November 28, 2023

J. Kumar Infraprojects Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Proposed commercial paper	100.00	100.00	[ICRA]A1; Reaffirmed
Long-term – Fund-based – Term Loans	158.40	248.40	[ICRA]A+ (Stable); Reaffirmed/Assigned for Enhanced amount
Long-term – Fund-based – Working capital facilities	600.00	921.00	[ICRA]A+ (Stable); Reaffirmed/Assigned for Enhanced amount
Long term – Non-fund based – Bank guarantee/Letter of credit	3355.20	3597.95	[ICRA]A+ (Stable); Reaffirmed/Assigned for Enhanced amount
Long-term – Fund-based – Overdraft	-	46.20	[ICRA]A+ (Stable); Assigned
Long-term – Fund-based/Non-fund based – Unallocated	186.40	202.91	[ICRA]A+ (Stable); Reaffirmed/Assigned for Enhanced amount
Total	**4400.00**	**5,116.46**	

**Instrument details are provided in Annexure-I*

Rationale

The rating action favourably factors in J. Kumar Infraprojects Limited's (JKIL) strong order book position (order book to operating revenue ratio of 3.9 times as on September 30, 2023), which provides medium-term revenue visibility. The company received fresh order inflows worth Rs. 9,481 crore over the last 18 months ending September 2023. The ratings take comfort from JKIL's healthy increase in operating income (OI) at a CAGR of 15.43% during FY2018-FY2023. It is expected to witness annual growth of ~25% and 30% in FY2024 and FY2025, respectively. The operating profit margin remained healthy and stable around 14.0%-14.5% during the last 10 quarters, supported by ownership of machines, in-house project execution (minimal sub-contracting), geographical clustering of project, centralised procurement of raw materials and is estimated to remain above 14% over the medium term. Despite the recent asset acquisition of PSL Limited, which were 85% debt-funded and JKIL's capital expenditure plans of ~Rs. 350 crore in FY2024-FY2025, ICRA expects the company's credit metrics to remain comfortable with interest cover likely to remain above 6.0 times and DSCR of around 3.0 times in the medium term. The ratings factor in the extensive experience of the promoters, spanning over four decades in the civil construction segment and demonstrated capabilities in executing relatively complex infrastructure projects including underground metro projects at geographically diverse locations. The company has a fleet of well-maintained specialised equipment in its portfolio and a strong technical team, which supports its project execution capabilities.

The rating strengths are offset by the moderate order book concentration in terms of geography, segment as well as clients. ICRA notes that around ~62% of the order book as on September 30, 2023 is in the nascent stages of execution (less than 25% executed). Of this, work was yet to commence for ~40% of the order book as on September 30, 2023, since for these projects either the appointed date is yet to be received or the letter of award is only recently received. The heightened competition in the construction sector, along with the volatility in input costs (steel, cement, etc) could exert pressure on JKIL's profitability, despite the presence of price escalation clauses in these contracts. JKIL's working capital intensity has remained relatively high with NWC/OI being 31.9% as on September 30, 2023 (FY2023: 28.1%). The company has funded a sizeable share of its working capital requirement through extended credit period and advance from customers. Any decline in either of these would have a bearing on its liquidity position. In the backdrop of expected sizeable growth over the next three fiscals, which will entail increase in working capital requirement, the company's ability to judiciously manage its working capital cycle and maintain adequate liquidity remains important from the credit perspective.

The Stable outlook on the rating reflects ICRA's expectation that the company will continue to benefit from its healthy order book position, strong execution capabilities and comfortable financial risk profile.

Key rating drivers and their description

Credit strengths

Order book position provides medium-term revenue visibility – The company's fresh order inflows over the past few years have remained healthy, with orders worth Rs. 9,481 crore over the last 18 months ending in September 2023. The outstanding order book stood at Rs. 16,447 crore as on September 2023. Its OB/OI ratio remains healthy at 3.9 times of its OI in FY2023, as on September 30, 2023, providing medium-term revenue visibility. Timely commencement and execution of these orders are critical to sustain the revenue growth going forward.

