



## Press Release

### NKG Infrastructure Limited

September 27, 2021

#### Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long term Bank Facilities	263.81	IVR BBB+/ Stable (IVR Triple B Plus with Stable Outlook)	Assigned
Short Term Bank Facilities	710.08	IVR A2 (IVR A Two)	Assigned
Short Term Bank Facilities (Proposed)	146.11	IVR A2 (IVR A Two)	Assigned
<b>Total</b>	<b>1,120.00</b>		

#### Details of Facilities are in Annexure 1

#### Detailed Rationale

The aforesaid rating assigned to the bank facilities of NKG Infrastructure Limited (NKGIL) derive comfort from its long track record of operation and experienced promoters, along with its proven project execution capability. The rating also factors in its healthy unexecuted order book of ~Rs.5577 crore as on June 30, 2021, which is about 5x of its FY21 construction revenue reflecting satisfactory near to medium term revenue visibility, Healthy profitability margins, comfortable capital structure with satisfactory debt protection metrics and stable cash inflows from solar power plant. These rating strengths are partially offset by vulnerability of profitability to adverse fluctuation in raw material prices, inherent risk as civilcontractor, tender driven nature of operation restricting the profit margins in the backdrop of high competition from other players in the industry and on-going CBI case against the company.

A legal case was registered against the company and its then Managing Director by a CBI Investigation in 2016 alleging that the Noida Authority allegedly violated terms of tender conditions in a tender floated in 2011 which was awarded to NKG Infrastructure Ltd. However, in March 2016 based on an investigation carried out by CBI, the allegations of tender formalities being violated while allotting the above-mentioned contract was registered against NKG Infrastructure Limited. CBI concluded its investigation and estimated the loss of Rs. 4.52 Crore to the exchequer. Subsequently, Mr. Pradeep Kumar Garg, former MD of NKG Infrastructure Limited, appeared before the court and was sent into judicial custody. At



## Press Release

the direction of the Hon'ble Supreme Court, while allowing regular bail, the company deposited fixed deposit of Rs.4.52 Crore with the CBI Court for the said alleged loss. Further, Mr. Pradeep Kumar Garg was released on bail by the Hon'ble Supreme Court of India on June 01, 2018. Mr. Pradeep Kumar Garg is no longer a director in NKG Infrastructure Limited and has inducted his two sons as the Managing Director and the Executive Director as per succession plan with no shareholding exist of Mr. Pradeep Kumar Garg in the company. Any adverse outcome of the ongoing legal proceedings against the company will continue to be a key monitorable going ahead.

### **Key Rating Sensitivities**

#### **Upward Factors**

- ✓ Sustenance of growth in scale of operations with improvement in profitability.
- ✓ Steady flow of orders & timely execution of the same on a sustained basis.
- ✓ Containment of operating costs in the wake of increasing competition.
- ✓ Sustenance of capital structure.

#### **Downward Factors**

- ✓ Elongation in working capital cycle.
- ✓ Any deterioration in liquidity profile on a sustained basis.
- ✓ Moderation in the capital structure with deterioration in overall gearing.

### **Detailed Description of Key Rating Drivers**

#### **A. Key Rating Strengths**

##### **✓ Experienced promoters:**

Company's Board comprise of young, qualified, and experienced professionals who could add value to the aspirations of the company by attaining its vision and mission ambitions through the dedicated team of executives and employees at all levels. Presently, Mr. Archit Garg (eldest son of Mr. Pradeep Kumar Garg) Mechanical Engineer and Master of Business Administration by qualification is the Managing Director since December 2020 who is ably supported by Mr. Ankit Goyal (Electrical & Electronic Engineer and Master of Business Administration) & Mr. Sarthak Garg (Commerce Graduate and Chartered Accountant). Other directors in the company are MR. Ashutosh Gupta (Whole Time Director) and Mr. Furquan



## Press Release

Ali Khan (Whole Time Director). All the directors are competent and experienced to manage the business successfully.

