

Press Release

NKG Infrastructure Limited

March 04, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1050.00	-	ACUITE A1 Assigned
Bank Loan Ratings	350.00	ACUITE A- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	1400.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITÉ A-**' (read as **ACUITE A minus**) and short term rating of '**ACUITÉ A1**' (read as **ACUITE A one**) on the Rs 1400.00 Cr. bank facilities of NKG Infrastructure Limited (NKG). The outlook is '**Stable**'.

The rating assigned reflects NKG's healthy business profile supported by its strong project execution capabilities and long track record of more than three decades in work execution in the various sectors such as Roads, Water Supply, Hospital, Residential, Educational Institutions among others. The rating takes into account healthy and diversified order book. The rating also factors in the company's comfortable financial risk profile marked by a conservative capital structure and strong coverage ratios. These rating strengths are partially offset by NKG's working capital intensive operations, vulnerability of profitability to adverse fluctuation in raw material prices, the intensity of competition in industry due to tender driven nature of operations restricting profit margins.

Acuite takes note of the on-going CBI case against Mr. Pradeep Kumar Garg (Ex- Managing Director) of NKG. A legal case was registered by Central Bureau of Investigation (CBI) against its former Managing Director alleging loss to the exchequer to the extent of Rs.4.52 Crore in a tender floated by NOIDA Authority in 2011. Acuite notes that the company has deposited a sum of Rs.4.52 Crore with the CBI Court as per direction of the Hon'ble Supreme Court. Mr. Pradeep Kumar Garg is no longer a director and shareholder in NKG Infrastructure Limited and the management of the company is now with his two sons as Managing Director & Executive Director.

The aforementioned case is currently pending at the evidence stage. Any developments with regards to the aforementioned case will remain a key monitorable.

About the Company

NKG was originally set up by Mr. Naresh Kumar Garg and his family members in 1976 as a partnership firm, NK Garg and Company. In 1989 the company was reconstituted as Private limited and in 2005 as Public Limited Company. During its initial years of operations, NKG was involved in construction of roads in and around Ghaziabad (Uttar Pradesh). With 30 years of

experience in the construction industry, NKG has completed over 500 infrastructure projects in 15 different Indian states across various sectors like roads, bridges, buildings, water and sewage treatment plants, water pipelines, rainwater harvesting, electric transmission distribution stations/substations, and solar power plants. Major clients of the company are the public limited and Government owned like National Highway Authority of India (NHAI), Public Works Department in major states (PWD), Airport Authority of India (AAI), Employees' State Insurance (ESI), HSCC, NBCC, CPWD, DG-MAP, AIMS, MES, etc.

NKG infrastructure is a family owned company sons of Mr Pradeep Kumar Garg(brother of NK Garg) i.e Sarthak Garg and Archit Garg joined the company in 2015 and inducted as Managing Director and Executive Director in 2020 and 2021 and are managing the operations of the company along with their first cousin Mr Ankit Goyal who is also the Joint Managing Director in the company.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of NKG to arrive at the rating.

Key Rating Drivers

Strengths

>Long operational record and Strong order book

NKG was originally set up by Mr. Naresh Kumar Garg and his family members in 1976 as a partnership firm, NK Garg and Company. The firm was reconstituted as a private limited company, NK Garg and Company Pvt Ltd, in 1989, changed the name as NKG Infrastructure Pvt Ltd in 2005 and as a public limited company with the current name in 2006. The company has a long track record of more than four decades in the execution and construction of infrastructure projects in different states.

NKG has a healthy order book of Rs 5,221 crore pending to be executed as on 31.01.2022 that include part completed 24 projects. In FY 2021, the company has obtained new orders of Rs 2,968.59 crore that is almost 3 times of the average top line of the company. Also, the company has project of Rs 2,255 crore of Rural water supply with SWSM (UP JAL NIGAM for 10 years) in pipeline at L1 stage. The orders are expected to be completed within next one-three years, indicating a satisfactory medium term revenue visibility. The long established track record is also reflected through marginal growth in revenue from Rs 1109 crore in FY 2020 to Rs 1135 crore in FY 2021. And also, in current FY the company has already booked Rs1114.82 crore of revenue till December, 2021 and are expecting to achieve revenue of Rs 1441.46 crore for FY 2022 showing 27% growth.

