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India Ratings Affirms J Kumar Infraprojects at 'IND A+'/Stable

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India Ratings and Research (Ind-Ra) has affirmed J Kumar Infraprojects Ltd's (JKIL) Long-term Issuer Rating at 'IND A+'. The Outlook is Stable. The instrument-wise rating actions are as follows:

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Term loans	-	-	Up to FY25	INR1,482 (increased from INR440)	IND A+/Stable	Affirmed
Fund-based limit	-	-	-	INR5,322 (reduced from INR7,052)	IND A+/Stable	Affirmed
Proposed fund-based limits$	-	-	-	INR1,050	IND A+/Stable	Assigned
Non-fund-based limit	-	-	-	INR29,816 (reduced from INR35,448)	IND A1	Affirmed
Proposed non-fund-based limits*				INR30	IND A1	Assigned
Proposed non-fund-based limits$	-	-	-	INR5,020	IND A1	Assigned
Commercial paper#	-	-	-	INR250	IND A1	Affirmed

#Yet to be issued
$Unallocated
* The provisional rating of the proposed bank facilities has been converted to final rating as per Ind-Ra's updated policy. This is because the agency notes that debt seniority and general terms and conditions of working capital facilities are likely to be the same as that of the existing ones

Analytical Approach: Ind-Ra has taken a combined view of JKIL and its joint ventures in order to arrive at the ratings.

KEY RATING DRIVERS

Strong Execution Capabilities: Since its inception, JKIL has executed around 90 projects in the construction space across segments such as underground and elevated metro, roads, bridges and flyovers, irrigation, civil construction works such as hospitals and commercial buildings. The company is one of the very few construction players in the country that can qualify for large-sized complex projects without joint ventures. Furthermore, JKIL has been executing projects such as the Dwarka Expressway project in the national capital region, which requires multiple skill-sets such as tunnelling, flyovers and roads construction; the company has been executing these projects on the strength of its own credentials. In addition, JKIL has been able to demonstrate the timely construction of metro and flyover projects in busy urban areas such as Mumbai and Delhi despite the challenges related to alignment, land acquisition hurdles and other design issues in the construction of these projects. JKIL has completed several marquee construction contracts in and around Mumbai, such as the Bandra-Kurla Complex-Chunabhatti flyover and the Delhi Underground Metro, and the company is constructing various other important projects such as the Mumbai Metro Lines 2,3,6 and 9, Thane-Airoli creek bridge, etc., which are strategically important in the areas in which they are being constructed.

Liquidity Indicator - Adequate: JKIL's net cash conversion cycle elongated to 150 days in 9MFY21 (FY20 and FY19: 135 days) on account of an increase in the receivable (9MFY21: 94 days; FY20: 79 days; FY19: 65 days) and inventory days (193 days; 173 days; 195 days), largely driven by a lower revenue and cost base for the preceding12 months on account of the COVID-19-induced decline in the scale of operations. However, the presence of strong counterparties in JKIL's order book and their track record of making timely payments, coupled with the company's endeavour to only undertake financially closed projects, is likely to mitigate this risk partially. The cash flow from operations rose to INR1,875 million in FY20 (FY19: INR140 million) on account of favourable movements in the working capital. JKIL had unencumbered cash and cash equivalents of INR620 million at end-December 2020 (end-FY20: INR591 million), while its repayments were manageable at INR976 million in FY21. The company utilised around 88% of its INR3,300 million fund-based consortium limits and 88% of its INR12,170 million non-fund-based consortium limits over the 12 months ended December 2020. However, JKIL has additional cushion in the form of project-specific fund-based limits of INR2,022 million and non-fund-based limits of INR17,646 million, which the company utilises based on the project-specific cash flows and other requirements, resulting in the liquidity remaining comfortable.

Strong, albeit Concentrated Order book: At end-December 2020, JKIL had a strong order book of INR109,167 million, indicating strong visibility of 3.6x of the FY20 revenue. Furthermore, in 4QFY21, the company has been declared as the lowest bidder for two metro projects worth about INR23,300 million, which significantly enhances its revenue visibility. However, the confirmed order book is concentrated in nature, since 51% of the orders comprise elevated (35%) and underground (16%) metro projects and 48% comprises projects in the roads, bridges and highways segments. The order book is also geographically concentrated, with 74% orders from Maharashtra and 25% orders from the national capital region. Moreover, the top five projects comprised 60% of the overall order book as of December 2020 (December 2019: 60%).

However, this risk is mitigated to some extent by the presence of strong counterparties and the fact that all the projects in the order book, barring one, are fast-moving. Furthermore, given JKIL's core competencies in the metros and flyovers segments, the company's enhanced ability to bid for complex and large-scale projects on its own and the thrust on infrastructure development by the central as well as respective governments of the geographies in which it operates, the agency expects the company to continue replenishing its order book and maintain its strong revenue visibility over the medium term.

