April 29, 2025

KCC Buildcon Private Limited: Long-term rating downgraded to [ICRA]A- (Negative); short-term rating reaffirmed

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- (Negative); downgraded from [ICRA]A (Negative)
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 rating downgrade for KCC Buildcon Private Limited (KCC) reflects the moderation in coverage metrics due to sustained pressure on its earnings on the back of a decline in scale and subdued operating margins, and consequent impact on debt coverage metrics in FY2025. Moreover, in contrast with the expectation of substantial deleveraging post cash inflow from top-up debt (~Rs 592 crore) in hybrid annuity mode (HAM) special purpose vehicles (SPVs), the liquidity position and leverage levels remain stretched. The limit utilisation continued to remain high, at an average of 91% in the last eight months, with~96% in February 2025. The Negative outlook reflects ICRA's expectation that KCC's coverage metrics are likely to remain under pressure in the near term, owing to muted profitability, sizeable repayment obligations and equity commitments over the next 12-18 months. The company is in the process of monetising five HAM SPVs and raising top-up debt in two SPVs, the proceeds from which are expected to provide liquidity support in the coming months.

The ratings consider a decline in KCC's consolidated operating income (OI) to ~Rs. 3,000 crore (provisional figures) in FY2025, from Rs. 4,742 crore in FY2024 due to modest order book (OB) position. Nevertheless, the revenue visibility improved with order inflows of ~Rs. 2,560 crore in 9M FY2025, which increased the order book to Rs. 5,023 crore as on December 31, 2024 (OB/OI of 1.7 times based on FY2025 provisional OI). KCC's operating margins recovered to some extent yet remained modest in FY2025 at around 7.6% (standalone provisional figures[1]), and materially lower vis-à-vis FY2023 levels, owing to cost escalations coupled with the fixed-price nature of the engineering, procurement and construction (EPC) agreements with HAM SPVs, high fixed overheads against and reduction in scale of operations. The operating margins are estimated to remain modest and the extent of recovery going forward will remain a key rating monitorable. Consequently, the interest coverage ratio reduced to 2.0 times[1] in FY2025 from 2.2 times in FY2024 and 5.0 times in FY2023 and is expected to remain below 4.0 times in the near term.

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's order book is diversified across India with presence in over 10 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

[1] Provisional figures of subsidiaries considered for full consolidation are not available, however, are not likely to materially amend the calculations/ metrics

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 nine HAM-based road projects including the recently awarded two HAM projects. Eight of these projects [two BOT annuity projects from Madhya Pradesh Road Development Corporation Limited (MPRDC) and six HAM projects from the Ministry of Road Transport and Highways (MoRTH)/ NHAI] are operational, while PCOD is awaited for one and the remaining two HAM projects are under implementation. The company has received PCOD for five HAM projects during the past 12 months, 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 a 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 March 31, 2025, the total pending equity requirement is ~Rs. 110 crore during FY2026-FY2027 towards two HAM projects received in FY2025. These equity commitments are expected to be met through its cash flow from operations, available cash and bank balances and proceeds of debt top-ups to be availed in the operational HAM SPVs and monetisation of HAM SPVs.

Key rating drivers and their description

Credit strengths

Adequate scale of operations – KCC's consolidated revenues are estimated to remain adequate, though it is expected to decline by around 37% to ~Rs. 3,000 crore from Rs. 4,742 crore in FY2024 due to modest OB position. The revenue visibility improved with order addition of ~Rs. 2,560 crore in 9M FY2025, which increased the order book to Rs. 5,023 crore as on December 31, 2024 (OB/OI of 1.7 times based on the provisional OI of FY2025). Nevertheless, timely receipt of new orders and ramp-up in execution would remain critical to sustain the scale of operations.

Geographically diversified operations and reputed client profile – KCC's order book is diversified across India with presence in over 10 states. The top three states contribute to around 70% of order book, reflecting moderate geographical concentration risk. Of this, Uttar Pradesh comprises 38% of the total pending order book, followed by 17% from Kerala, and 15% from Tamil Nadu. The order book primarily includes road projects from the NHAI/MoRTH under EPC and HAM model, resulting in low counterparty credit risk.

Established track record of operations – With over two decades of operations, KCC has a demonstrated track record of project execution and has built resources including plant, equipment and manpower. It has a team of qualified and technical personnel, who have been associated with the company for many years. The experience of KCC's promoters and its professional management team supports its operational risk profile.

