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Press Release

Kapston Facilities Management Private Limited

16 November, 2017

Rating Upgraded

Total Bank Facilities Rated*	10.00 Cr. (Enhanced from Rs. 6.00 Cr.)
Long Term Rating	SMERA BBB-/Stable (Upgraded from SMERA BB+/Stable)

**Refer Annexure for details*

SMERA has upgraded the long term rating to **'SMERA BBB-' (read as SMERA triple B minus) from 'SMERA BB+/Stable' (read as SMERA double B plus)** on the Rs. 10.00 crore bank facilities of Kapston Facilities Management Private Limited (KFMPL). The outlook is **'Stable'**.

The Hyderabad-based Kapston Facilities Management Private Limited (KFMPL), incorporated in 2009, provides security and housekeeping services. The company also conducts training and development programmes with the help of National Skill Development Corporation (NSDC). Headed by Directors, Mr. K. Srikanth and Mr. P. Radha Krishna, the company has operations spread across Kerala, Maharashtra, Assam, Orissa, Telangana and Andhra Pradesh.

The rating upgrade is in view of the significant growth in revenues and profitability margins. SMERA believes that going ahead, the company will sustain growth in revenues and profitability margins over the near to medium term.

List of Key Rating drivers

Strengths:

Experienced management

The Directors, Mr. K. Srikanth and Mr. P. Radha Krishna have experience of around 15 years in facilities management. The company provides its services under the 'Kapston' brand name.

SMERA believes that the company will be able to maintain its revenue and profitability margins over the near to medium term on the back of its experienced management

Moderate financial risk profile

The financial risk profile of KFMPL is moderate marked by net worth of Rs. 10.48 crore as on 31 March, 2017 as against Rs.7.60 crore as on 31 March, 2016. The gearing stood at 1.46 times as on 31 March, 2017 as against 1.48 times as on 31 March, 2016. The company has total debt of Rs. 15.31 crore outstanding as on 31 March, 2017 which includes term loan of Rs.3.33 crore, unsecured loans from directors of Rs. 1.27 crore and Rs. 10.70 crore as working capital limits.

The interest coverage ratio stood at 4.59 times in FY2017 as against 5.76 times in FY2016. The fall in ICR is on account of increase in interest cost in FY2017 to Rs. 1.57 crore from Rs. 0.92 crore in FY2016. The DSCR stood at 3.55 times in FY2017 as against 4.73 times in FY2016.

The net cash accruals stood at Rs. 3.99 crore in FY2017 as against Rs. 3.42 crore in FY2016. The NCA/TD ratio stood at 0.26 times in FY2017 compared to 0.30 times in FY2016.

SMERA believes that KFMPL will maintain its financial risk profile going ahead with absence of capital expenditure plan and sufficient net cash accruals over the medium term.

Significant growth in revenues and profitability margins

KFMPL registered significant growth in revenue during the period under study. Revenue grew at a CAGR of 27.42 per cent from FY2013 to FY2017. The company registered revenue of Rs.93.63 crore in FY2017, Rs. 74.96 crore in FY2016 and Rs. 58.88 crore in FY2015.

The profitability margins registered an improvement with EBITDA margins at 7.54 per cent in FY2017, 6.99 per cent in FY2016 and 6.59 per cent in FY2015.

Weaknesses

Working capital intensive operations

KFMPL has working capital intensive nature of operations marked by high GCA days of 105 days in FY2017 as against 152 days in FY2016. The debtor days stood at 70 in FY2017 as major receivables are from government entities. The working capital cycle days stood at 66 in FY2017 as against 62 in FY2016. The debtors for FY2016 stood at 70 days. The bank limit utilisation stood at 72.46 percent for the last six months ended October 2017.

Competitive and fragmented industry

The company operates in a competitive industry with several organised and unorganised players in the manpower services industry.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of KFMPL to arrive at the rating.

Applicable Criteria

- Default Recognition - https://www.smera.in/criteria-default.htm
- Services Entities - https://www.smera.in/criteria-services.htm
- Financial Ratios And Adjustments - https://www.smera.in/criteria-fin-ratios.htm

Note on complexity levels of the rated instrument

https://www.smera.in/criteria-complexity-levels.htm

Outlook – Stable

SMERA believes that KFMPL will maintain a stable outlook over the medium term owing to its promoters' extensive industry experience and established relationships with customers. The outlook may be revised to 'Positive' if KFMPL substantially improves its revenue by diversifying its clientbase and prudently managing working capital requirements. Conversely, the outlook may be revised to 'Negative' in case of decline in capital structure and deterioration of financial risk profile

About the Rated Entity – Key Financials

For FY2016-17, KFMPL reported profit after tax (PAT) of Rs.2.89 crore on operating income of Rs.90.63 crore compared to PAT of Rs.2.57 crore on operating income of Rs.70.27 crore for FY2015-16. The tangible net worth stood at Rs.10.48 crore as on 31 March, 2017 as against Rs. 7.60 crore a year earlier.

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Rating History for the last three years:

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
07-April, 2017	Cash Credit	Long Term	6.00	SMERA BB+ / Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00 (Enhanced from Rs. 6.00 Cr.)	SMERA BBB- /Stable (Upgraded from SMERA BB+/Stable)

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ABOUT SMERA

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