

Press Release

K G N Electricals

June 04, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 62.00 crore (Enhanced from Rs. 49.00 Cr.)
Long Term Rating	ACUITE BB+/ Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has Reaffirmed the long term rating of '**ACUITE BB+**' (**read as ACUITE B Plus**) and the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the above mentioned bank facilities of Rs. 62.00 crore (Enhanced from Rs. 49.00 crore) for K G N Electricals (KGNE). The outlook is '**Stable**'.

KGNE, a Karnataka based partnership firm was established in 1997. The partners of the firm are Mr. Mohammed Idress and Mr. Mohamed Younus. The partnership firm is registered EPC contractor for erection and maintenance substations and transmission lines. KGNE, has Super Grade License and caters to government departments in Karnataka.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of K G N Electricals to arrive at the rating.

Key Rating Drivers

Strengths

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

KGNE undertakes electrical works contracts and has been catering to the Karnataka Government for more than two decades since 1997. The firm benefits from its experienced promoter, Mr. Mohammed Idrees and Mr. Mohamed Younus who possesses over 25 years of experience in the contractor business. The firm is well supported by second line of management. The extensive experience of the partners and established presence of the firm in the said industry has helped the firm to maintain regular flow of orders resulting in improvement in business profile of the company. The firm has moderate outstanding order book position which stood at Rs. 93.27 crore as on 30th May 2020 to be executed in FY2021 providing revenue visibility over near term. The operating income has improved to Rs. 203.16 crore in FY2019 from Rs.155.74 crore in FY2018. However, the operating income stood declined at Rs. 151.86 crore for FY2020 (Provisional) due to delay in execution of orders and slowdown in work due to lockdown by impact of COVID-19. The firm primary undertakes works for projects for Government of Karnataka and caters to reputed clients like Karnataka Power Transmission Corporation Limited (KPTCL) and Bangalore Electricity Supply Company Limited (BESCOM) reducing counterparty risk. Acuité believes that KGNE will continue to benefit from the partner's experience and established presence in the industry over the medium term.

- **Healthy 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. 46.83 crore as on 31 March 2020 (Provisional) as against Rs. 31.70 crore in as on 31 March 2019. The increase in net worth is on account of healthy accretion to reserves and plough back of profits in the

business. The firm has followed a conservative financial policy as reflected by peak gearing of 0.57 times over the last three years through 2019-20. The gearing of the firm has further improved to 0.07 times as on March 31, 2020 (Provisional). The gearing is expected to remain at same level on the back of increasing profitability and lower utilization of working capital limits. Interest Coverage Ratio (ICR) improved to 17.63 times in FY2019 against 7.43 times in FY2018 due to lower interest cost and higher operating margins. Debt Service Coverage Ratio (DSCR) stood at 6.71 times for FY2019 as against 4.45 times in FY2018. The improving scale of operations coupled with stable operating margins have resulted in comfortable debt protection measures.

Further, partners of the firm has bided under an auction for coffee estate for Rs.13.05 crore which is not related to crore business. Adjusted Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.80 times as on 31 March 2019 as against 0.78 times as on 31 March 2018 and is estimated to remain around 0.50 to 0.80 times over the medium term on the back of absence of any further debt funded capex plans. Acuité believes that the financial risk profile of KGNE will continue to remain comfortable over the medium term on account of its improving net cash accruals and conservative financial policy.

Weaknesses

- **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. Both these departments contributes 86 percent and 14 percent of total earnings of the firm in FY2020. 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.

- **Tender based nature of operations and Partnership based constitution**

The firm has reported growth in operating revenues during the last three years ending FY2019. 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. The same is visible from contraction in order book and decline in revenue in FY2020. 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. Further, KGNE is exposed to the capital withdrawal risk on account of partnership constitution of the firm.

Liquidity Position: Adequate

Liquidity of KGNE is adequate marked by healthy net cash accruals of Rs.9.50-11.50 crores during the last three years. The cash accruals of the firm are expected to remain in the range of Rs.9.00-10.50 crore with no major repayment obligations, the firm's incremental working capital requirements to be covered by unutilised portion of bank lines. The firm's working capital operations are well managed as marked by gross current asset (GCA) days of 43 days in FY2019 and 23 days in FY2018. This has led to low reliance on working capital borrowings. The cash credit limit in the firm remained utilised at around 61.87 percent during the last twelve months ended March 2020. The firm maintains unencumbered cash and bank balances of Rs. 7.44 crore as on March 31, 2019. The current ratio of the firm stood comfortable at 2.63 times as on March 31, 2019.

Acuité believes that the liquidity of the firm will remain comfortable over near to medium term on account of increasing net cash accruals, no major repayment obligations and absence of any debt funded capex plans.

Rating Sensitivities

- Sustaining existing scale of operations and margins
- Elongation in working capital cycle
- Deterioration in financial risk and liquidity profile

Outlook: Stable

Acuité 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	203.16	155.74
PAT	Rs. Cr.	13.33	9.13
PAT Margin	(%)	6.56	5.86
Total Debt/Tangible Net Worth	Times	0.07	0.21
PBDIT/Interest	Times	17.63	7.43

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
05-Jun-2019	Cash Credit	Long Term	7.00	ACUITE BB+/ Stable (Upgraded from ACUITE BB/Stable)
	Bank Guarantee	Short Term	42.00	ACUITE A4+ (Reaffirmed)
16-Jul-2018	Cash Credit	Long Term	5.00	ACUITE BB/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	30.00	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)

***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 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	55.00 (Increased from 43.00)	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Rupesh Patel Senior Analyst - Rating Operations Tel: 022-49294044 rupesh.patel@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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