Comfortable financial risk profile – JKIL recorded a healthy CAGR of 15.43% in its OI over the last five years ending in FY2023, along with healthy operating profit margin, supported by ownership of machines, in-house project execution (minimal sub-contracting), geographical clustering of project, and centralised procurement of raw materials. The company's capital structure remained comfortable, with total outside liabilities to tangible net worth (TOL/TNW) at 0.8 times as on September 30, 2023 (FY2023: 0.9 times), driven by healthy margins, aiding the net worth and limited dependence on external borrowings. The coverage indicators remain comfortable, with interest coverage at 5.9 times and DSCR of 3.4 times in H1 FY2024. Despite the recent acquisition of the assets of PSL Limited, which were 85% debt-funded and JKIL's capital expenditure plans of ~Rs. 350 crore in FY2024-FY2025, ICRA expects the company's credit metrics to remain comfortable with interest cover likely to remain above 6.0 times and DSCR of around 3.0 times in the medium term.

Extensive experience of promoters in civil construction industry – JKIL has an established track record of operations of over four decades, supported by an experienced management and demonstrated capabilities in executing relatively complex underground metro projects at geographically diverse locations. The company has a fleet of well-maintained specialised equipment in its portfolio and a strong technical team, which aids its project execution capabilities.

Credit challenges

Exposed to order book concentration risk – JKIL's current outstanding order book is concentrated towards metro, roads and flyover segment, which formed ~89% of the unexecuted order book as on September 30, 2023. The company's operations are spread across Maharashtra, Tamil Nadu, Delhi, Gujarat and Uttar Pradesh. However, Maharashtra contributes to 60% of the unexecuted order book as on September 30, 2023, which exposes it to geographical concentration risk. While the geographical concentration supports optimal resource deployment, its impact on the company's revenues could be severe if the region of operations gets affected by unforeseen risks. It also faces high project and client concentration with top three clients contributing 67% and the top 10 orders accounting for ~60% of the unexecuted order book as on September 30, 2023. However, JKIL's clients are key government authorities and hence the counterparty risk is mitigated to an extent.

Exposed to execution risk as major share of order book is in nascent stages of execution – The company is exposed to moderate execution risk, as around ~62% of the order book as on September 30, 2023 is in the nascent stages of execution (less than 25% executed). Of this, work was yet to commence for ~40% of the order book as on September 30, 2023, since for these projects either the appointed date is yet to be received or the letter of award is only recently received.

Heightened competition, input cost spike could exert pressure on profitability – There is intense competition in the domestic civil construction industry, which is fragmented in nature. The company has made sizeable investments towards machineries/assets for project execution resulting in relatively modest asset turnover (revenue/gross block). Garnering adequate number of projects and ensuring timely execution remain the key for the optimal use of resources and ultimately profitability. The competition has increased in the recent past because of relaxation in the bidding criteria in few segments. This, coupled with an increase in input cost, could exert pressure on JKIL's profitability. The built-in price escalation clause in majority of the contracts protects the operating margin from raw material price fluctuation risk to some extent. JKIL's working capital intensity remained relatively high with NWC/OI being 31.9% as on September 30, 2023 (FY2023: 28.1%). The company has funded a sizeable share of its working capital requirement through extended credit period and advance from customers. Any decline in either of these would have a bearing on its liquidity position. In the backdrop of sizeable growth over the next three fiscals, which will entail increase in working capital requirement, JKIL's ability to judiciously manage its working capital cycle and maintain adequate liquidity remains important from the credit perspective.

