



KCP Projects Limited

ICRA has assigned an “LBB+” (pronounced as L Double B Plus) rating to the Rs. 200 million fund based limits and Rs. 600 million non-fund based limits of KCP Projects Limited (KCPPL)[†].

ICRA’s rating takes into account the competitive nature of the construction industry, KCPPL’s high geographical and sectoral concentration, and its modest scale of operations. The rating is further constrained by high working capital requirements of the company which has resulted in a high gearing of 1.65 times as on 31st March 2009 for the company. The rating is however supported by KCPPL’s experienced management and its healthy order book.

KCP Projects Limited (KCPPL) is a limited company engaged in civil construction projects like housing schemes, hospitals, auditoriums, hostels etc. primarily for the government organisations in the state of Andhra Pradesh. KCPPL has completed projects like construction of 1408 Flats in Kadappa District for AP Housing Board (APHB), College building and lecture hall for Maulana Azad National Urdu University and District Jail in Krishna District in Andhra Pradesh. KCPPL’s concentrated presence in the civil construction segment primarily in Andhra Pradesh exposes it to any slowdown in the construction sector in the state. Although the company has secured a large project in Maharashtra, ability of the company to execute the project based out of Andhra Pradesh remains to be seen. The company’s clientele include autonomous Andhra Pradesh government organisations like APHB,

Vijaywada Municipal Corporation (VMC), AP Power Generation Corporation (APGENCO), Hyderabad Metropolitan Water Supply & Sewerage Board (HMWSSB) etc. Although having government organizations as its clients has minimized the credit risk for the company, delay in payments by these clients has resulted in delays in the completion of some of its projects, thereby leading to an increase in the working capital intensity of the company.

The order book of the company as on 31st March 2009 stood at Rs. 4.5 billion (Order Book/Operating Income of 3.5). A large part of the unexecuted order book comprises of construction of a hospital in Maharashtra (Rs. 1.31 billion) and construction of houses for APHB (Rs. 0.7 billion). This exposes the company’s revenue generation to any slowdown witnessed in the completion of these large value projects. Furthermore, company’s ability to execute these projects remains to be seen since the company had undertaken only small and mid-sized projects in the past.

The construction industry is a highly competitive and fragmented industry characterized by the presence of numerous players in the organized and the unorganized segment which has affected the pricing power of the players in the industry. Furthermore, modest scale of KCPPL’s operations and its low net worth limits its ability to bid for higher value projects with better profitability. This has resulted in moderate margins for the company.

KCPPL’s operating income has increased at a CAGR of 71% to Rs. 1.28 billion in FY2009 from Rs. 0.44 billion in FY2007. The operating Profit Margin (Operating Profits/Operating

Income) also improved from 5.8% in FY2007 to 11.0% in FY2009 on account of better economies of scale. However, the net profit margins have remained low at 4.7% in FY2009 on account of high interest expense. The working capital intensity of the company is high at 47.8% in FY2009 on account of high inventory and receivables, leading to an increase in the overall debt for the company (Total Debt/Total Net Worth of 1.65 times as on 31st March 2009). This has translated into moderate debt protection indicators for the company (NCA/Total Debt of 28% in FY2009).

Company Profile

KCP Projects Ltd. (KCPPL) is a Hyderabad based company engaged in civil construction projects primarily in Andhra Pradesh. KCPPL was incorporated as a proprietorship firm in 1975 by Mr. KC Pullaiah. Thereafter, proprietorship firm was converted into a partnership firm (KCP Builders) in 1995 and became a limited company in 2005. KCPPL has undertaken projects for Andhra Pradesh government bodies like AP Housing Board (APHB), AP Rajiv Swagruha Corporation Ltd. (APRSCL), AP Power Generation Corporation (APGENCO), AP Tourist Development Corporation (APTDC), Hyderabad Metropolitan Water Supply & Sewerage Board (HMWSSB) etc. in the past.

October 2009

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



KEY FINANCIALS

		2008-09	2007-08	2006-07
		Audited	Audited	Audited
Operating Income (OI)	Rs Million	1279.3	574.8	436.3
OPBDIT(Operating Profit before interest, depreciation and tax)	Rs Million	140.7	37.7	25.2
Profit After Tax (PAT)	Rs Million	60.2	19.0	11.7
Net Cash Accruals (NCA)	Rs Million	71.6	21.3	12.8
Total Debt (TD)	Rs Million	259.2	76.8	62.1
Tangible Net worth (TNW)	Rs Million	148.7	64.4	30.8
OPBDIT/OI	%	11.0%	6.6%	5.8%
PAT/OI	%	4.7%	3.3%	2.7%
PBIT/Average (TD+ TNW+ Deferred Tax Liability)	%	32.4%	30.5%	26.3%
Total Debt/ Net worth	times	1.65	1.19	2.02
(Total Debt + Mobilization Advances)/ Net worth	times	3.48	2.93	2.31
OPBDIT/Interest & Finance Charges	times	3.4	2.7	3.8
NCA/Total Debt	%	28.0%	27.7%	20.6%
Net Working Capital/OI	%	47.8%	38.2%	20.3%

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