

Press Release

Keyem Engineering Enterprises

August 02, 2018

Rating Assigned



Total Bank Facilities Rated	Rs. 65.00 crore
Long Term Rating	ACUITE BBB-/ Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

*Refer Annexure for details

Rating Rationale

Acuite has assigned long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.65.00 crore bank facilities of Keyem Engineering Enterprises. The outlook is '**Stable**'.

Established in 1996, Keyem Engineering Enterprises (KEE) is a Chennai-based proprietorship concern managed by Mr. Ramachandran. KEE is a Class-1 contractor, engaged in construction and development of underground sewerage systems, pumping stations, water and sewage treatment plants. The firm has been in this business for over two decades, and primarily works for various Municipal Corporations, Municipalities, Panchayats under the purview of Tamil Nadu Water Supply and Drainage Board (TWAD).

Key Rating Drivers:

Strengths

- Established track record and experienced management:**

The proprietor has around 3 decades of experience in Water and Sewage construction business. Before setting up of this firm, Mr. Rama Chandran has worked in designing of water motors, and then started this firm and worked as a sub-contractor by taking up the projects from contractors namely Koya & Company Construction Limited, L&T Ltd among others. All the contracts are on tendering basis from TWAD, and various other Municipalities of Kumbakonam, Pallavapuram, Thanjavur, Kodaikanal among others in the state of Tamil Nadu. Over the past five years, KEE has implemented projects worth over Rs.500.00 crore. KEE has an healthy unexecuted order book of about Rs.331.75 crore as on June 30, 2018 and about Rs.51.00 crore in L1 position. Further, the firm has participated in various tenders valued about Rs.200.0 crore and is expecting a strike rate of about 50 percent from these tenders. This gives a revenue visibility of 3.2x in FY2018 revenues. Acuite believes that the revenues are expected to be in the range of Rs.130.0-160.0 crore over the medium term. The healthy relations with both the Departments and suppliers have supported the firm in reporting a healthy compound annual growth rate (CAGR) of about 22.2 percent over four years through FY2018 at Rs.117.80 crore (Provisional). Acuite believes that the healthy order book position and over two decades of promoter's presence in this industry is expected to support in improvement of its business risk profile over the medium term.

- Comfortable financial risk profile:**

The financial risk profile is marked by healthy gearing, moderate net worth levels and healthy debt protection metrics. The net worth stood at Rs.12.50 crore as on March 31, 2017, and the same is expected to be around Rs.16.00 crore (Provisional) as on March 31, 2018 aided by accretion of profits to internal accruals. Gearing is healthy at 0.73 times (Provisional) as on March 31, 2018 as compared to 0.45 times as on March 31, 2017. However, total outside liabilities to total net worth is expected to be high at around 2.2 times as on March 31, 2018 (Provisional) as against 2.23 times in FY2017. KEE's debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are healthy at 8.76 times and 0.49 times respectively for FY2018 (Provisional) as against 4.41 times and 1.04 times respectively for FY2017. This fall in NCA/TD in FY2018 (Provisional) is due to the increase in usage of

Cash Credit in the month of March, 2018. Acuite believes that the financial risk profile is expected to be at similar levels as the firm is not envisaging any major debt-funded capex over the medium term.

Weaknesses

- Intense working capital management:**

KEE's operations are working capital intensive as evident from Gross Current Assets (GCA) days of 163 as on March 31, 2018 (Provisional) as against 100 days in FY2017. Inventory days are comfortable at about 11 as on March 31, 2018 (Provisional). Debtor days are intense at 117 in FY2018 (Provisional) as compared to 54 in FY2017. This is mainly due to year end billing due to which the average debtors have increased and also due to delay in payments from the clients in relation to GST compliance and other issues. Creditors for the entity are around 168 days in FY2018 (Provisional) as compared to 100 days in FY2017. Despite the high GCA, the average utilisation of its bank lines over the past five months through April 30, 2018 is at around 53 percent. Acuite believes that KEE's working capital operations are expected to be at similar levels over the medium term considering the increasing scale of operations.

- Exposure to risks related to tender-based businesses, declining profitability and intense competition:**

The industry is marked by various large players in the industry, who operate in sectors of underground sewerage systems, pumping stations, water treatment plants and sewage treatment plants. Also, as all projects are tender-based, revenue depends on ability to bid successfully. The intense competition, bidding nature of business and raw material price volatility impacting the profitability is evident in the deterioration of its operating margins from 9.74 percent in FY2015 to 7.44 percent in FY2016 and further to about 6.2 percent in FY2018 (Provisional). Acuite believes that KEE will continue to operate in this environment, and profitability will be susceptible to the same over the medium term.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the KEE to arrive at this rating.

Outlook: Stable

Acuite believes that KEE will maintain a 'Stable' outlook over the medium term from its Proprietor's industry experience and long operational track record. The outlook may be revised to 'Positive' in case of significant improvement in revenues, while maintaining its profitability and improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management due to inordinate delay in receipt of payments from the TWAD Board or Municipalities leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	125.53	93.93	64.54
EBITDA	Rs. Cr.	7.53	6.99	6.29
PAT	Rs. Cr.	5.15	3.84	3.15
EBITDA Margin	(%)	6.00	7.44	9.74
PAT Margin	(%)	4.11	4.09	4.88
ROCE	(%)	32.97	28.08	51.56
Total Debt/Tangible Net Worth	Times	0.45	1.25	1.92
PBDIT/Interest	Times	4.41	2.56	2.19
Total Debt/PBDIT	Times	0.75	1.86	2.44
Gross Current Assets (Days)	Days	100	125	149

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

None

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE BBB- / Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE A3 (Assigned)

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About Acuite Ratings & Research:

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