

January 31, 2017

GKC Projects Limited

| Instruments* | Amount Rated (Rs. crore) | Rating Action |
|---------------------------------|-----------------------------|---|
| Fund based-Cash Credit | 334.08 | [ICRA]D/Downgraded from [ICRA]BB-(Stable) |
| Fund based-Term Loans | 546.57 | [ICRA]D/Downgraded from [ICRA]BB-(Stable) |
| Non Fund based-Bank Guarantee | 1116.83 | [ICRA]D/Downgraded from [ICRA]BB-(Stable) |
| Non Fund based-Letter of Credit | 195.00 | [ICRA]D/Downgraded from [ICRA]BB-(Stable) |
| Long term Unallocated limits | 7.52 | [ICRA]D/Downgraded from [ICRA]BB-(Stable) |

*Instrument details are provided in Annexure-1

Rating Action

ICRA has downgraded the long term rating outstanding on the Rs.334.08 crore¹ cash credit limits , Rs. 546.57 crore term loans, Rs.1116.83 crore bank guarantees, Rs.195.00 crore Letter of Credit and Rs. 7.52 crore unallocated limits of GKC Projects Limited ("GKC" / "the company")† to [ICRA]D (pronounced ICRA D) from [ICRA]BB-(pronounced ICRA double B minus)(Stable).

Rationale

The downgrade in the rating factors in the recent delays in debt servicing by the company. Further, there is overdrawal of cash credit facility more than 30 days due to tight liquidity position. ICRA notes that the lenders of the company have invoked S4A (Scheme for Sustainable Structuring of Stressed Assets) scheme with October 26, 2016 as the reference date, which has been cleared by the Overseeing Committee. The lenders are in the process of obtaining the sanction for the same from their respective competent authorities.

Going forward, GKC's ability to service its debt obligations in a timely manner will be the key rating sensitivity.

Key rating drivers

Credit Strengths

- Established presence with over two decades of promoters' experience in the civil construction industry supported by technically competent personnel
- Orders worth Rs.1260 cr have been received during 9M FY2017 post which the order book position of the company stood at Rs. 2578 cr(as on December 31,2016) which is 2.20 times the operating income for FY2016 providing revenue visibility for the medium term

Credit Weakness

- Recent delays in debt servicing of its term loans and overdrawal in CC for more than 30 days
- Decline in the operating revenues in H1FY2017 at Rs.371.15 cr against Rs.530.66 cr in H1FY2016 caused by delay in getting clearances and approvals from the Government agencies and the clients leading to slower execution
- Net cash losses during H1FY2017 at Rs.26.36 cr due to decline in operating revenues and high interest costs

¹ 100 lakh = 1 crore = 10 million

† For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Description of key rating drivers highlighted above:

GKC's revenues witnessed significant decline of 30% y-o-y in H1FY2017 due to delay in getting clearances and approvals from the Government agencies and the clients leading to slower execution. As a result of slower execution and high interest burden, the company posted net cash losses to the extent of Rs.26.36 cr during H12017. Stretched liquidity position has resulted in the delays in debt servicing. ICRA notes that the lenders of the company have invoked S4A (Scheme for Sustainable Structuring of Stressed Assets) scheme with October 26, 2016 as the reference date. The implementation of S4A would reduce the debt servicing obligation of the company. The sustainable and unsustainable portion of debt has been identified as 55% and 45% respectively. Further, there is overdrawal of cash credit facility for more than 30 days.

The promoters of GKC have over two decades of experience in the civil construction industry supported by technically competent personnel. Orders worth Rs.1260 cr have been received during 9M FY2017 post which the order book position of GKC stood at Rs. 2578 cr(as on December 31,2016) which is 2.20 times the operating income for FY2016 providing revenue visibility for the medium term.

Analytical approach: For arriving at the ratings, ICRA has taken into account the debt-servicing track record of GKC, its business risk profile, financial risk drivers and the management profile.

Links to applicable Criteria

[Corporate Credit Ratings: A Note on Methodology](#)

[ICRA Rating methodology: Construction Companies](#)

[ICRA-Treatment of default](#)

About the Company:

GKC Projects Limited ("GKC" / "the company") was started in the year 1996 as a proprietorship concern by Mr.KV Rajasekhar based out of Hyderabad. The proprietorship was converted in to a private limited company named Gokul Krishna Constructions Pvt Ltd in 2004 and subsequently converted into a public limited company in 2008 with the current name. The Company executes drinking water supply projects, highways, irrigation and civil construction projects.

Status of non-cooperation with previous CRA: Not Applicable.

Any other information: Not Applicable.

Rating History for last three years:
Table: Rating History

| S. No. | Name of Instrument | Current Rating | | | Chronology of Rating History for the past 3 years | | |
|--------|--------------------|----------------|---------------------------|-----------------------|---|---------------------------------|---------------------------------|
| | | Type | Rated amount (Rs. Crores) | Month - year & rating | Month - year & Rating in FY2016 | Month - year & Rating in FY2015 | Month - year & Rating in FY2014 |
| 1 | Cash Credit | Long term | 334.08 | Jan 2017 | December 2015 | - | - |
| | | | | [ICRA]D | [ICRA]BB-(Stable) | - | - |
| 2 | Term Loan | Long term | 546.57 | [ICRA]D | [ICRA]BB-(Stable) | - | - |
| 3 | Bank Guarantee | Long term | 1116.83 | [ICRA]D | [ICRA]BB-(Stable) | - | - |
| 4 | Letter of Credit | Long term | 195.00 | [ICRA]D | [ICRA]BB-(Stable) | - | - |
| 5 | Unallocated | Long term | 7.52 | [ICRA]D | [ICRA]BB-(Stable) | - | - |

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Details of Instruments

| Name of the instrument | Date of issuance | Coupon rate | Maturity Date | Size of the issue (Rs. Cr) | Current Rating and Outlook |
|---------------------------|------------------|-------------------------------------|--------------------------------|----------------------------|----------------------------|
| Cash credit | - | - | - | 334.08 | [ICRA]D |
| Term Loan-I | - | LIBOR+2.50%p.a.- LIBOR+2.75%p.a. | To be determined as per S4A | 21.93 | [ICRA]D |
| Term Loan-II | - | 11.68% p.a. | January,2019 | 13.90 | [ICRA]D |
| Funded Interest Term Loan | - | SBI Base Rate+1.25%p.a. | January,2022 | 120.7 | [ICRA]D |
| Working Capital Term Loan | - | SBI Base Rate+1.25%p.a. | October,2023 | 290.04 | [ICRA]D |
| Priority Debt Term Loan | - | SBI Base Rate+1.50%p.a. | October,2023 | 100.00 | [ICRA]D |
| Bank Guarantee | - | - | - | 1116.83 | [ICRA]D |
| Letter of Credit | - | - | - | 195.00 | [ICRA]D |
| Unallocated | - | - | - | 7.52 | [ICRA]D |

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About ICRA Limited:

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