

Press Release

K G N Electricals

June 05, 2019

Rating Upgraded



Total Bank Facilities Rated*	Rs. 49.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Upgraded from ACUITE BB /Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BB**' (read as **ACUITE double B**) and reaffirmed the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs.49.00 crore bank facilities of K G N Electricals (KGNE). The outlook is '**Stable**'.

The upgrade in the rating is on account of significant growth in revenues in the last two years i.e. FY2019 (Provisional) & FY2018. Further, healthy order book position of Rs.495 crores provides modest revenue visibility over the near to medium term. Profitability has improved year on year owing to better margin projects and lower interest outgo. However, the ratings are constrained by the tender based nature of operations, customer concentration risk and partnership constitution of business.

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

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of the KGNE to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced promoters and established track record of operations**

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 25 years of experience in the electrical contract business.

Acuite believes that KGNE will continue to benefit from the promoter's established presence in the industry and its improving business risk profile over the medium term.

- **Strong financial risk profile**

The financial risk profile of the firm is marked by moderate net worth, strong debt protection measures and low gearing. The tangible net worth of the firm stood around Rs.17.34 crore as on 31 March 2018 as against Rs.9.16 crore in as on 31 March 2017. The increase in net worth is on account of healthy accretion to reserves. The company has followed a conservative financial policy as reflected by peak gearing of 0.54 times over the last three years through 2017-18. The gearing of the company has further improved to 0.21 times as on March 31, 2018. The gearing is expected to improve further on the back of increasing profitability and lower utilization of working capital limits. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.76 times as on 31 March 2018 as against 1.39 times as on 31 March 2017 and is estimated to remain around 0.50 to 0.70 times over the medium term on the back of absence of any debt funded capex plans. The healthy revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) improved to 7.43 times in FY2018 against 7.06 times in FY2017 due to lower interest cost and higher operating margins. Debt Service Coverage Ratio (DSCR) stood at 5.16 times for FY2018 as against 4.95 times in FY2017.

Acuite believes that the financial risk profile of KGNE will continue to remain strong over the medium term on account of its improving scale of operations and conservative financial policy.

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

KGNE has reported operating income of Rs.204 crore for FY2019 (Provisional) as compared to Rs.155 crores in FY2018 and Rs.83 crores in FY2017. The significant growth in revenue was due to faster execution of the contracts and additional contracts received from KPTCL & BESCOM owing to better quality of work. Further, KGNE has an unexecuted order book position of Rs.495 crores as on April 1, 2019 that provides modest revenue visibility over the medium term.

Weaknesses

- **Tender based nature of operations**

The firm has reported growth in operating revenues during the last three years. The order execution and revenue reporting is cyclical in nature due to tender based nature of operations and the 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 that 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 company 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.

Liquidity Position:

Liquidity of KGNE is marked by moderate net cash accruals of Rs.5-10 crores during the last three years. The cash accruals of the company are expected to improve and remain in the range of Rs.12-15 crore with no major repayment obligations, the company's incremental working capital requirements are estimated to remain in the range of Rs.8-10 crore over the medium term. The company's working capital operations are well managed as marked by gross current asset (GCA) days of 23 in FY 2018. This has led to low reliance on working capital borrowings. The cash credit limit in the company remained utilised at around 51 percent during the last 9 months ended March 2019. The company maintains unencumbered cash and bank balances of Rs.2.44 crore as on March 31, 2018. The current ratio of the company stood moderate at 2.31 times as on March 31, 2018. Acuite believes that the liquidity of the company will remain comfortable over near to medium term on account of increasing net cash accruals, no repayment obligations and absence of any debt funded capex plans.

Outlook: Stable

Acuite believes that the outlook for KGNE will remain stable over the medium term on account of its established presence in the industry and experience of the promoters in the electrical contract business. The outlook may be revised to 'Positive' if the firm further 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

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	155.74	83.19	101.64
EBITDA	Rs. Cr.	16.35	7.60	3.33
PAT	Rs. Cr.	9.13	4.29	5.25
EBITDA Margin	(%)	10.50	9.14	3.28
PAT Margin	(%)	5.86	5.16	5.17
ROCE	(%)	93.50	59.23	105.53
Total Debt/Tangible Net Worth	Times	0.21	0.57	0.83
PBDIT/Interest	Times	7.43	7.06	9.77
Total Debt/PBDIT	Times	0.22	0.65	0.54
Gross Current Assets (Days)	Days	23	57	70

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.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
16-Jul-2018	Cash Credit	Long Term	7.00	ACUITE BB / Stable (Reaffirmed)
	Bank Guarantee	Short Term	42.00	ACUITE A4+ (Reaffirmed)
04-Jun-2018	Cash Credit	Long Term	5.00	ACUITE BB / Stable (Reaffirmed)
	Bank Guarantee	Short Term	30.00	ACUITE A4+ (Reaffirmed)
31-May-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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB+ /Stable (Upgraded from ACUITE BB/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	42.00	ACUITE A4+ (Reaffirmed)

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About Acuite Ratings & Research:

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