

## Press Release

### NKG Infrastructure Limited

April 05, 2023



### Rating Reaffirmed

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

### Rating Rationale

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

#### Rationale for rating reaffirmation

The rating reaffirmation is majorly on account of long track record and established position of the company in the construction industry along with extensive experience of the promoters. The rating also takes into account the healthy business risk profile of the company supported by strong order book position providing adequate revenue visibility over the medium term. The rating also factors in the healthy financial risk profile and adequate liquidity position of the company. These rating strengths are partially offset by subdued operations during the current financial year, working capital intensive nature of operations, vulnerability of profitability towards adverse fluctuation in raw material prices and the intensity of competition in the industry due to tender driven nature of business.

Acuité also 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 Cr. 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, B&R Company India Limited, UPRNN etc.

### **Analytical Approach**

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

### **Key Rating Drivers**

#### **Strengths**

##### **Established track record of operations and strong order book position**

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 unexecuted order book of Rs 5,224 Cr. as on 31st December 2022. The orders are expected to be completed within next one- three years providing adequate revenue visibility over near to medium term. Furthermore, with strong project execution capabilities of the company, the revenue from operations of the company witnessed growth from Rs 1135.01 Cr. in FY21 to Rs.1727.56 Cr. in FY22. However, the revenues of the company remain subdued in FY23 reflected by revenues of Rs.958.85 Cr. revenue in 9MFY22.

Acuité believes NKG will continue to benefit from its established track of operations, extensive experience of the management and of strong order book position of the company.

##### **Geographically well diversified projects under different Sectors**

The company has diversified projects to be executed in different states. Currently, the company has 25 projects in hand ranges from Road and Highway Works, Redevelopment Works, Airports, Educational Institutions, Hospitals, Heritage / Amusement Park, Scientific Research/Convention Centre, Sewer and Water Works, Sustainable Energy (Solar), Electrical Works (O&M Works) in 14 different states like Delhi, Punjab, J&K, Madhya Pradesh, Andhra Pradesh, Haryana, Uttarakhand, Leh, Rajasthan, Goa, Gujarat, UP, Maharashtra, Odisha, Jharkhand, etc. In FY22, hospitals and scientific research/convention centre constituted the highest order book position of ~38% and ~12% respectively.

##### **Healthy Financial Risk Profile**

The financial risk profile of the company remained healthy marked by high net worth, low gearing, and comfortable debt protection metrics. The tangible net worth of the company stood high at Rs.883.92 Cr. in FY22 as compared to Rs. 789.00 Cr. in FY21. The gearing of the company remained low at 0.31 times as on 31 March 2022 compared against 0.24 times same period last year. The total debt of the company stood at Rs. 278.25 Cr. as on 31st March 2022 as against Rs. 191.75 Cr. as on 31st March 2021. The debt outstanding of the company comprises of long-term debt of Rs. 58.20 Cr., Unsecured loans worth Rs. 5.09Cr. and Rs. 214.96 Cr. of short-term debt.

The TOL/TNW deteriorated yet remain low at 0.73 times as on 31st March 2022 as against 0.48 times as on 31st March 2021. The debt protection metrics remains comfortable marked by debt service coverage ratio and interest coverage ratio of 2.52 times and 4.29 times for FY22 compared against 2.21 times and 2.90 times for FY21 respectively.

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

## **Weaknesses**

### **Working Capital Intensive Nature of Operations**

The operations of the company are working capital intensive in nature marked by high GCA days of 220 days for FY22 compared against 225 days for FY21. The high GCA days is majorly on account from inventory days due to the nature of the construction industry which has a higher work in progress construction projects. The inventory levels of the company stood at 86 days during the same period compared against 89 days for FY21. Simultaneously, the receivable days of the company stood at 87 days for FY22 as compared to 82 days for FY21. The creditor days of the company stood at 56 days for FY22 compared against 46 days for FY21. The intensive working capital nature of operations has led to high reliance on working capital borrowings reflected by average bank limit utilisation for fund-based facilities of 92.81% and 93.39% for non-fund-based facilities for seven months ended January 2023.

Acuité believes that the working capital management from the company will remain a key rating sensitivity going ahead.