Liquidity position: Adequate

The company has adequate liquidity, reflected by cushion of Rs. 145 crore available in the undrawn fund-based limits and unencumbered cash balance of Rs. 40.8 crore as on September 30, 2023. The average working capital utilisation over the last 6-month period ending in September 2023 remained moderate at 69% for fund-based and 77% for non-fund based limits. The principal debt repayment is estimated at Rs. 40.7 crore in FY2024 and Rs. 78.9 crore in FY2025, which is expected to be comfortably serviced from the operating cash flows.

Rating sensitivities

Positive factors – ICRA could upgrade the ratings if the company demonstrates a sustained improvement in its scale of operations while improving its profitability, debt coverage metrics and liquidity profile.

Negative factors – Negative pressure on JKIL's ratings could arise if lower-than-anticipated billing or deterioration in operating profitability or elongation of working capital cycle, or significantly high debt-funded capex impacts the company's liquidity or the overall financial profile. A specific credit metric, which could result in a rating downgrade, is interest cover of less than 5 times on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction Entities Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

JKIL is a public limited company that constructs elevated and underground metro projects, roads, flyovers and bridges and civil construction activities for Municipal Corporation of Greater Mumbai, Gujarat Metro Rail Corporation Limited, Delhi Metro Rail Corporation, Mumbai Metro Rail Corporation Ltd and other government companies in India. It was converted into a public company in 2007 and listed on the Bombay Stock Exchange and National Stock Exchange in 2008. At present, the company has operations in Maharashtra, Delhi, Gujarat and Uttar Pradesh.

Key financial indicators (audited)

JKIL Standalone	FY2022	FY2023	H1FY2024
Operating income	3,527.2	4,203.1	2,236
PAT	205.9	274.4	146.3
OPBDIT/OI	14.3%	14.2%	14.4%
PAT/OI	5.8%	6.5%	6.5%
Total outside liabilities/Tangible net worth (times)	0.9	0.9	0.8
Total debt/OPBDIT (times)	0.9	0.9	1.0
Interest coverage (times)	5.0	6.0	5.9

Source: Company, ICRA Research; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs. crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)						Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of September 2023 (Rs. crore)	Date & rating in FY2024			Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Nov 28, 2023	May 08 2023	April 11, 2023	-	-	-
1	**Working capital facilities**	Long Term	921.00	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	-	-	-	-
2	**Unallocated**	Long Term	202.91	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	-	-	-	-
3	**Term loan**	Long Term	248.40	207.93	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	-	-	-	-
4	**Bank guarantee/Letter of credit**	Long Term	3597.95	-	**[ICRA]A+ (Stable)**	**[ICRA]A+ (Stable)**	-	-	-	-
5	**Overdraft**	Long term	46.20		**[ICRA]A+ (Stable)**	-	-	-	-	-
6	**Commercial paper**	Short term	100.0	-	**[ICRA]A1**	**[ICRA]A1**	**[ICRA]A1**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Proposed commercial paper	Very Simple
Long-term – Fund-based – Term loans	Simple
Long-term – Fund-based – Working capital facilities	Simple
Long-term – Non-fund based – Bank guarantee/Letter of credit	Very Simple
Long-term – Fund-based – Overdraft	Simple
Long-term – Fund-based/Non-fund based – Unallocated	NA

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	**Long-term – Fund-based – Working capital facilities**	NA	NA	NA	921.00	[ICRA]A+ (Stable)
NA	**Long-term – Fund-based/Non-fund based – Unallocated**	NA	NA	NA	202.91	[ICRA]A+ (Stable)
NA	**Long-term – Fund-based – Term loan**	FY2021	NA	FY2028	248.40	[ICRA]A+ (Stable)
NA	**Long-term – Non-fund based – Bank guarantee/Letter of credit**	NA	NA	NA	3597.95	[ICRA]A+ (Stable)
NA	**Long-term – Fund-based – Overdraft**	NA	NA	NA	46.20	[ICRA]A+ (Stable)
Yet to be placed	**Commercial paper**	NA	NA	NA	100.0	[ICRA]A1

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4547 4829
rajeshwar.burla@icraindia.com

