB: ~Rs. 215 crore as on January 15, 2025). The company has repayment obligations of ~Rs. 75-90 crore, pending equity commitment of ~Rs. 32 crore and planned capex of ~Rs. 35-40 crore in FY2026P. The estimated cash flows from operations, along with lines of credit available are likely to be sufficient to meet these obligations. In addition, it enjoys flexibility through provision to avail mobilisation advances against BGs and has the option of upstreaming unsecured loans extended to the completed HAM assets (by availing top-up debt at SPV level).

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 – Pressure on the ratings could arise if there is a sustained pressure on earnings, coverage metrics or scale of operations on account of weak order addition or significant delays in project execution. Further, delay in receipt of planned proceeds from top-ups to be 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 put pressure on the ratings. A specific credit metric that could lead to a rating downgrade is TOL/TNW above 1.4 times, on a sustained basis.

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 applied 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 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. At present, the company is focused towards executing road projects primarily for the National Highways Authority of India (NHAI). It has also entered into developmental projects in the road sector and has taken up hybrid annuity mode (HAM) projects from the NHAI. Currently, NPPL has six HAM projects in its order book, out of which three have achieved COD/ PCOD and the balance three are under construction.

Key financial indicators

NPPL Standalone	FY2023	FY2024
Operating income (OI) (Rs. crore)	1,865.9	1,910.3
PAT (Rs. crore)	153.8	146.0
OPBDIT/OI (%)	12.9%	12.5%
PAT/OI (%)	8.2%	7.6%
Total outside liabilities/Tangible net worth (times)	1.4	1.3
Total debt/OPBDIT (times)	0.7	1.1
Interest coverage (times)	8.5	6.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortization

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Amount rated (Rs. crore)	Current (FY2025)		Chronology of rating history for the past 3 years						
			FY2025		FY2024		FY2023		FY2022		
			Feb 07, 2025	Date	Rating	Date	Rating	Date	Rating	Date	Rating
Fund-based – Cash credit	Long-term	200.00	[ICRA]A (Stable)	Nov-08-24	[ICRA]A (Stable)	Dec-07-23	[ICRA]A (Stable)	Aug-18-22	[ICRA]A (Stable)	Jan-17-22	[ICRA]A- (Stable)
			-	-	-	Nov-06-23	[ICRA]A (Stable)	-	-	-	-
			-	-	-	Oct-25-23	[ICRA]A (Stable)	-	-	-	-
Term loan	Long-term	45.00	[ICRA]A (Stable)	Nov-08-24	[ICRA]A (Stable)	Dec-07-23	[ICRA]A (Stable)	-	-	-	-
Non-fund based – Bank guarantee	Short-term	-	-	-	-	Oct-25-23	[ICRA]A2+	Aug-18-22	[ICRA]A2+	Jan-17-22	[ICRA]A2+
Issuer rating	Long-term	-	-	-	-	-	-	-	-	Jan-17-22	[ICRA]A- (Stable); Rating withdrawn
Non-fund based – Bank guarantee	Long-term/Short-term	900.00	[ICRA]A (Stable)/[ICRA]A2+	Nov-08-24	[ICRA]A (Stable)/[ICRA]A2+	Dec-07-23	[ICRA]A (Stable)/[ICRA]A2+	-	-	-	-
			-	-	-	Nov-06-23	[ICRA]A (Stable)/[ICRA]A2+	-	-	-	-

Complexity level of the rated instrument

Instrument	Complexity indicator
Long-term – Fund-based facilities – Cash credit	Simple
Long-term – Fund-based – Term loan	Simple

Long-term/ Short-term – 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	Term loan	FY2023	NA	FY2027	45.00	[ICRA]A(Stable)
NA	Bank guarantee	NA	NA	NA	900.00	[ICRA]A(Stable)/[ICRA]A2+

Source: Company; ICRA Research

[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 Private Limited	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 Highways Private Limited	100.00%	Limited Consolidation

Source: Company data, ICRA Research

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