✓ **Long track record of operations with proven project execution capability:**

NKGIL has a long track record in the execution and construction of infrastructure projects in different states of the country for over four decades. The company commenced its first operation as a partnership firm in 1976, converted into Private Limited Company on 27th July 2005 and to a limited company on 9th January 2006. During initial years, its operations were confined to the state of Uttar Pradesh particularly in and around Ghaziabad area with focus on construction of roads and bridges. In 2002 the company diversified its operations across various sectors as well as geographies. NKG is primarily focusing on Central Government and State Government funded projects from Clients like AIIMS, AAI, PGIMER, IIT, IIM, PDUU, IPU, IISER and B&R besides public sector autonomous bodies who float tender on behalf of their public sector clients like CPWD, NBCC, NHIDCL, HSCC, Bridge & Roof etc. Company is engaged in construction of roads, bridges, underpasses, commercial & re-development of residential colonies, hospitals, educational institutions, airports, power station, water treatment and hydro projects etc. in various states of the country i.e. Delhi, Uttar Pradesh, Uttarakhand, Punjab, Haryana, Goa, Leh, J&K, Andhra Pradesh, Gujarat, Rajasthan, Madhya Pradesh, Chhattisgarh, Odisha and Jharkhand etc. NKGIL also commissioned a 10MW Solar Power Project in the State of Gujarat in March-2012 where the company has long term Power Purchase Agreement (PPP) entered with the Gujarat Urja Vikas Nigam Limited (GUVNL) which is valid till 2037.

✓ **Strong order book position reflecting satisfactory medium-term revenue visibility**

The company has a strong unexecuted order book of Rs.5,577 crore as on June 30, 2021, which is about 5x of its FY21 construction revenue. The orders are expected to be completed within next one-three years, indicating a satisfactory near to medium term revenue visibility.

✓ **Healthy profitability and above average financial risk profile:**

The financial risk profile of the company remained comfortable marked by its comfortable capital structure and satisfactory debt protection metrics backed by healthy profitability. Over the past three years the company has maintained a healthy profitability marked by



## Press Release

satisfactory EBITDA margin, healthy PAT margin and comfortable gross cash accruals. In FY21, NKGIL witnessed a healthy EBITDA margin of 11.84% and PAT margin of 3.56%. The healthy profit margin was mainly on account of consistent cost control and efficiency measures stipulated by the Company. Also in past, the Company did certain capital expenditure at its plant and machinery and back-end infrastructure which has reduced the operating overheads and brought in efficiency. Driven by healthy EBITDA margin, the PAT margin also remains healthy at 3.56% in FY2021. Further, in FY2021, NKGIL achieved a PAT of Rs.43.35 crore on a total operating income of Rs.1135.01 crores.

✓ **Comfortable capital structure with healthy debt protection metrics**

The overall gearing of the company stood comfortable at 0.23x as on March 31, 2021 (PY: 0.32x as on March 31, 2020). The debt protection indicators of the company like interest coverage have remained satisfactory at above 4.28x in FY2021 (3.57x in FY2020). Total Debt/GCA though reduced from 3.81 years in FY19 to 2.2 years in FY21 mainly due to decrease in borrowings continued to remain satisfactory. Further, total indebtedness of the company as reflected by TOL/TNW remained comfortable at 0.47x as on March 31, 2021 (0.60x in FY2020).

✓ **Stable cash inflows from solar power plant:**

NKG has setup a 10MW solar power plant in Charanka Solar Park, Gujarat. The plant was commissioned in March, 2012 and the company has entered into a long term power purchase agreement (PPA) with Gujarat Urja Vikas Nigam Limited (GUVNL) for sale of power at a tariff of Rs.15.00 per unit till 2024 and Rs.5.00 per unit from 2025 till 2037. During FY21, the company earned revenue of Rs.23.33 crore as against Rs.23.19 crore during FY20 from its solar power plant, which became completely debt free in December 2017. Further, the company receives payments from GUVNL within 5-8 days of raising the invoice.

### **B. Key Rating Weaknesses**

✓ **Tender-based nature of operations with intense competition in the industry**

The domestic construction sector is highly crowded with presence of many players with varied statures & capabilities. Further, NKGIL receives all its work orders from government departments through tenders floated by the departments and based on its ability to secure



## Press Release

these tenders amidst intense price war. Profit margin of the company may come under pressure because of this competitive nature of the industry. However, the promoters' long industry presence imparts comfort.

✓ **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, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour cost forms the majority chunk of the total cost of sales for the last three years. 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. However, presences of price escalation clause (for raw materials) in almost all the contracts protect the margin to a great extent.

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

The domestic infrastructure sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in 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 users with respect to quality of output.

