

Press Release

K. K. Corporation

November 10, 2020

Rating Upgraded



Total Bank Facilities Rated*	Rs.7.00 crore.
Long Term Rating	ACUITE B+/ Outlook: Stable (Upgraded from ACUITE B/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE B+**' (**read as ACUITE B plus**) from '**ACUITE B**' (**read as ACUITE B**) on the Rs.7.00 crore bank facilities of K. K. Corporation (KKC). The outlook is '**Stable**'.

The rating upgrade is an account of improvement in revenue from operations over the year on the back of an increase in order book position led by growth in achieving more tenders by the firm from various clients. The company recorded a healthy growth of ~86 percent y-o-y in FY2020 (provisional) to Rs.24.48 crore compared to Rs.13.20 crore in FY2019. However, the growth in revenues are expected to remain muted in FY2021 on account of decline in tenders executed by the firm due to ongoing covid-19 pandemic. Further, the rating is also supported by experienced management of the firm followed by a long and established track record of operations.

Mumbai based, K. K. Corporation (KKC) was established as a partnership firm in the year 2007, which primarily undertakes interior decoration contracts. The partners of the firm are Mr. Prakash Soni, Mr. Shailesh Soni and Mr. Jenish Soni. The firm 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 profile of KKC to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations with experience management**

The firm was established in 2007, thus having an operational track record of over a decade in the aforementioned line of business. The partners, Mr. Prakash Soni and Mr. Shailesh Soni possess over three decades of experience in executing turnkey projects in interior works. KKC has a reputed customer base having undertaken projects for L&T/IGATE, HSBC Bank, ITC, Lodha and UTV News Limited among others. Hence, long track records of operations and vast experience of management has helped the firm to develop a healthy relationship with its customers and suppliers.

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

- **Improvement in performance of operations throughout the years**

Revenue from operations of the firm has witnessed an increase of 24 percent CAGR in FY2017-2020 (provisional) period. The company has recorded a strong ~86 percent y-o-y growth in revenues for FY2020 (provisional) to Rs.24.48 crore compared to Rs.13.20 crore in FY2019. The increase in revenue from operations was majorly on account of increase in order book position of the firm. However, the growth in revenues is expected to remain muted in FY2021 on account of low execution of tenders by the firm due to covid-19 pandemic. As of October, 2020 the firm has an unexecuted order book position of Rs.33.38 crore.

Acuité believes that the ability of the firm to increase the scale of operations would be the key rating sensitivity factor over the medium term.

Weaknesses

- **Moderate financial risk profile**

The financial risk profile of the firm stood moderate, marked by low net worth, average debt protection metrics and coverage indicators. The net worth of KKC stood at Rs.4.78 crore as on 31 March, 2020 (provisional) as against Rs.2.12 crore as on 31 March, 2019. The gearing (debt-equity) stood low at 0.16 times as on 31 March, 2020 (provisional) as against 0.32 times as on 31 March, 2019. The total debt of Rs.0.77 crore as on 31 March, 2020 (provisional) mainly comprises of Rs.0.50 crore of working capital borrowings and Rs.0.28 crore of unsecured loans from promoters. The coverage indicators stood moderate marked by Interest Coverage Ratio (ICR) which stood at 9.35 times for FY2020 (provisional) as against 6.84 times for FY2019. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 1.60 times in FY2020 (provisional) and 0.99 times in FY2019. Debt to EBITDA stood at 0.57 times for FY2020 (provisional) as against 0.87 times for FY2019.

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

- **Tender based nature of operations operating in a highly fragmented and competitive industry**

The operations of the firm are tender based in nature which makes it vulnerable to order cyclicity. Further, the firm also operates in a highly competitive and fragmented industry characterized by a large number of organized as well as unorganized players affecting the bargaining power and profitability.

Liquidity position: Stretched

KKC has stretched liquidity marked by low net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.1.21 crore for FY2020 (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.0.93 crore to Rs.1.25 crore during 2021-23 period against no repayment obligation for the same period. The firm has working capital intensive operations as marked by high GCA days of 135 days for FY2020 (provisional). However, the GCA has improved for FY2020 (provisional) to 135 days compared to 225 days for FY2019 as against 20 days for FY2018. The firm maintains unencumbered cash and bank balances of Rs.0.95 crore as on March 31, 2020 (provisional). The current ratio stood at 1.41 times as on March 31, 2020 (provisional). Acuité believes that the liquidity of the firm is likely to remain stretched over the medium term on account of low net cash accruals against no debt repayment obligations.

Rating Sensitivities

- Improvement in scale of operations backed by healthy order book position
- Timely execution of projects in hand

Material Covenants

None

Outlook: Stable

Acuité believes that KKC will maintain a 'Stable' outlook in the medium term on the back of the extensive experience of the management and increase in business operations. The outlook may be revised to 'Positive' in case of a significant improvement in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital operations, deterioration in the liquidity position or financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	24.48	13.20
PAT	Rs. Cr.	1.18	0.63
PAT Margin	(%)	4.82	4.79
Total Debt/Tangible Net Worth	Times	0.16	0.32
PBDIT/Interest	Times	9.35	6.84

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

None

Any other information

None

Applicable Criteria

- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.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 (Rs. Cr.)	Ratings/Outlook
12-Aug-2019	Secured Overdraft	Long Term	0.50	ACUITE B/Stable (Reaffirmed)
	Bank Guarantee	Long Term	6.50	ACUITE B/Stable (Reaffirmed)
16-Aug-2018	Secured Overdraft	Long Term	0.50	ACUITE B/Stable (Assigned)
	Bank Guarantee	Long Term	6.50	ACUITE B/Stable (Downgraded from ACUITE BB-/Stable)
23-Sep-2017	Bank Guarantee	Long Term	6.50	ACUITE BB-/Stable (Reaffirmed)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE B+/Stable (Upgraded from B /Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE B+/Stable (Upgraded from B /Stable)

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About Acuité Ratings & Research:

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