



KNR Constructions Limited.

Date: 13th December 2018

Ref: KNRCL/SD/2018/139 & 140

To
Dept. of Corporate Services,
BSE Limited
P J Towers, Dalal Street,
Fort, MUMBAI - 400001

To
National Stock Exchange of India Limited
"Exchange Plaza",
Bandra Kurla Complex,
Bandra (E), MUMBAI - 400051

Fax: +91 - 22- 2272 2037 / 39 / 41
+91 22 2272 3121 / 3719 / 1557

Fax: +91- 22- 6641 8124 / 25 / 26
+91 22 2659 8237 / 38 ,
+91 22 2659 8347 / 48

Sir,

Sub: - Revision of Credit Rating

Ref: - Listing Regulations
BSE Code: 532942, NSE Symbol: KNRCON

With reference to the above, it is to inform that India Rating has revised the KNR Constructions Limited credit rating from A+ Stable to "A+ Positive", this for your information and records.

Yours truly,
for KNR Constructions Limited

M.V. Venkata Rao

M. V. VENKATA RAO
Company Secretary



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A Fitch Group Company

India Ratings Revises KNR Constructions' Outlook to Positive; Affirms 'IND A+'

12

DEC 2018

By [Sudeep Arekar](#)

India Ratings and Research (Ind-Ra) has revised KNR Constructions Limited's (KNRCL) Outlook to Positive from Stable while affirming its Long-Term Issuer Rating at 'IND A+'. 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
Bank facilities*	-	-	-	INR17,954.4	IND A/Positive/IND A1+	Affirmed; Outlook revised to Positive from Stable
Commercial paper (CP)^	-	-	Up to 180 days	INR500	IND A1+	Affirmed

*Details are given in Annexure

^ The CP has been carved out of existing cash credit facilities. The proceeds of the CP will be used to fund the company's working capital requirements

The Positive Outlook reflects a disciplined build-up of KNRCL's order book, which is likely to result in a sustained growth momentum and Ind-Ra's expectation of continued strong financial profile over the medium term.

KEY RATING DRIVERS

Sustained Strong Credit Profile: KNRCL maintained a healthy credit profile as indicated by a robust interest coverage (EBITDA/gross interest expense) of 16.7x in FY18 (FY17: 10.5x) and a low net leverage (net debt/EBITDA) of 0.5x (0.6x). The improvement in interest coverage was a result of higher profitability, while the marginal improvement in net leverage was driven by higher EBITDA, partially offset by an increase in debt obligations to support the increasing scale of operations. EBITDA margin improved to 20.0% in FY18 (FY17: 14.9%), led by the one-time effect of unbilled quantities in a few of its projects, which is likely to be negated over the medium term, and reduction in subcontracting. The agency expects the company to maintain its strong financial profile over the medium term, driven by strong order book and sufficient liquidity.

Adequate Liquidity: KNRCL's average use of its fund-based and non-fund-based limits was around 17% and 65%, respectively, for the 12 months ended September 2018, ensuring adequate unencumbered limits available for new projects, which the company may be awarded over the medium term. Net working capital cycle elongated to 43 days in FY18 (FY17: 2 days) on account of unbilled revenue in few projects. This also led to a decline in cash flow from operations to INR1.4 billion in FY18 (FY17: INR2.9 billion).

However, the agency expects the net cash cycle to moderate over the medium term, owing to the presence of strong counterparties such as National Highways Authority of India ([IND AAA/Stable](#)) and The Ministry of Road Transport and Highways. Further, the company undertakes projects which have a strong financial backing from global banks such as Asian Development Bank, particularly in case of state government projects.

Revenue Growth: KNRCL's revenue increased 25.4% yoy to INR19.3 billion in FY18, driven by the successful execution of the order book.

Although the agency expects revenue growth to remain subdued in FY19 on account of a muted growth in order book, the revenue trajectory is likely to be healthy from FY20 on execution of hybrid annuity model (HAM) projects from end-FY19. Further, the company expects to participate in the tendering process for orders of around INR20 billion until end-FY19, which is likely to add to a further growth in revenue over FY20-FY22.

Strong, Although Concentrated Order Book: The company had an order book of INR58.1 billion (3.0x of FY18 revenue) at end-September 2018. It forayed into the development of five HAM projects, which entail engineering, procurement and construction revenue of INR39.8 billion (included in the order book). The order book is, however, characterised by segmental concentration, since roads, highways and bridges construction segment account 92% of the total order book, while the balance comprises of irrigation projects. Any demonstration of the company's ability to diversify into higher complexity infrastructure projects would be positive for the ratings, as this would partially insulate KNRCL from competitive pricing and order flow slowdown in the roads segment. The order book comprises orders from Andhra Pradesh and Telangana (44%), Tamil Nadu (26%) and Karnataka (23%).

