KCP Infra Limited
April 29, 2025

Ratings

Instrument / Facility	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Facilities	^20.00 (Reduced from Rs.30.00 crore)	IVR BBB+/Negative (IVR Triple B Plus, Negative Outlook)	IVR A-/Negative (IVR Single A Minus, Negative Outlook)	Rating downgraded	Simple
Short Term Facilities	^49.00 (Reduced from Rs.59.00 crore)	IVR A2 (IVR A Two)	IVR A2+ (IVR A Two Plus)	Rating downgraded	Simple
Long Term/ Short Term Facilities	101.00	IVR BBB+/Negative/ IVR A2 (IVR Triple B Plus, Negative Outlook/ IVR A Two)	IVR A-/Negative; IVR A2+ (IVR Single A Minus, Negative Outlook/ IVR A Two Plus)	Rating downgraded	Simple
Fixed Deposit	50.00	IVR BBB+/Negative (IVR Triple B Plus, Negative Outlook)	IVR A-/ Negative (IVR Single A Minus, Negative Outlook)	Rating downgraded	Simple
Total	**220.00 (Rupees Two Hundred and twenty Crore Only)**				

(^The Cash credit and Bank guarantee limits rated in the previous year amounting Rs.10.00 crore each, have been withdrawn based on No Due Certificate from Indian Overseas Bank and at the request of the company and the same is in line with Infomerics policy on withdrawal.)

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

Infomerics Ratings has downgraded its rating assigned to the Bank facilities and Fixed Deposit programme of KCP Infra Limited, due to the substantial decline in the total operating income & profitability in FY25 (refers to the period from April 01, 2024 to March 31, 2025). The company has also reported moderation in the order book position.

The rating however, continues to derive strength through its experienced promoters, proven project execution capability with reputed clientele, comfortable capital structure and debt coverage indicators and its adequate liquidity position. The rating however continues to remain subdued by highly fragmented & competitive nature of the construction sector with significant price war, project execution risk and susceptibility of operating margin to volatile input prices. The continuation of the 'Negative' outlook to the bank facilities and Fixed Deposit Programme, reflects further expected moderation of the overall financial performance of the company in FY26 (refers to the period from April 01, 2025 to March 31, 2026) due to low unexecuted order book position.

The cash credit and bank guarantee limits amounting to Rs.10.00 crore each has been withdrawn as No Dues Certificate has been received from the bank dated April 24, 2025. The company request for withdrawal has also been received. The rating withdrawn is in line with Infomerics' policy on withdrawal of rating.

Key Rating Sensitivities:

Upward Factors

- Sustainable increase in scale of operations and profitability margins
- Ability to acquire new orders boosting the revenue visibility along with improvement in cash conversion cycle

Downward Factors

- Any significant delays in execution of orders resulting in any decline in income on sustained basis.
- Any major debt funded capex of more than Rs.100.00 crore leading to any deterioration in capital structure with overall gearing
- 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

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experience 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

Over the past decade, the company has successfully completed projects for various government and private entities. They are one of the major contractors in Tamil Nadu 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. However, the current order book is concentrated in the sectors of irrigation and road construction only.

Comfortable capital structure and debt coverage indicators

The capital structure of the company remained comfortable with overall gearing of 0.26x as of March 31, 2024 (0.15 as on March 31, 2023). The company has availed working capital loans to meet its short-term funding requirements during the year, leading to minor moderation of debt profile of the company as on March 31, 2024 (A).

Accordingly, the total debt / NCA moderated on y-o-y basis to 2.34x as on March 31, 2024 as compared to 0.90x as on March 31, 2023. However, due to reduced reliance on other outside borrowings and also due to the accretion of the profits to reserves, the total outside liabilities to tangible net worth of the company remained almost stable at below unity as on March 31, 2024 and March 31, 2023, respectively.

The interest expense remained almost stable for the year FY24 (refers to the period from April 01, 2023 to March 31, 2024), however with the decline in the overall sales, the interest coverage ratio moderated on y-o-y basis, albeit continued to remain comfortable at 4.63x for the year FY24 (A) as compared to 5.61x for the year FY23 (refers to the period from April 01, 2022 to March 31, 2023). With the moderation in the scale of operations in FY25 the company has reported further moderation in the interest coverage ratio to 3.91x.

Key Rating Weaknesses

Moderation in scale of operations and range bound profitability

The scale of operations of the company reduced by around 40% from FY23 (A) to Rs.428.33 crore in FY25. The reduction in the total operating income so registered was partially due to the imposition of model code of conduct for general elections and partially increase in the prices of blue metals leading to slow movement of many orders. The company also exited from many orders which it had acquired as a sub-contractor citing its non-viability to execute the same due to increased raw material prices.

