



Press Release

KCP Infra Limited (KCPIL) August 30, 2023

Ratings:

Sl. No.	Type of Facility	Rated Amount (Rs Cr.)	Ratings	Rating Action	Complexity Indicator
1	Long Term Bank Facilities	20.00	IVR A-/RWNI (IVR Single A Minus, Placed on Rating Watch under Negative Implications)	Reaffirmed and Placed on Rating watch under Negative Implications	Simple
2	Short Term Bank Facilities	62.00 (Reduced from 70.00)	IVR A2+/RWNI (IVR A Two Plus, Placed on Rating Watch under Negative Implications)	Placed on Rating watch under Negative Implications	Simple
3	Long Term/ Short Term Bank Facilities	38.00 (Reduced from 100.00)	IVR A-/IVR A2+RWNI (IVR Single A Minus/ IVR A Two Plus, Placed on Rating Watch under Negative Implications)	Placed on Rating watch under Negative Implications	Simple
4	Fixed Deposit	50.00	IVR A-/RWNI (IVR Single A Minus, Placed on Rating Watch under Negative Implications)	Placed on Rating watch under Negative Implications	Simple
Total		170.00 (Rupees One Seventy Crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale:

The ratings reaffirmed to the bank facilities of KCP Infra Limited factors in experienced promoters, project execution capability with reputed clientele, satisfactory order book position, growth in scale of operations, comfortable capital structure and debt coverage indicators.



Press Release

The ratings, however, are constrained by project execution risk, susceptibility of operating margin to volatile input prices, highly fragmented & competitive nature of the construction sector with significant price war.

The rating watch with negative implications on account of search and seizure by the Income Tax Department and Directorate of Vigilance and Anti-Corruption (DVAC). The DVAC has freeze major amount of fixed deposit kept in bank account. Any negative or delayed outcome of the proceeding can impact the company liquidity in the short to medium term. Infomerics Valuations and Ratings will continue to monitor the developments and implications of the actions by the thereof in this regard.

Key Rating Sensitivities:

Upward Factors:

- Sustainable increase in scale of operations and profitability margins along with improvement in order book of 2x of turnover
- Ability to diversify the order book in terms of geography and order segments.

Downward Factors:

- Any significant delays in execution of orders resulting in sizable decline in income on sustained basis.
- Any deterioration in capital structure with overall gearing above 1x and total debt/GCA above 4x.
- Any delay in the collection of receivables from customers leads to stretched liquidity position.
- Any unfavorable findings in the search operation carried out by the external agencies thereby impacting the operational performance and liquidity profile.

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced promoters

KCPIL has a long track record of more than a decade in the industry and is promoted by Mr. K Chandra Prakash having an experience of more than two decades in civil construction field. The long-standing presence of the promoter in the industry has helped the company to establish a healthy relationship with its customers and suppliers.

Proven project execution capability with reputed clientele



Press Release

Over the past decade, the company has successfully completed many projects for various government and private entities. They are one of the major contractors in Tamil Nādu having diversified businesses of Construction of roads and bridges, smart city projects, pipeline projects, electrical & Energy Saving projects, Multi –level car parking projects, solid waste management projects and other infrastructure projects.

Satisfactory order book position

The unexecuted order book position of the company stood at Rs. 1287.46 crore as of July 2023 (translates 1.75x of FY23's revenue) as against Rs. 1500 crore (translates 2.13x of FY22 revenue) and the project is expected to execute within February 2026. The order book of the company is geographically concentrated with 98.15% of orders in Tamil Nadu and remaining from Andhra Pradesh. The concentrated orders from Tamil Nadu which exposes the company to changes in state government's policy of infrastructure and political conditions in that region.

Growth in scale of operations

The scale of operations of the company reported with stable increase ranging from Rs. 427 crore to Rs. 724 crore over past four years ended FY23. The company is majorly concentrating on road and irrigation projects, thereby during FY23, KCPIIL executed more of road and irrigation orders of which recorded stable increase in total income of Rs. 733.80 crore as against Rs. 711.56 crore in FY22.

Comfortable capital structure and debt coverage indicators

The capital structure of the company remained comfortable with overall gearing of 0.46x as of March 31, 2023 (Prov.) as against 0.70x as of March 31, 2022. The company infused capital of Rs. 0.81 crore for the business purpose. The Total outside liabilities to Tangible Net Worth of the company also remained comfortable of 0.63x as of March 31, 2023 (Prov.) as against 0.78x as of March 31, 2022. The total debt/GCA of the company also remained comfortable at 2.94x as of March 31, 2023. The interest portion of the company declined during the year which resulted in improvement of interest coverage to 5.23x in FY23(Prov.) from 4.45x in FY22.

