

Press Release

K G N Electricals

June 04, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 35.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and '**ACUITE A4+**' (**read as ACUITE 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 Idress and Mrs. Shahazadeebi, is a Tumkur-based partnership firm engaged as an electrical EPC Contractor for substations and transmission lines for government departments in Karnataka. The firm has Super Grade License from the Karnataka State Government.

The ratings continue to derive support from the firm's established track record of operations and experienced partners, comfortable financial risk profile and liquidity profile. The rating also factors healthy order book position providing modest revenue visibility over the near to medium term. However, the ratings are constrained by the tender based nature of operations, customer concentration risk and partnership constitution of business.

Key Rating Drivers

Strengths

- **Established track record and experienced partners**

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

- **Comfortable financial risk profile and liquidity position**

The financial risk profile of the firm is comfortable marked by low debt to equity ratio of 0.57 times as on 31 March, 2017 as against 0.83 times in the previous year. The interest coverage ratio is healthy at 7.06 times for FY2017 as against 9.77 times in the previous year. The total outside liabilities to tangible networth (TOL/TNW) stood at 1.39 times as on 31 March, 2017 as against 2.69 times in the previous year. The net cash accruals to total debt stood at 0.86 times for FY2017 as against 0.98 times in the previous year. Further, KGNE has comfortable liquidity position as the average cash credit limit utilisation stood at ~48 percent for the last five months ended as on 31 March, 2018.

- **Significant growth in revenue and healthy order book position**

KGNE reported operating income of Rs.155.64 crore for FY2018 (provisional) as compared to Rs.83.19 crore in FY2017 and Rs.101.64 crore in FY2016. The decline in operating income during FY2017 was due to slowdown in execution of the projects resulting from the delay in land acquisition by the government departments. The contracts received during FY2017 were executed in FY2018 resulting in significant growth in the operating income. Further, KGNE has an unexecuted order book position of Rs.277.35 crore as on 1 April, 2018 which provides modest revenue visibility over the medium term

Weaknesses

- **Tender based nature of operations**

The firm has reported uneven operating revenue during the last three years. The order execution and revenue reporting is cyclical in nature due to tender based nature of operations and also same is dependent on the amount of tenders floated by KPTCL and BESCOM. It is also dependent on the completion of land acquisition by the government authorities for the project which can cause delays and slowdown in revenue booking for KGNE.

- **Customer concentration risk**

KGNE mainly executes projects for two government departments Karnataka Power Transmission Corporation Limited (KPTCL) and Bangalore Electricity Supply Company Limited (BESCOM). These two government departments are engaged in the transmission and distribution of power in the state of Karnataka. Hence, the firm is exposed to customer concentration risk. However, KGNE has been classified as Super Grade License for Karnataka State Government due to the track record of timely completion of contracts and the quality of work resulting in regular orders.

- **Partnership based constitution**

KGNE is exposed to the capital withdrawal risk on account of partnership constitution of the firm; which will have an impact on the credit profile of the firm

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the firm for arriving at the rating.

Outlook: Stable

Acuite believes that the outlook for KGNE will remain 'Stable' over the medium term on account of its established presence and experienced partners 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 in case of stretched working capital cycle resulting in deterioration of its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	83.19	101.64	26.67
EBITDA	Rs. Cr.	7.60	3.33	1.90
PAT	Rs. Cr.	4.29	5.25	1.05
EBITDA Margin	(%)	9.14	3.28	7.13
PAT Margin	(%)	5.16	5.17	3.95
ROCE	(%)	59.23	105.53	27.65
Total Debt/Tangible Net Worth	Times	0.57	0.83	1.84
PBDIT/Interest	Times	7.06	9.77	3.24
Total Debt/PBDIT	Times	0.65	0.54	2.22
Gross Current Assets (Days)	Days	57	70	88

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

None

Any other information

SMERA is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Infrastructure entities - <https://acuite.in/view-rating-criteria-14.htm>
- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://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. Crore)	Ratings/Outlook
29-Mar-2017	Cash Credit	Long Term	5.00	ACUITE BB/Stable (Assigned)
	Bank Guarantee	Short Term	30.00	ACUITE A4+ (Assigned)

*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	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB/ Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A4+

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About Acuité Ratings & Research:

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