With the overall reduction in the scale of operations and the increase in the prices of select raw materials the company has reported a decline in the operating profitability to 6.74% reported in FY25 (Estimated) as compared to 7.36% reported in FY24 (A). Similar declining trend is visible in the PAT margins reported for the year FY25 of 4.40%. The overall increase in the scale of operations and profitability will remain a key rating sensitivity.

Deterioration in the order book position and geographical concentration risk

The unexecuted order book position of the company reduced substantially to Rs.411.84 crore as of March 31, 2025 [translates to less than 1x of FY25's revenue] due to the cancellation of various orders availed on sub-contracting basis which were not viable due to the raw material price hike and the slow execution of various other orders. Furthermore, the company has put the plan in abeyance to participate in the HAM projects of NHAI in FY25. The receipt of the new orders, and the execution of the existing orders as well as the new orders so availed is expected to stabilize post H2FY26 (refers to the period from October 01, 2025 to March 31, 2026) only. Furthermore, the existing order book of the company continued to remain geographically concentrated with almost entire order book located in the state of Tamil Nadu. However they are making efforts to diversify geographically. 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.

Search and seizure operations conducted by Income Tax (IT) Department and Directorate of Vigilance and Anti-Corruption (DVAC)

There was a search and seizure conducted by the IT Department and DVAC in July 2022 and August 2021, respectively. The DVAC had freeze a significant amount of company's fixed deposit held in the bank account since last 3-4 years. Any negative or outcome of the proceeding can impact the company's liquidity in the short to medium term. The developments of this order and the impact of the same on the company will remain a key rating monitorable.

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

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 saleability 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. However, comfort can be derived from the presence of escalation clause in majority of the orders.

Analytical Approach: Standalone

Applicable Criteria:

Rating methodology – Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

Policy on withdrawal of ratings

Liquidity – Adequate

Liquidity is adequate marked by sufficient accruals to repay its long-term debt obligations. The operating cycle of the company moderately elongated to 109 days as on March 31, 2024 due to stretched inventory holding period of 56 days as on March 31, 2024 as compared to the inventory holding period of 38 days as on March 31, 2023. The effect of the elongation in the inventory period is partially offset by the marginal reduction in the collection cycle to 69 days as on March 31, 2024 from 76 days March 31, 2023, and the creditor holding period of around 15/16 days for both the year end. The elongated collection cycle is also due to the funds remaining blocked for the defect liability period as inherent in the infrastructure sector. The company availed sanction of fund based working capital limits of Rs.30.00 crore, whose average utilization stood at around 34% for the past 12 months ended on August 31, 2024.

<u>About the Company</u>

M/s. KCP Infra Limited (previously known as KCP Engineers Pvt Ltd) is a 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.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	725.05	625.72
EBITDA	60.28	44.93
PAT	40.29	27.09
Total Debt	41.56	80.00
Tangible Net Worth	274.95	302.08
EBITDA Margin (%)	8.31	7.18
PAT Margin (%)	5.48	4.23
Overall Gearing Ratio (x)	0.15	0.26
Interest Coverage (x)	5.61	4.63

** Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: None

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Security/ Facilities	Current Ratings (Year 2025-26)			Rating History for the past 3 years		
		Type (Long Term/ Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2024-25	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23
					November 15, 2024	August 30, 2023	July 18, 2022
1.	Cash Credit	Long term	20.00	IVR BBB+/ Negative	IVR A-/ Negative	IVR A-/ RWNI	IVR A-/ Stable
2.	Bank Guarantee	Short term	49.00	IVR A2	IVR A2+	IVR A2+/ RWNI	IVR A2+
3.	Proposed Bank Guarantee	Long term / Short Term	101.00	IVR BBB+/ Negative/ IVR A2	IVR A-/ Negative / IVR A2+	IVR A-/ RWNI/ IVR A2+/ RWNI	IVR A-/ Stable / IVR A2+
4.	Fixed Deposit	Long term	50.00	IVR BBB+/ Negative	IVR A-/ Negative	IVR A-/ RWNI	IVR A-/ Stable

**RWNI : Rating watch with Negative Implications*

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About Infomerics:

Infomerics Valuation And Rating Ltd. (Infomerics) [Formerly Infomerics Valuation and Rating Pvt. Ltd.] 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 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 and definition of ratings please visit www.infomerics.com.

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Annexure 1: Instrument/Facility Details

Name of Facility/ /Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	-	20.00	IVR BBB+/ Negative
Bank Guarantee	-	-	-	-	49.00	IVR A2
Proposed Bank Guarantee	-	-	-	-	101.00	IVR BBB+/ Negative/ IVR A2
Fixed Deposit	-	-	-	-	50.00	IVR BBB+/ Negative

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-KCPInfra-apr25.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: 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.