### **Exposure to Intense competition in a fragmented 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 a 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 of projects
- Further elongation in working capital cycle

## Material covenants

None

## Liquidity Position Adequate

The liquidity position of the company remained adequate on account of adequate net cash accruals against matured debt obligations. The net cash accruals of the company stood at Rs. 118.71 Cr. against matured debt obligations of Rs. 19.42 Cr. during the same period. Also, the company is expected to generate net cash accruals of Rs.107.67 Cr. to Rs.153.47 Cr. in FY23-25 period as against maturing repayment obligations of Rs.23.61 Cr. to Rs.7.86 Cr. during the same period. However, the average fund-based utilisation by the company remains highly utilised at 92.81% for last seven months ended January 2023 on account of working capital intensive nature of operations. Also, the company maintains a cash balance of Rs. 1.16 Cr. as on 31st March 2022. 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

## Other Factors affecting Rating

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	1727.56	1135.01
PAT	Rs. Cr.	75.84	43.35
PAT Margin	(%)	4.39	3.82
Total Debt/Tangible Net Worth	Times	0.31	0.24
PBDIT/Interest	Times	4.29	2.90

## 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

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in)

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
04 Mar 2022	Bank Guarantee	Short Term	395.00	ACUITE A1 (Assigned)
	Cash Credit	Long Term	57.50	ACUITE A-   Stable (Assigned)
	Proposed Cash Credit	Long Term	35.00	ACUITE A-   Stable (Assigned)
	Cash Credit	Long Term	100.00	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	0.11	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	10.59	ACUITE A-   Stable (Assigned)
	Cash Credit	Long Term	17.50	ACUITE A-   Stable (Assigned)
	Proposed Bank Guarantee	Short Term	355.00	ACUITE A1 (Assigned)
	Cash Credit	Long Term	30.00	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	0.82	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	18.29	ACUITE A-   Stable (Assigned)
	Bank Guarantee	Short Term	50.00	ACUITE A1 (Assigned)
	Term Loan	Long Term	4.85	ACUITE A-   Stable (Assigned)
	Bank Guarantee	Short Term	50.00	ACUITE A1 (Assigned)
	Term Loan	Long Term	8.62	ACUITE A-   Stable (Assigned)
	Proposed Term Loan	Long Term	54.21	ACUITE A-   Stable (Assigned)
	Cash Credit	Long Term	10.00	ACUITE A-   Stable (Assigned)
	Bank Guarantee	Short Term	90.00	ACUITE A1 (Assigned)
	Bank Guarantee	Short Term	110.00	ACUITE A1 (Assigned)
	Term Loan	Long Term	0.12	ACUITE A-   Stable (Assigned)
	Term Loan	Long Term	2.39	ACUITE A-   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	395.00	ACUITE A1   Reaffirmed
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE A1   Reaffirmed
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	90.00	ACUITE A1   Reaffirmed
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	77.50	ACUITE A1   Reaffirmed
Central Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	50.00	ACUITE A1   Reaffirmed
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	140.00	ACUITE A1   Reaffirmed
Axis Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A-   Stable   Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A-   Stable   Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	100.00	ACUITE A-   Stable   Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	22.50	ACUITE A-   Stable   Reaffirmed
Central Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	17.50	ACUITE A-   Stable   Reaffirmed
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE A-   Stable   Reaffirmed
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	197.50	ACUITE A1   Reaffirmed
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	69.68	ACUITE A-   Stable   Reaffirmed
Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	12.64	ACUITE A-   Stable   Reaffirmed
HDB Financial Services Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	5.97	ACUITE A-   Stable   Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.08	ACUITE A-   Stable   Reaffirmed

Indusind Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	14.39	ACUITE A-   Stable   Reaffirmed
Kotak Mahindra Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	16.89	ACUITE A-   Stable   Reaffirmed
Kotak Mahindra Prime Limited	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.38	ACUITE A-   Stable   Reaffirmed
Mahindra & Mahindra Financial Services Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.48	ACUITE A-   Stable   Reaffirmed
Tata Motors Finance Solutions Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.40	ACUITE A-   Stable   Reaffirmed
Life insurance corporation of india	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.98	ACUITE A-   Stable   Reaffirmed
Hinduja Leyland Finance Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.17	ACUITE A-   Stable   Reaffirmed
Daimler Financial Services Private Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.63	ACUITE A-   Stable   Reaffirmed
Caterpillar Financial Services Private Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.31	ACUITE A-   Stable   Reaffirmed
Tata Motors Finance Solutions Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.00	ACUITE A-   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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