Credit challenges

Modest coverage metrics due to subdued profitability and high debt levels – KCC's operating margins recovered to some extent yet remained modest at 7.6% (standalone provisional figures[2]) in FY2025, and materially lower than FY2023 levels, owing to cost escalations coupled with fixed-price nature of the EPC agreements with HAM SPVs, high overheads and decline in scale of operations. The operating margins are estimated to remain modest in the near term and the extent of recovery going forward will remain a key rating monitorable. Consequently, the interest coverage ratio reduced to 2.0 times[2] in FY2025 from 2.2 times in FY2024 and 5.0 times in FY2023. KCC's coverage metrics is expected to remain under pressure in the near

[2] Provisional figures of subsidiaries considered for full consolidation are not available, however, are not likely to materially amend the calculations/ metrics.

term, with interest cover less than 4.0 times, owing to muted profitability and sizeable repayment obligations over the next 12-18 months.

Liquidity position remained constrained despite receipt of top-up debt from HAM SPVs – Despite upstreaming of proceeds from top-up debt of ~Rs. 592 crore availed at four operational HAM SPVs in H2 FY2025, the liquidity position remained under pressure with the limit utilisation being high, at ~96% in February 2025, as majority of the proceeds were utilised to meet the cost escalations and to meet debt servicing obligations. Incremental to the top-up debt already availed, the proceeds from monetisation of five HAM SPVs and top-up debt to be availed in two HAM SPVs are crucial for any improvement in liquidity and the timelines of cash inflows to KCC would remain a key rating monitorable in the near term.

Concentrated order book and risks associated with construction sector including sizeable non-fund based exposure – KCC's order book stood at ~Rs. 5,023 crore as on December 31, 2024. Majority of its order book comprises mainly road works from the NHAI and MoRTH, which accounts for 86% of the order book. It remains exposed to execution risk as around 54% of the contracts are in the nascent stages (with less than 20% execution) with around 50% of the orders received in the past nine months. The ratings factor in 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 (~Rs. 1,020 crore as of February 2025), 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.

Liquidity position: Stretched

KCC's liquidity position is stretched, given the high repayment obligations (~Rs. 200-220 crore during FY2026-FY2027) and estimated equity commitment of ~Rs. 110 crore up to FY2027, in addition to routine capex and incremental working capital margin requirements. The company's average fund-based limit utilisation stood high at ~91% for the eight-month period that ended February 2025. Timely realisation of proceeds from top-up debt to be availed in HAM SPVs and monetisation of HAM SPVs, will be imperative to support its working capital requirements and improvement in liquidity position and thus, remains a key monitorable.

Rating sensitivities

Positive factors – The rating outlook could be revised to Stable if the company is able to improve its liquidity position with proceeds of monetisation and debt top-up to be availed in HAM SPVs, while improving its earnings.

Negative factors – Pressure on the ratings could arise if the company is unable to improve its earnings or delay in receipt of planned proceeds from monetisation or debt top-ups in various HAM SPVs results in sustained pressure on coverage metrics and liquidity position. Any material increase in funding commitment towards BOT/HAM projects, or a substantial rise in working capital intensity 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. It has a track record of over two decades in the execution of road/highway projects, bridges and other civil construction works 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 (Rs. crore)	3,984.3	4742.4
PAT (Rs. crore)	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; OI: Operating income; 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

	Current (FY2026)			Chronology of rating history for the past 3 years					
				FY2025		FY2024		FY2023	
Instrument	Type	Amount rated (Rs. crore)	April 29, 2025	Date	Rating	Date	Rating	Date	Rating
Fund-based – Cash credit	Long-term	400.00	[ICRA]A- (Negative)	Oct-24-2024	[ICRA]A (Negative)	Jan-31-2024 Jan-12-2024	[ICRA]A (Stable)	Jan-06-2023	[ICRA]A (Positive)
Non-fund based – Bank guarantee	Short-term	1800.00	[ICRA]A2+	Oct-24-2024	[ICRA]A2+	Jan-31-2024 Jan-12-2024	[ICRA]A2+	Jan-06-2023	[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
KCC-HRY Rewa Bypass Private Limited	51%	Limited Consolidation^
KCC Ranipet Expressway Private Limited	100%	Limited Consolidation^

Source: Company, ICRA Research; ^As per management's guidance, CG is likely to be extended only up to achievement of PCOD/ COD.

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