Key Rating Weaknesses:

Highly fragmented & competitive nature of the construction sector with significant price war



Press Release

The domestic construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in mushrooming increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the sustenance and healthy growth of the industry.

Project execution risk

The value of a project is measured by the ability of the entity to complete any project in a timely manner and in compliance of all committed specifications. Any delays in project execution can have a negative impact on collections from customers and salability of projects, which can lead to constrained liquidity. The project costs are dependent on a variety of variables such as the nature of the terrain, environmental clearances, and other externalities. Infrastructure companies also face challenges relating to shortage of labour, equipment and availability of key raw materials on time. Weather, labour problems and difficulty in terrain may lead to construction delays and cost escalations.

Susceptibility of operating margin to volatile input prices

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, steel, cement, and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour cost form the majority chunk of the total cost of sales. As the raw material prices & labour cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour cost.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Infrastructure Companies](#)
[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)
[Criteria on Default Recognition](#)
[Criteria for rating outlook](#)

Liquidity-Adequate

Liquidity is adequate marked by sufficient accruals to repay its long-term debt obligations and cash and bank balance of Rs. 46.08 crore as of March 31, 2023 (Prov.). The operating cycle of the company elongated to 75 days in FY23 due to stretched inventory period to 36 days from 25 days in FY22. The company bids orders from government sector, thereby the collection period stood at 56 days in FY23, and it includes retention money which will be



Press Release

realized within the end of defect liability period. The company availed credit period upto 20-35 days from its suppliers. The company has been sanctioned with overdraft of Rs. 20 crore and the average utilisation stood at 16.13% for last twelve months ended June 2023. However, the impact of freezed fixed deposit and any further action by income tax authority & DVAC will be key monitorable.

About the Company:

M/s. KCP Infra Limited (previously known as KCP Engineers Pvt Ltd) is a premier civil construction contractor having registered office in Chennai, Tamil Nadu and corporate office and operations at Coimbatore, Tamil Nadu with interests in development of Constructions, and Infrastructure sectors. KCP Infra Ltd was incorporated in the year 2011 and is engaged in the field of Construction Development. The company is a Class I contractor doing various projects for Government of Tamil Nadu, Andhra Pradesh, Telangana and Southern Railways. M/s. KCP Infra Limited is founded by an eminent industrialist named Mr. Chandra Prakash who is a Civil Engineer and managing director of the company. Company specializes in a wide variety of heavy constructional operations. The major activities include heavy highway construction, dams, bridges, canals mining, pond building, earthmoving, industrial site work, transmission and distributions, water supply projects etc..

Financials: Standalone

For the year ended / INR. Crore*	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	711.56	733.80
EBITDA	72.53	57.03
PAT	45.11	36.90
Total Debt	151.54	124.69
Tangible networth	216.01	271.55
Ratios		
EBIDTA Margin (%)	10.35	7.87
PAT Margin (%)	6.34	5.03
Overall Gearing Ratio (x)	0.70	0.46

*Classification as per Infomerics' standards



Press Release

Status of non-cooperation with previous CRA: ACUIITE continued to place the ratings of KCP Infra Limited under 'issuer not cooperating' category vide PR dated June 14, 2023 due to the issuer/borrower failed to submit such information before the due date.

Any other information: Not Applicable

Rating History for last three years:

Sr. No.	Name of Instrument /Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based - Overdraft	Long Term	20.00	IVR A- /RWNI*	IVR A-/ Stable	-	-
2.	Non-Fund Based - Bank Guarantee	Short Term	62.00	IVR A2+ /RWNI *	IVR A2+	-	-
3.	Non-Fund Based- Proposed	Long Term/ Short Term	38.00	IVR A- / IVR A2+ /RWNI *	IVR A- / Stable / IVR A2+		
4.	Fixed Deposit	Long Term	50.00	IVR A- /RWNI*	IVR A- / Stable		

**Rating Watch under Negative Implications*

Name and Contact Details of the Rating Analyst:

Name: Mr. Amit Bhuwania
Tel: (022) 62396023
Email: abhufania@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration



Press Release

from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information visit www.infomerics.com.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.



Press Release

Annexure 1: Details of Facilities:

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (INR Crore)	Rating Assigned/ Outlook
Long Term- Fund Based- Overdraft	-	-	Not Applicable	20.00	IVR A-/RWNI
Short Term- Non-Fund Based- Bank Guarantee	-	-	Not Applicable	62.00	IVR A2+/RWNI
Long Term/Short Term- Proposed	-	-	Not Applicable	38.00	IVR A- /IVR A2+/RWNI
Fixed Deposit	-	-	Not Applicable	50.00	IVR A-/RWNI

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details:

<https://www.infomerics.com/admin/prfiles/len-KCP-aug23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com