

Press Release

K G N Electricals

31 May, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 35.00 Cr
Long Term Rating	SMERA BB/Stable (Assigned)
Short Term Rating	SMERA A4+ (Assigned)

**Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA double B**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 35.00 crore bank facilities of K G N Electricals (KGNE). The outlook is '**Stable**'.

KGNE, established in 1997 by Mr. Mohammed Idrees and Mrs. Shahazadeebi, is a Karnataka-based EPC contractor for substations and transmission lines. The partnership firm has Super Grade License and caters to government departments in Karnataka.

List of key rating drivers and their detailed description

Strengths:

Established track record of operations and experienced promoters:

KGNE undertakes electrical contracts and has been catering to the Karnataka government for the last two decades. The firm benefits from its experienced promoter, Mr. Mohammed Idrees who possesses over 20 years of experience in the electrical contract business.

Comfortable financial risk profile and liquidity position

KGNE has comfortable financial risk profile marked by gearing of 0.83 times as on 31 March, 2016 as against 1.84 times in the previous year. The total liabilities to tangible network (TOL/TNW) stood at 2.69 times as on 31 March, 2016 as compared to 2.65 times in the previous year. Further, the interest coverage ratio stood healthy at 9.77 times for FY2015-16 compared to 3.24 times in the previous year. KGNE has a comfortable liquidity position with average cash credit limit utilisation of 82 percent for the last six months ended 31 January, 2017.

Healthy revenue growth and comfortable order book position

KGNE reported operating income of Rs.101.64 crore for FY2015-16 as compared to Rs. 26.67 crore in the previous year. The significant growth in FY2015-16 was due to increase in orders received from Karnataka Power Transmission Corporation Limited (KPTCL) and Bangalore Electricity Supply Company Limited (BESCOM). KGNE reported operating income of Rs. 80.00 crore (provisional) during the period April 2016 to January 2017. Further, KGNE has an unexecuted order book position of Rs. 134.00 crore as on 31st January, 2017 which provides revenue visibility over the medium term.

Weaknesses:

Customer concentration risk

KGNE mainly executes projects for two government departments viz. KPTCL and BESCOM that are engaged in the transmission and distribution of power in Karnataka. Hence, the firm is exposed to

customer concentration risk. However, KGNE has been classified as Super Grade License by Karnataka government due to the track record of timely completion of contracts and quality of work.

Partnership constitution

KGNE is exposed to capital withdrawal risk on account of the partnership constitution of the firm. Further, the tangible networth of the firm stood low at Rs. 6.60 crore as on 31 March, 2016 as against Rs. 2.40 crore in the previous year.

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

Applicable Criteria

- Infrastructure Entities – <https://www.smera.in/criteria-infrastructure.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Outlook: Stable

SMERA believes that the outlook for KGNE will remain stable over the medium term on account of its established presence and experience of the promoters in the electrical contract business. The outlook may be revised to 'Positive' if the firm registers significant and sustainable growth in revenue and profitability while maintaining a comfortable liquidity position and capital structure. Conversely, the outlook may be revised to 'Negative' in case the firm registers significant decline in revenues and cash accruals or the working capital cycle is stretched resulting in deterioration of its financial risk profile.

About the Rated Entity –Key Financials

For FY2015-16, KGNE reported profit after tax (PAT) of Rs. 5.25 crore on operating income of Rs. 101.64 crore as against PAT of Rs. 1.05 crore on operating income of Rs. 26.67 crore in the previous year.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the 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. Crore)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A.	5.00	SMERA BB/Stable (Assigned)
Bank Guarantee	N.A	N.A	N.A.	30.00	SMERA A4+ (Assigned)

Note on complexity levels of the rated instrument:

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

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ABOUT SMERA

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