

Press Release

Keyem Engineering Enterprises (KEE)

March 05, 2020

Rating Reaffirmed



Total Bank Facilities Rated	Rs. 85.00 crore (Enhanced from Rs 65.00 crore)
Long Term Rating	ACUITE BBB-/ Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the 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**) to the Rs 85.00 crore bank facilities of Keyem Engineering Enterprises (KEE). 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 installation of underground sewerage systems, pumping stations and water treatment plants, sewage treatment plants, primarily for TWAD (Tamil Nadu Water Supply and Drainage Board) and receives majority of the contracts from the Government of Tamil Nadu and various municipal corporations in the state of Tamil Nadu, and also from Tamil Nadu Water Supply and Drainage Board (TWAD).

Analytical Approach

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

Key Rating Drivers

Strengths

• **Experienced management and long track record of operations**

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 Palanichettipatti, Pallavapuram, Villupuram District, Kodaikanal among others in the state of Tamil Nadu. KEE has implemented over 380 projects till date. KEE has healthy unexecuted order book of about Rs. 669.60 crore as on February 24, 2020. Further, the entity has participated in various tenders valued about Rs.109.74 crore. This gives a revenue visibility of 1.8x of FY2019 revenues. Acuite believes that the revenues are expected to be in the range of Rs. 290.00 - 340.00 crore over the medium term. The healthy relations with both their customers and suppliers have supported the firm in reporting a compound annual growth rate (CAGR) of about 12.92 percent over four years through FY2019 at Rs. 152.71 crore. 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 of the entity stood comfortable marked by moderate network, moderate gearing and healthy debt protection metrics. The tangible net worth stood at Rs 17.65 crore as on 31st March, 2019 as against Rs 17.29 crore as on 31st March, 2018. The gearing stood moderate at 1.61 times as on 31st March, 2019 as compared to 0.76 times in the previous year. The increase in gearing is on account of addition of home loan of Rs 15.81 crore taken towards the purchase of land. Total debt of Rs 28.41 crore as on 31st March, 2019 consist of loan of Rs 15.81 crore, unsecured loan from director or promoter of Rs 0.22 crore and short term debt of Rs 12.38 crore. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 3.74 times in FY 2019 as compared to 7.34 times in FY 2018. The net cash accruals to total debt (NCA/TD) stood at 0.29 times in FY 2019 as compared to 0.39 times in the previous year. The financial risk profile is expected to

remain comfortable over the medium term in the absence of any further major debt funded capex plan and healthy cash accruals.

Weaknesses

• Working capital intensive nature of operations

The entity's operations are working capital intensive in nature as reflected in gross current assets (GCA) days of 121 days in FY2019 as against 171 days in the previous year. The debtor days stood at 56 days in FY 2019 as compared to 98 days in FY 2018. The inventory days stood comfortable at 13 days in FY2019 in line with the previous year. The GCA days are at high levels mainly due to other current assets of Rs 13.13 crore as on 31st March, 2019. The other current assets of Rs 13.13 crore as on 31st March, 2019 consist of Advance tax paid of Rs 2.90 crore, advance paid to suppliers of Rs 3.33 crore, GST receivable of Rs 4.50 crore, loans and advances of Rs 1.56 crore and other receivables and recoveries of Rs 0.84 crore. However, the working capital facilities from bank remained utilized at only 53 percent for months 9 ended December, 2019. This is mainly due to the stretched payment to creditors. The working capital of the entity is expected to remain intensive over the medium term.

• Exposure to risks related to tender-based businesses, fluctuating 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 fluctuation of its operating margins from 6.00 percent in FY2017, 5.45 percent in FY2018 and further to about 7.15 percent in FY2019. Acuite believes that KEE will continue to operate in this environment, and profitability will be susceptible to the same over the medium term.

Rating Sensitivity

- Steady growth in revenue with sustained profitability levels
- Improvement in working capital management

Material Covenants

None

Liquidity Profile

The entity has adequate liquidity marked by moderate cash accruals and debt maturities in FY 2019. The entity generated cash accruals of Rs 8.25 crore in FY 2019 against no maturing debt obligations in the same period. The net cash accruals to total debt (NCA/TD) stood strong at 0.29 times in FY 2019 as compared to 0.39 times in the previous year. The entity maintains unencumbered cash and bank balances of Rs 9.61 crore as on 31st March, 2019. The current ratio of the entity stood at 1.99 times as on 31st March, 2019 and 1.14 times on 31st March, 2018. Further, the operations of the entity are working capital intensive in nature marked by Gross Current Assets (GCA) days of 121 days in FY 2019 improved from 171 days in FY 2018. The liquidity of the entity is expected to remain adequate over the medium term on account of moderate cash accruals against its maturing debt obligations for the home loan taken in FY 2019.

Outlook: Stable

Acuite believes KEE will continue to benefit from its experienced management and comfortable financial risk profile. The outlook maybe revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues and profitability metrics from the current levels, while improving its working capital intensity. Conversely, the outlook maybe revised to 'Negative', if the entity's revenue and profitability declines, while the financial risk profile deteriorates owing to increased working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	152.71	105.94
PAT	Rs. Cr.	7.26	4.43
PAT Margin	(%)	4.76	4.18
Total Debt/Tangible Net Worth	Times	1.61	0.76
PBDIT/Interest	Times	3.74	7.34

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

CRISIL Ratings, vide its press release dated January 22, 2020 had denoted the rating of Keyem Engineering Enterprises as 'CRISIL B+/A4; ISSUER NOT COOPERATING'

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
16-October-2019	Cash Credit	Long Term	12.50	ACUITE BBB-/ Stable (Indicative)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Indicative)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Indicative)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Indicative)
	Proposed Bank Guarantee	Short Term	17.50	ACUITE A3 (Indicative)
02-August-2018	Cash Credit	Long Term	12.50	ACUITE BBB-/ Stable (Assigned)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	17.50	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE BBB-/Stable (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/Stable (Reaffirmed)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	27.50 (Enhanced from Rs 15.00 crore)	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A3 (Assigned)

Contacts

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About Acuité Ratings & Research:

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