

Press Release

KBC Infrastructures Private Limited

April 21, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 19.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 19.00 crore bank facilities of KBC Infrastructures Private Limited. The outlook is '**Stable**'.

KBC Infrastructures Private Limited (KIPL) is an Andhra Pradesh-based company engaged in civil work. The company is engaged in the construction of roads and bridges for government organisations - Andhra Pradesh (AP) Roads & Buildings Department and Panchayat Raj Department.

Key Rating Drivers

Strengths

- **Experienced management**

The company was promoted by Mr. Butuchaiah Kanneganti who possesses experience of around three decades in the civil construction business.

- **Healthy margins and accruals**

The healthy margins are marked by EBITDA margins of around 24 percent and 22 percent in FY2016 and FY2015 respectively. The PAT margins have been healthy at around 4.7 percent and 3.9 percent in FY2016 and FY2015 respectively which translates into healthy accruals marked by NCA/TD of 0.15 times and 0.18 times in FY2016 and FY2015 respectively.

Weaknesses

- **Moderate financial risk profile**

The moderate financial risk profile is marked by high gearing, low net worth and healthy debt protection metrics. The gearing is high marked by 2.74 times and 2.07 times in FY2016 and FY2015 respectively. The debt mainly comprises loans for vehicles, other term loans and overdraft facility of Rs.7.94 cr from the bank. The net worth base is low at Rs.7.78 cr as on 31st March 2016. The interest coverage and debt service coverage ratios stood at 2.43 times and 1.27 times respectively in FY2016. In FY2015, the interest coverage ratio stood at 2.52 times while the debt service coverage ratio stood at 1.45 times.

- **Working capital intensive operations**

KIPL's working capital intensive operations are marked by GCA of around 215 days and 232 days in FY2016 and FY2015 respectively. This intensifies large working capital requirements as funds get blocked in inventory affecting its ability to payback its current liabilities. The inventory stood at 232 days in FY2016 as compared to 186 days in FY2015. The debtors stood at 29 days in FY2016 as against 27 days in FY2015.

- **Geographical concentration risk**

With operations limited to Andhra Pradesh, the company is exposed to geographical concentration risk.

Analytical Approach

SMERA has taken a standalone view of the business and financial risk profiles of the entity.

Outlook: Stable

SMERA believes that KIPL will maintain a stable outlook in the medium term while benefitting from its experienced management. The outlook may be revised to 'Positive' if KIPL scales up operations while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue or if the working capital cycle deteriorates.

About the Rated Entity - Key Financials

For FY2016, KIPL reported profit after tax (PAT) of Rs.0.92 cr on total operating income of Rs.19.77 cr, as compared with PAT of Rs.0.61 cr on total operating income of Rs.15.55 cr in FY2015. The tangible net worth stood at Rs.6.32 cr in FY2016 as compared to Rs.5.39 cr in FY2015.

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

ICRA vide its release dated July 12, 2016 suspended the long-term rating of [ICRA] B+ (Stable) assigned to the Rs. 10.00 crore bank facilities of KBC Infrastructures Private Limited. The suspension follows its inability to carry out a rating surveillance in the absence of requisite information from the company.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.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>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	11.00	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	13-Jan-2021	3.00	SMERA BB- / Stable
Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA A4+

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