Ashish Modani
+91 20 6606 9912
ashish.modani@icraindia.com

Chintan Dilip Lakhani
+91 22 6169 3345
chintan.lakhani@icraindia.com

Rohit Agarwal
+91 22 6169 3329
rohit.agarwal@icraindia.com

RELATIONSHIP CONTACT

L. Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

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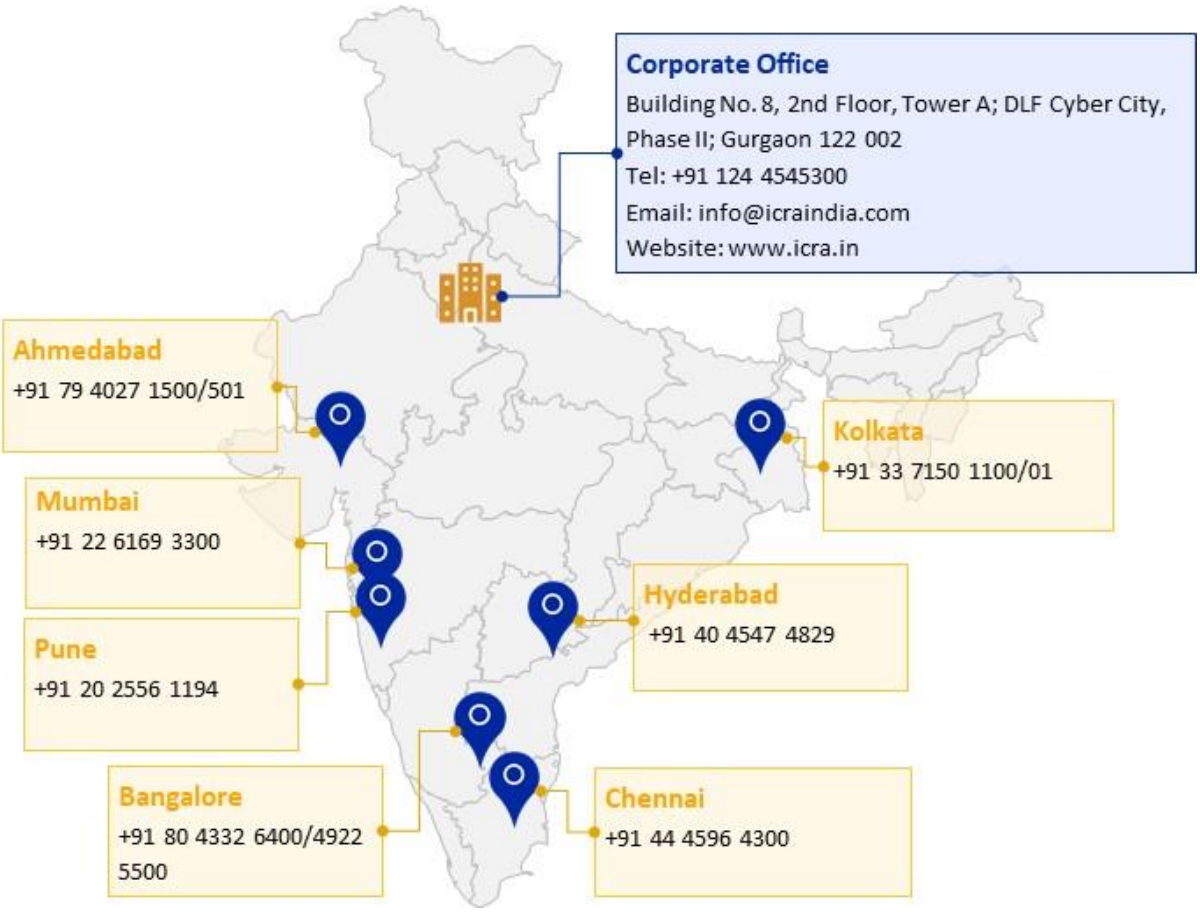
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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