Acuité believes NKG will continue to benefit from its long track of operations, strong order book and the rich experience of the management.

>Geographically well diversified projects under Different Sector

The company has diversified projects to be executed in different states. Currently 24 projects in hand ranges from road and Highways, Redevelopment, Residential, Educational institutions, Sewage and Water works etc in 14 different states like Delhi, Punjab, J&k, Madhya Pradesh, Andhra Pradesh, Haryana, Uttarakhand, Leh, Rajasthan, Goa, Gujarat, UP, Maharashtra, Odisha, Jharkhand, etc. The company has recently increased its order book in Hospital sector as Government has recently increased its funding to this sector on the eve of Covid 19. In FY 2020 the 40% of the order book constitute of Roads and Housing constructions which gradually reduced and in FY 2022 the total income include 40% from Hospitals and Scientific Research and Convention Centres. The company is going for diversification and are mainly considering for big size ticket projects where there will be lesser competition and better profit margin.

>Above Average financial risk profile

The company has above average financial risk profile and strong debt protection matrices. The company has strong net worth which is increasing over the years with ploughing back of profits. TNW increases from Rs 744.61 crore as on 31.03.2020 to Rs 789 crore as on 31.03.2021. The company has a total debt of Rs 191.75 crore which constitutes of Long term debt of Rs

50.37 crores, short term debt of Rs 118.51 crore, USL of Rs 3.44 crore and CPLTD of Rs 19.42 crore. The company follows a conservative financial policy with gearing ratio at 0.24 times as on 31st March, 2021 and 0.33 times as on 31st March, 2020. TOL/TNW also stood at 0.48 times as on 31st March, 2021 and 0.61 times as on 31st March, 2020. Interest coverage ratio stood at moderate level of 2.90 times and DSCR at 2.21 times in FY 2021.

Acuité believes that the financial risk profile of the NKG is likely continue to remain healthy on account of steady margins and conservative financial policy.

>Stable Cash Inflows from Solar Power Plant

NKG has set up a 10 MW Solar power plant in Gujarat, commissioned in 2012 and the company has entered into a long term power purchase agreement with Gujarat Urja Vikas Nigam Limited (GUVNL) for the sale of power from this plant at a tariff of INR 15.00 per unit till February 2024 and INR 5.00 from March 2024 onwards till 2037 (for next 13 years of operation). It attributes Rs 23.94 Crore to the revenue every year on an average in last 5 years.

Weaknesses

>Working Capital Intensive Operations

Company has a working capital intensive operations marked by GCA days of 225 as on FY 2021 as against the GCA days of 242 days in FY 2020. The inventory days stood at 89 in FY 2021 as against 129 days in FY 2020 and debtor days stood at 82 in FY 2021 against 54 days in FY 2020. Inventory days has reduced and debtor days have increased in FY 2021 due to higher income booked i.e 45% in last quarter of FY 2021. However, the payment terms with debtors are within 90 days. The average bank limit utilization of the company remains at around 90% for both fund based and non-fund based limits.

>Highly Competitive Industry

The infrastructure is a fairly fragmented industry with a presence of few large pan India players where subcontracting & project specific partnerships for technical/financial reasons are fairly common. The company faces stiff competition with its competitors in procuring orders through bidding, immense competition for procuring tenders leads to very competitive pricing which in turn lead to stress on the margins. Moreover, susceptibility of raw material pricing again keeps profit margin vulnerable and is a key sensitivity factor. However, presence of price escalation clause prevents the company from exposure to raw material price fluctuations to some extent.

