

## NKG Infrastructure Limited

Instrument	Amount (Rs. Crore)	Rating Action November 2016
Fund-based Limits	230	[ICRA] B+; rating revised from [ICRA]BBB and removed from watch with negative implications
Term Loans (including External Commercial Borrowing)	70	[ICRA] B+; rating revised from [ICRA]BBB and removed from watch with negative implications
Non-fund-based Limits	900	[ICRA]A4; rating revised from [ICRA]A3 and removed from watch with negative implications
Unallocated Limits	100	[ICRA] B+; Rating revised from [ICRA]BBB and removed from watch with negative implications

ICRA has revised the long term rating assigned to Rs. 230 crore fund based limits, Rs. 70 crore term loans and Rs. 100 crore unallocated limits of NKG Infrastructure Limited (NKG) from [ICRA]BBB (pronounced ICRA triple B) to [ICRA]B+ (pronounced ICRA B plus). ICRA has also revised the short term rating assigned to Rs. 900 crore non-fund based limits of NKG from [ICRA]A3 (pronounced ICRA A three) to [ICRA]A4 (pronounced ICRA A four). Further, the ratings have been removed from watch with negative implications.

The rating action takes into account worsening of the already stretched liquidity position of the company on account of further delays in recovering retention money and variation & escalation receipts from old projects. Recently, there had been a devolvement of letter of credit (LC) following a commercial dispute with one of its vendors, which has resulted in over-utilisation of company's cash credit limits. Also, ICRA notes that the sanction of proposed long term loan against receivables of company's operational solar power plant is likely to take longer than expected, keeping the cash flows under strain. Furthermore, the slowdown in execution on company's projects on account of unavailability of labour due to ban on old Rs. 500 and Rs. 1000 notes is likely to put additional pressure on the company's cash flows in short term.

The ratings continue to be constrained by arrest of NKG's Managing Director, Mr. Pradeep Garg, in October 2016 following a non-bailable warrant issued by special court of Central Bureau of Investigation (CBI) with respect to few projects awarded to the company in the state of Uttar Pradesh. The ratings continue to be constrained by high concentration of NKG's current order book on a single project i.e. National Building Construction Corporation's (NBCC) East-Kidwai Nagar re-development project in Delhi. The ratings further take into account high competitive intensity in the construction industry due to low entry barriers and low capex requirements.

The ratings however continue to derive comfort from healthy and stable inflows from company's 10MW operational solar power plant in Gujarat, which can be securitised to raise additional funds, if and when required. Ratings also draw comfort from NKG's long and established track record in construction business, its reputed customer base consisting mainly of public sector clients, its track record of successfully executing large projects across various segments (roads, bridges, buildings, electrical, hydro power, solar power, water and sewer) and its geographically diversified operations, with experience of managing projects in 15 states through eight regional offices in India.

Going forward, improving the liquidity profile while maintaining the accruals and leverage will be the key rating sensitivity. Further, the impact of ongoing legal process on risk profile of the company will be a key rating monitorable.

### Company's Profile

NKG Infrastructure Limited (NKG) was incorporated in 1987 as N.K. Garg and Company Private Limited and its name was changed to NKG Infrastructure in 2005. It is a closely held company with entire shareholding with promoters and their group companies. NKG is an ISO 9001:2000 certified Construction Company and has



been registered as a Grade A civil contractor in the states of Uttar Pradesh, Uttarakhand and Madhya Pradesh. The company executes work mainly for public sector clients. NKG has also established a 10 MW solar power plant in Gujarat which became operational in March 2012.

#### **Recent Results**

NKG Infrastructure Limited (NKG) reported operating income of Rs. 1458 crore and net profit of Rs. 32 crore in FY2016 as against operating income of Rs. 1633 crore and net profit of Rs. 37 crore in FY2015.

**November 2016**

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