Despite this concentration, the company's strategy to concentrate on areas of its core competencies, viz. roads, highways and bridges, and irrigation projects, in the current geography in which it operates, has augured well in the past, and helped maintain a sustained strong financial profile.

Equity Commitments: KNRCL has total equity commitments of INR4.4 billion for the ongoing HAM projects; the company intends to finance INR1.8 billion through unencumbered investments and cash available with the company at end-November 2018. The remainder would be funded through stake dilution in the special purpose vehicles, holding the respective projects to a foreign infrastructure investment fund. The company is executing a definitive agreement with the investors for the tie-up of the aforesaid balance equity commitments. Successful execution of this agreement in a timely manner could have a positive impact on the ratings.

Intense Competition: KNRCL operates in a highly competitive construction industry. Further, the uncertainty associated with infrastructure projects can result in volatile cash flows. Furthermore, KNRCL's primary focus on roads exposes it to competitive pricing and order flow slowdown. Increasing scale of operations, along with order flow slowdown and competitive pricing could affect the company's profitability over the near-to-medium term. However, demonstration of ability to sustain its order book intake and EBITDA margins at current higher levels over the medium term would be positive for the ratings.

RATING SENSITIVITIES

Positive: A sustained increase in the revenue and order intake as reflected in a stable order book to revenue ratio, while maintaining EBITDA margins at existing levels and/or achieving segmental and geographical diversification while maintaining the credit profile could lead to a positive rating action.

Negative: Net leverage increasing above 2x on a sustained basis due to a decline in profitability, further elongation of the working capital cycle and delays in execution of HAM projects resulting in muted revenue growth could lead to the revision of Outlook to Stable.

COMPANY PROFILE

Incorporated in 1995, KNRCL is a Hyderabad-based construction contractor and developer primarily engaged in road construction. It has minor presence in the irrigation and urban infrastructure segments.

In 1HFY19, the company's revenue was INR9.7 billion, EBITDA was INR1.9 billion and EBITDA margin was 19.8%.

FINANCIAL SUMMARY

Particulars	FY18	FY17
Revenue (INR million)	19,317	15,411
EBITDA (INR million)	3,861	2,296
EBITDA margin (%)	20.0	14.9
Total debt (INR million)	2,204	1,441
Interest coverage (x)	16.7	10.5
Net leverage (x)	0.5	0.6
Source: KNRCL, Ind-Ra		

RATING HISTORY

Instrument Type	Current Rating/Outlook	Historical Rating/Outlook

	Rating Type	Rated Limits (million)	Rating	10 August 2017	20 September 2016	17 March 2016
Issuer rating	Long term	-	IND A+/Positive	IND A+/Stable	IND A+/Stable	IND A+/Stable
Bank facilities	Long-term/Short-term	INR17,954.4	IND A+/Positive/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+	IND A+/Stable/IND A1+
CP	Short-term	INR500	IND A1+	IND A1+	IND A1+	-

ANNEXURE

Instrument Type	Date of Issuance	Coupon Rate	Maturity Date	Size of Issue (million)	Rating/Outlook	Rating Action
Fund-based limits	-	-	-	INR1,230	IND A+/Positive/IND A1+	Affirmed; Outlook revised to Positive from Stable
Non-fund-based limits	-	-	-	INR11,920	IND A1+	Affirmed
Non-fund-based limits*	-	-	-	INR1,800	IND A1+	Assigned
Term loans	-	-	March 2019	INR224.43	IND A+/Positive	Affirmed; Outlook revised to Positive from Stable
Term loans*	-	-	March 2019	INR42.1	IND A+/Positive	Assigned
Proposed fund-based limits#	-	-	-	INR1,000	Provisional IND A+/Positive/Provisional A1+	Affirmed; Outlook revised to Positive from Stable
Proposed non-fund-based limits#	-	-	-	INR1,280	Provisional IND A1+	Affirmed
Proposed term loans#	-	-	-	INR457.9	Provisional IND A+/Positive	Affirmed; Outlook revised to Positive from Stable

The ratings are provisional and shall be confirmed upon the sanction and execution of loan documents for the above facilities by KNRCCL to the satisfaction of Ind-Ra

*The assignment of the final rating follows the receipt of the final documents conforming to the information already received by Ind-Ra

COMPLEXITY LEVEL OF INSTRUMENTS

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

SOLICITATION DISCLOSURES

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Applicable Criteria

Corporate Rating Methodology

Analyst Names

Primary Analyst

Sudeep Arekar

Senior Analyst

India Ratings and Research Pvt Ltd Wockhardt Towers, 4th floor, West Wing Plot C-2, G Block. Bandra Kurla Complex Bandra (East), Mumbai 400051

022 40001748

Secondary Analyst

Anita Nayak

Senior Analyst

+91 22 40001758

Committee Chairperson

Vivek Jain

Director

+91 11 43567249

Media Relation

Namita Sharma

Manager – Corporate Communication

+91 22 40356121