✓ **Moderate Working Capital intensity**

Construction business, by its nature, is working capital intensive as a large amount of working capital remains blocked in earnest money deposits and retention money. This apart, its clients are government departments/entities having various procedural requirements where payments are relatively slow. The Operating Cycle stood high at 135 days in FY21 driven by elongated inventory cycle of 109 days and average collection period 69 days. Despite the moderate trade receivables, comfort can be derived from the fact that the dues are from various government departments. Further, the company's creditor's period is also high as it tries to match the payments of its suppliers with its receipt of payments from debtors.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Infrastructure Companies





## Press Release

Financial Ratios & Interpretation (Non-Financial Sector)

### **Liquidity: Adequate**

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and moderate cash and bank balance of Rs.67.89 crore (including encumbered cash balances against the margin money for BG) as on March 31, 2021. The company has generated gross cash accruals of Rs. 84.04 crores (PY: Rs. 67.77 crores) in FY21 against scheduled debt repayments of around Rs.19.42 crore in FY2022. Further, the company has no planned capex for next two fiscal or availment of long-term debt plan which imparts comfort. Its bank limits are utilized to the extent of 85% during the past 12 months ended July, 2021. The liquidity position of the company is supported by its above unity current ratio.

### **About the Company**

NKG Infrastructure Limited (NKG) was set up by Mr. Naresh Kumar Garg in 1976 as a partnership firm, N.K. Garg & Company and was subsequently converted to a closely held public limited company under its current name NKG Infrastructure Limited in January 2006. The company executes projects on a turnkey basis and is engaged in construction of roads, bridges, building underpasses, power station, water projects, hospitals, hydro projects & other structures in Uttar Pradesh, Uttarakhand, Haryana, Delhi, Punjab, Goa, Jammu & Kashmir, Gujarat and Chhattisgarh.

The company also forayed into solar power by setting up a Greenfield 10MW Solar Power project at Charanka Solar Park in Gujarat during the year 2011-12 and the plant became operational in March 2012.

### **Financials (Standalone basis)**

For the year ended / As on*	(Rs. In Crore)	
	31-03-2020 (Audited)	31-03-2021 (Audited)
Total Operating Income	1109.45	1135.01
EBITDA	121.09	134.44
PAT	36.22	43.35
Total debt	242.05	185.50
Tangible Net worth	750.85	795.24



## Press Release

PAT margins (%)	3.24	3.80
EBITDA margins (%)	10.91	11.84
Overall Gearing Ratio (x)	0.32	0.23

\*classification as per Infomerics standard

**Status of non-cooperation with previous CRA:** Nil

**Any other information:** N.A

**Rating History for last three years:**

S. No.	Name of Instrument/ Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Fund based Facilities—CC/WCDL/TL	Long Term	263.81	IVR BBB+/Stable	-	-	-
2.	Non-Fund Based Facilities – Bank Guarantees	Short Term	710.08	IVR A2	-	-	-
3.	Non-Fund Based - Proposed	Short Term	146.11	IVR A2	-	-	-

**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](http://www.infomerics.com).

**Name and Contact Details of the Rating Analyst:**

Name: Mr. Ravi Prakash

Tel: (011) 24655636

Email: [rprakash@infomerics.com](mailto:rprakash@infomerics.com)

Name: Mr. Om Prakash Jain

Tel: (011) 24655636

Email: [opjain@infomerics.com](mailto:opjain@infomerics.com)

**About Infomerics:**

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial



## Press Release

services is helping it to fine tune its product offerings to best suit the market.

**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, suspend 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.

### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long term Bank Facilities – Cash Credit	-	-	Revolving	92.00	IVR BBB+/ Stable
Long term Bank Facilities – WCDL	-	-	Revolving	123.00	IVR BBB+/ Stable
Long term Bank Facilities – Term Loans	-	-	Multiples	48.81	IVR BBB+/ Stable
Short Term Bank Facilities – Bank Guarantees	-	-	-	710.08	IVR A2
Short Term Bank Facilities – Proposed	-	-	-	146.11	IVR A2

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

**Annexure 3: Facility wise lender details** <https://www.infomerics.com/admin/prfiles/Lender-NKG-27-09-21.pdf>





## Press Release

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

**Annexure 5: Complexity level of the rated Instruments/Facilities**

Sr No.	Instrument	Complexity Indicator
1.	Working capital (CC/WCDL)	Simple
2.	Bank Guarantee	Simple
3.	Term Loan	Simple

**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](http://www.infomerics.com).