Also, the vast experience of the promoters give the company an edge in procuring big size ticket orders but the stability of the order size in diversified segment is the key sensitive factor.

ESG Factors Relevant for Rating

The infrastructure development industry has a significant social impact since it is a labour intensive business. Further, community support and development, employee safety and human rights are material factors from the social perspective. Governance issues that assume relevance include board and management compensation, shareholders rights and board diversity. The extent of direct or indirect emissions and the efficiency of deployment of vehicle fleets and heavy machinery has a considerable impact in the environmental performance of this industry. Since material costs are relatively high, strategies should be in place to reduce wastages and recycle raw materials to the extent possible to minimise the environmental impact.

NKG adheres to execute the project with consistent cost control and quality assurance. The social initiatives of NKG includes activities like eye donation camps, blood donation camps, plantation activities and development of 200 houses for labor forces. The company conducts the social events for the upliftment of labour forces.

On the corporate governance front, the company applies internal governance structures such as Code of Conduct, Business Excellence Model and Code of corporate disclosure policies. Also, the NKG has separate Audit Committee and Nomination and Remuneration Committee.

Rating Sensitivities

- Improvement in scale of operations and profitability margin.
- Healthy and stable order book with timely execution.
- Elongation in working capital cycle.

Material covenants

None

Liquidity Position: Adequate

The liquidity of the company is adequate marked by sufficient net cash accruals against its maturing debt obligations. The company has a Net cash accruals of Rs 79.91 crores in FY 2021 against the maturing debt obligation of Rs 19.42 crore. Also, the company is expecting a sufficient net cash accruals of Rs 108.85-176.53 crore over the medium term against the debt repayment obligation of Rs 13.70-18.41 crore. NKG Infrastructure Ltd has an unencumbered cash and bank balance of Rs 22.97 crore and current ratio at 2.79 as on 31 st March, 2021. The average bank limit utilization for fund based and non-fund based limits is 87% and 94% respectively for 9 months ending December 2021. The Company has a strong eligibility of mobilization advances for the current projects however as a practice, it restrains from relying on these advances due to higher interest rates and sufficient liquidity in the business.

Outlook: Stable

Acuité believes the outlook on NKG will remain 'Stable' over the medium term backed by its long track record of operations, strong order book position and healthy financial risk profile. The outlook may be revised to 'Positive' if the company is able to ramp up its scale of operation along with sustenance in the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in liquidity profile due to increase in working capital requirement

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	1135.01	1109.45
PAT	Rs. Cr.	43.35	36.22
PAT Margin	(%)	3.82	3.26
Total Debt/Tangible Net Worth	Times	0.24	0.33
PBDIT/Interest	Times	2.90	2.62

Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	395.00	ACUITE A1 Assigned
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	110.00	ACUITE A1 Assigned
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	90.00	ACUITE A1 Assigned
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A1 Assigned
Central Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A1 Assigned
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A- Stable Assigned
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A- Stable Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A- Stable Assigned
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	57.50	ACUITE A- Stable Assigned
Central Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE A- Stable Assigned
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	355.00	ACUITE A1 Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A- Stable Assigned
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	54.21	ACUITE A- Stable Assigned
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	10.59	ACUITE A- Stable Assigned
HDB Financial	Not	Term Loan	Not	Not	Not	2.39	ACUITE A-

Services Ltd.	Applicable		available	available	available		Stable Assigned
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	0.11	ACUITE A- Stable Assigned
Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	8.62	ACUITE A- Stable Assigned
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	18.29	ACUITE A- Stable Assigned
Kotak Mahindra Prime Limited	Not Applicable	Term Loan	Not available	Not available	Not available	0.12	ACUITE A- Stable Assigned
Mahindra & Mahindra Financial Services Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	0.82	ACUITE A- Stable Assigned
Tata Motors Finance Solutions Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	4.85	ACUITE A- Stable Assigned

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About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,850 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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