Muted Operating Performance, Recovery in Sight: JKIL's revenue declined by 24.6% yoy in 9MFY21 to INR15,789 million owing to the COVID-19-led lockdowns, and the resultant labour shortages in 1HFY21, which led to the loss of around 20 construction days in April 2020, and slow mobilisation of the order book, given its urban-centric nature. However, the company has been able to ramp-up its operation significantly in 3QFY21, with the activities improving to near pre-COVID-19 levels and the demonstration of high efficiency, and expects to continue the trajectory in 4QFY21 as well, due to which the overall impact on revenue in FY21 is likely to be partially mitigated. In FY20, JKIL's revenue had increased by 6.6% yoy to INR29,705 million, led by faster execution of the order book. The growth in revenue would have been higher by 10%-12% yoy if the lockdown had not been enforced, as players in the industry typically witness higher execution pace in the fourth quarter of the year.

JKIL’s EBITDA margin declined to 13.1% in 9MFY21 (FY20: 14.4%, FY19: 15.7%, 9MFY20: 16.1%) on account of lower absorption of overheads due to the decline in revenue, and the measures adopted by the company to combat the impact of the pandemic. In FY20, the EBITDA margin had been impacted by the pandemic. Ind-Ra expects to JKIL to demonstrate pre-COVID-19 levels of profitability from FY22.

Moderation in Credit Metrics in FY21; Improvement Likely from FY22: JKIL’s credit metrics moderated in 9MFY21 due to a decline in the absolute EBITDA to INR2,070 million (FY20: INR4,289 million, FY19: INR4,363 million, 9MFY20: INR3,370 million), with the COVID-19-related disruptions having led to a lower scale of operations. In 9MFY21, JKIL's gross interest cover (gross interest expense / EBITDA) was 2.7x (FY20: 4.4x, FY19: 4.6x). The net leverage (total debt less unrestricted cash / EBITDA) increased marginally to 1.7x (trailing twelve months basis) at end-9MFY21 (FY20: 1.5x, FY19: 1.5x). While the leverage is likely to stay above the agency's negative trigger at end-FY21, the same might fall to levels that are comfortably below the negative trigger from FY22, driven by a recovery in execution. The interest coverage too is likely to improve to pre-COVID-19 levels from FY22 on account of higher absolute profitability and largely stable interest costs.

RATING SENSITIVITIES

Positive: A substantial improvement in the business profile as a result of diversification and/or reduction in project and segmental concentration would result in a positive rating action.

Negative: Any reduction in revenue visibility due to the cancellation/stalling of projects and/or any deterioration in the financial profile of the company, resulting from an elongation of the working capital cycle, or the net leverage remaining above 1.5x would be negative for the ratings.

COMPANY PROFILE

JKIL was incorporated in 1980 as a sole proprietorship concern. It was converted into a public company in 2007 and listed on the Bombay Stock Exchange and National Stock Exchange in 2008. JKIL is engaged in the construction of elevated and underground metro projects, roads, flyovers and bridges and civil construction activities.

FINANCIAL SUMMARY

Particulars	**9MFY21**	**FY20**	**FY19**
Revenue (INR million)	15,789	29,705	27,871
EBITDA (INR million)	2,070	4,289	4,363
EBITDA margin (%)	13.1	15.7	15.7
Total debt (INR million)	5,740	6,985	7,010
Interest coverage (x)	2.7	4.4	4.6

Unrestricted Cash	620	591	704
Net leverage (x)	1.7	1.5	1.5
Source: JKIL, Ind-Ra			

RATING HISTORY

Instrument Type	**Current Rating/Outlook**			**Historical Rating/Rating Watch/Outlook**		
	Rating Type	**Rated Limits (million)**	**Rating**	**20 March 2020**	**10 October 2018**	**11 May 2017**
Issuer rating	Long-term	-	IND A+/Stable	IND A+/Stable	IND A+/RWN	IND A+/Negative
Term loans	Long-term	INR1,482	IND A+/Stable	IND A+/Stable	IND A+/RWN	IND A+/Negative
Fund-based limit	Long-term	INR6,372	IND A+/Stable	IND A+/Stable	IND A+/RWN	IND A+/Negative
Non-fund-based limit	Short-term	INR34,866	IND A1	IND A1	IND A1/RWN	IND A1
Commercial paper	Short-term	INR250	IND A1	IND A1	IND A1/RWN	IND A1

COMPLEXITY LEVEL OF INSTRUMENTS

Instrument Type	Complexity Indicator
Term loans	Low
Fund-based working capital limits	Low
Non-fund based working capital limits	Low
Commercial paper	Low

For details on the complexity level of the instruments, please visit https://www.indiaratings.co.in/complexity-indicators.

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Applicable Criteria

Corporate Rating Methodology
Short-Term Ratings Criteria for Non-Financial Corporates

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