

Press Release

K. K. Corporation

August 12, 2019



Rating Reaffirmed

| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 7.00 Cr. |
| Long Term Rating | ACUITE B / Outlook: Stable |

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B**' (read as **ACUITE B**) on the Rs. 7.00 crore bank facilities of K. K. CORPORATION. The outlook is '**Stable**'.

Mumbai-based, K. K. Corporation (KKC) was established as a partnership firm in the year 2007. The partners of the firm are Mr. Prakash Soni, Mr. Shailesh Soni and Mr. Jenish Soni. The firm undertakes interior decoration contracts. It executes painting, customized furniture, storage, cabinets, flooring, ceiling, glazing and cladding works as per the client's requirement and design. KKC caters to various clients ranging from residential, hotels, banks, hospitals and offices among others.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The firm was established in 2007, thus having an operational track record of over a decade in aforementioned line of business. The partners, Mr. Prakash Soni and Mr. Shailesh Soni possesses over three decades of experience in executing turnkey projects in interior work. KKC has a reputed customer base having undertaken projects for L&T/IGATE, HSBC Bank, ITC, and UTV News Limited among others.

Acuité believes that KKC will sustain its existing business profile on the back of established track record of operations and experienced management.

Weaknesses

- **Average financial risk profile**

The financial risk profile of the firm stood average marked by low net worth, average debt protection metrics and coverage indicators. The net worth of KKC stood at Rs.2.49 crore as on 31 March, 2019 (Provisional) as against Rs.1.16 crore as on 31 March, 2018. The gearing (debt-equity) stood at 0.25 times as on 31 March, 2019 (Provisional) as against 0.43 times as on 31 March, 2018. The total debt of Rs.0.62 crore as on 31 March, 2019 (Provisional) mainly comprises Rs. 0.38 crore of working capital borrowings and Rs. 0.24 crore of unsecured loans. The coverage indicators stood average marked by Interest Coverage Ratio (ICR) which stood at 8.43 times for FY2019 (Provisional) as against 11.64 times for FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 1.04 times in FY2019 (Provisional) and 0.82 times in FY2018. Debt to EBITDA stood at 0.85 times for FY2019 (Provisional) as against 1.11 times for FY2018.

Acuité believes that the financial risk profile of the firm is expected to remain average backed by average net cash accruals and in the absence of any major debt funded capex in near to medium term.

- **Uneven revenue trend due to tender based nature of operations**

The firm has modest scale of operations with uneven trend during the period under study FY2016-FY2019 (Provisional). The revenues stood at Rs.13.70 crore in FY2019 (Provisional) as against Rs.8.22 crore in FY2018 and Rs.12.72 crore in FY2017. The uneven trend in its revenue is mainly on account of tender-based nature of operations, which makes it vulnerable to order cyclical.

- **Highly fragmented and competitive industry**

KKC operates in a highly competitive and fragmented industry characterized by a large number of organized as well as unorganized players affecting margins.

Liquidity Position

KKC has weak liquidity marked by low net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs. 0.64 crore for FY2019 (Provisional) against no debt obligation for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.0.70 crore to Rs.2.00 crore during 2020-22 against no repayment obligation for the same period. The firm has working capital intensive operations as marked by high GCA days of 232 days for FY2019 (Provisional), however, the GCA is high on account of increase in debtor days to 128 days for FY2019 as against 20 days for FY2018. The firm maintains unencumbered cash and bank balances of Rs.0.06 crore as on March 31, 2019 (Provisional). The current ratio stood at 1.44 times as on March 31, 2019 (Provisional). Acuité believes that the liquidity of the firm is likely to remain weak over the medium term on account of high GCA days.

Outlook: Stable

Acuité believes that the firm will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or in case of deterioration in the firm's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

| | Unit | FY19 (Provisional) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 13.70 | 8.22 | 12.72 |
| EBITDA | Rs. Cr. | 0.73 | 0.66 | 0.76 |
| PAT | Rs. Cr. | 0.63 | 0.40 | 0.70 |
| EBITDA Margin | (%) | 5.34 | 7.97 | 5.98 |
| PAT Margin | (%) | 4.57 | 4.90 | 5.53 |
| ROCE | (%) | 29.90 | 51.83 | 89.96 |
| Total Debt/Tangible Net Worth | Times | 0.25 | 0.43 | -1.10 |
| PBDIT/Interest | Times | 8.43 | 11.64 | 9.96 |
| Total Debt/PBDIT | Times | 0.85 | 1.11 | 0.65 |
| Gross Current Assets (Days) | Days | 232 | 229 | 99 |

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in Services Sector - <https://www.acuite.in/view-rating-criteria-8.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|-----------|------------------|---------------------------------------|
| 16-Aug-2018 | Secured Overdraft | Long Term | 0.50 | ACUITE B / Stable (Assigned) |
| | Bank Guarantee | Long Term | 6.50 | (Downgraded from ACUITE BB- / Stable) |
| 23-Sep-2017 | Bank Guarantee | Long Term | 6.50 | ACUITE BB- / Stable (Reaffirmed) |
| 18-May-2016 | Bank Guarantee | Long Term | 6.50 | ACUITE BB- / Stable (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 |
|------------------------|------------------|----------------|----------------|-----------------------------|--------------------------------|
| Secured Overdraft | Not Applicable | Not Applicable | Not Applicable | 0.50 | ACUITE B / Stable (Reaffirmed) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 6.50 | ACUITE B / Stable (Reaffirmed) |

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About Acuité Ratings & Research:

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