

Press Release

Keyem Engineering Enterprises

August 20, 2021



Rating Upgraded

Total Bank Facilities Rated	Rs. 85.00 crore
Long Term Rating	ACUITE BBB/ Stable (Upgraded)
Short Term Rating	ACUITE A3+ (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB**' (**read as ACUITE Triple B**) from '**ACUITE BBB-**' (**read as ACUITE Triple B minus**) and also upgraded the short term rating to '**ACUITE A3+**' (**read as ACUITE A three plus**) from '**ACUITE A3**' (**read as ACUITE A Three**) on the Rs. 85.00 crore bank facilities of Keyem Engineering Enterprises (KEE). The outlook is '**Stable**'.

The ratings reflect extensive experience of its proprietor in the civil construction industry, strong order book position providing adequate revenue visibility and healthy financial position characterized by negligible debt and robust debt coverage indicators. The upgrade also factors in adequate liquidity position of the firm. These strengths are partly offset by KEE's moderate scale of operations in the fragmented industry as well as its constitution which is proprietorship in nature.

About the company

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).

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management and established relationship with customers**

The proprietor has around three decades of experience in Water and Sewage construction business. Mr. Rama Chandran had an experience in designing of water motors, working as a sub-contractor for companies like Koya & Company Construction Limited, and L&T Ltd in the initial years. 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 400 projects till date. The long standing experience of the proprietor and long track record of operations has helped him to establish comfortable relationships with key suppliers and reputed customers across the continents. Acuité derives comfort from the long experience of the management and believes this will benefit the firm going forward, resulting in steady growth in the scale of operations.

- Healthy business risk profile supported by strong order book position**

KEE has shown improving revenue trends from FY2018 to FY2021. The revenue stood at Rs 292.59 crore in FY 2021 as compared to Rs 105.94 crore in FY 2018 thereby achieving a compounded annual growth rate (CAGR) of 40.90 percent over three years from FY 2018 to FY 2021. The improvement in revenue coupled with rise in cash accruals to Rs 17.03 crore in FY 2021 from Rs 15.22 crore in FY 2020 adds to the liquidity cushion of KEE.

The firm had an unexecuted order book of Rs. 1546.39 Cr as on 31st March, 2021, which gives revenue visibility over the medium term. Nearly 55 per cent of the firm's order book comprised the sewerage projects and 43 per cent from the water supply projects. Acuité believes that the firm will continue to sustain its order book position and maintain its business risk profile over the medium term.

Additionally, the profitability margins of the firm have substantially improved with operating margin of 10.03 per cent in FY21 (Provisional) as compared to 5.76 per cent in the previous year, mainly driven by healthy growth in revenue. The PAT margins stood at 5.14 per cent as on FY2021 (Provisional) as against 5.22 per cent as on FY2020. The improvement in profitability margins have translated into healthy RoCE levels for the firm of about 50.98 per cent in FY2021 (Provisional) as against 36.79 per cent in FY2020.

- **Healthy financial risk profile**

The firm's healthy financial risk profile is marked by modest albeit improving networth, healthy gearing and strong debt protection metrics. The tangible net worth of the firm improved to Rs.40.32 Cr as on March 31, 2021 (provisional) from Rs.25.28 Cr as on March 31, 2020 due to accretion of profits. Gearing of the firm stood below unity at 0.71 as on March 31, 2021 (provisional) as compared to 0.78 as on March 31, 2020. The debt of Rs.28.45 Cr mainly consists of working capital borrowing of Rs. 13.68 Cr, long term debt of Rs. 13.32 Cr and current maturity of term loan of Rs 0.91 Cr. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.95 times as on 31st March, 2021 (prov.) as against 4.85 times as on 31st March, 2020. The strong debt protection metrics of the firm is marked by Interest Coverage Ratio at 11.21 times and Debt Service coverage ratio at 5.60 times as on 31st March, 2021 (prov.). Net Cash Accruals/Total Debt (NCA/TD) stood at 0.60 times as on 31st March, 2021 (prov.). Acuité believes that going forward the financial risk profile of the firm will remain healthy with no major debt funded capex plans.

Weakness

- **Competitive and fragmented nature of industry**

The firm is engaged as a civil contractor and the particular sector is marked by the presence of several mid to big size players. The firm faces intense competition from the other players in the sectors. Risk becomes more pronounced as tendering is based on a minimum amount of bidding of contracts and hence the firm has to make a bid for such tenders on competitive prices; which may affect the profitability of the firm. However, this risk is mitigated to an extent as the firm is operating in this environment for the years.

- **Proprietorship nature of constitution with risk of withdrawal of capital**

The firm being a proprietorship firm is exposed to inherent risk of capital withdrawal by proprietor due to its constitution. Any substantial withdrawals from capital account would impact the net worth and thereby the gearing levels.

Rating Sensitivity

- Growth in revenue along with improvement in profitability margins
- Elongation of working capital cycle
- Reduction in order flow

Material Covenant

None

Liquidity Profile: Adequate

The firm's liquidity is adequate marked by net cash accruals stood at Rs. 17.03 Cr as on March 31, 2021 (provisional) as against long term debt repayment of only Rs. 0.91 Cr over the same period. The fund based limit remained utilised only at 34 per cent over one year ended May, 2021. Further, the firm has neither availed any loan moratorium nor applied for additional covid loan. The unencumbered cash and bank balances of the firm stood at Rs.3.88 Cr as on March 31, 2021 (provisional) as compared to Rs. 2.48 Cr as on March 31, 2020. The current ratio stood moderate at 1.01 times as on March 31, 2021 (provisional). Further, the moderate working capital management of the firm is marked by Gross Current Assets (GCA) of 111 days as on March 31, 2021 (provisional) as against 73 days as on March 31, 2020. Acuité believes that going forward the firm will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes the outlook on KEE will remain stable over the medium term backed by experience of its proprietor and strong order book position. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or delay in completion of its projects or further elongation in its working capital cycle.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	292.59	265.23
PAT	Rs. Cr.	15.03	13.85
PAT Margin	(%)	5.14	5.22
Total Debt/Tangible Net Worth	Times	0.71	0.78
PBDIT/Interest	Times	11.21	6.21

Status of non-cooperation with previous CRA

Crisil, vide its press release dated April 23, 2021 had reaffirmed the rating of Keyem Engineering Enterprises to 'CRISIL B+/Stable/A4; ISSUER NOT COOPERATING'.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount	Ratings/Outlook
			(Rs. Crore)	
05-March-2020	Cash Credit	Long term	12.50	ACUITE BBB-/ Stable (Reaffirmed)
	Overdraft	Long term	2.00	ACUITE BBB-/ Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	27.50	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	23.00	ACUITE A3 (Assigned)
16-October-2019	Cash Credit	Long term	12.50	ACUITE BBB- (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**

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Indian Overseas Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE BBB/Stable (Upgraded)
Axis Bank	Overdraft	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB/Stable (Upgraded)
Indian Overseas Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Upgraded)
Indian Overseas Bank	Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3+ (Upgraded)
ICICI Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	27.50	ACUITE A3+ (Upgraded)
Axis Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A3+ (Upgraded)

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About Acuité Ratings & Research

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