

Press Release

Keechery Engineering Company

November 23, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 9.20 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 9.20 crore bank facilities of Keechery Engineering Company (KEC). The outlook is '**Stable**'.

The Chennai-based, KEC is a proprietorship firm established in 1997 by Mr. Sudhakar. KEC undertakes interior decoration contracts. The firm has ceased the supply of medical equipment and now undertakes services for the medical equipment supplied. The operations are spread across Tamil Nadu, Kerala, Karnataka and Andhra Pradesh with reputed clients such as Blue Star, Ford Motor Company and KPMG India Private Limited, among others.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management and reputed clientele base

KEC undertakes interior decoration contracts and has established relations with customers and suppliers. The promoter has three decades of experience in the medical equipment business and around two decades in executing interior decoration contracts. The firm caters to a diversified client base that includes Blue Star, Ford Motor Company, KPMG India Private Limited, TVS Motor Company Limited and Thyrocare Technologies Limited.

• Moderate financial risk profile

The financial risk profile is moderate marked by tangible net worth of Rs.8.31 crore as on 31 March, 2018 as against Rs.8.25 crore in the previous year. The gearing stood at 0.96 times as on 31 March, 2018 as against 0.25 times in the previous year. The total debt of Rs.8.01 crore includes term loan from bank of Rs.1.31 crore, working capital borrowing of Rs.6.36 crore and unsecured loan of Rs.0.34 crore. Interest Coverage Ratio (ICR) stood at 3.56 times in FY2018 as against 2.78 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.67 times as on 31 March, 2018 as against 1.50 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.13 times in FY2018 (Provisional) compared to 0.62 times in FY2017.

Going forward, Acuite believes that the firm's ability to improve its net worth along with debt protection metrics will remain key sensitivity.

Weaknesses

• Moderate working capital operations

The firm's operations are moderately working capital intensive marked by Gross Current Asset (GCA) of 151 days in FY2018 as compared to 132 days in FY2017. The GCA days are mainly dominated by high collection period of 117 days in FY2018 compared to 66 days in FY2017. The inventory holding period stood at 3 days in FY2018 compared to 41 days in FY2017. Further, working capital is supported by high creditors of 62 days in FY2018. Average cash credit utilisation stood at 70 percent.

Acuite believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

• **Stagnant revenues with declining profitability margins**

KEC shows stagnation in revenue growth. The firm reported revenue of Rs.36.05 crore in FY2018 as against Rs.35.92 crore in FY2017 and Rs.35.82 crore in FY2016. The firm has booked revenue of Rs.13.50 crore for April to October, 2018. Further, the operating margins are falling to 3.89 percent in FY2018 as against 5.22 percent in FY2017 and 5.80 percent in FY2016. In line with the operating margins, PAT margins are also declining and stood at 2.59 percent in FY2018 against 3.03 percent in FY2017 and 3.44 percent in FY2016.

Acuite believes that the firm's ability to register growth in revenue while maintaining adequate profitability will be key sensitivity factor.

Outlook: Stable

Acuite believes that KEC's outlook will remain 'Stable' and the firm will benefit over the medium term backed by experienced management, and moderate financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in revenues while improving working capital cycle and maintaining profitability. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or working capital requirements deteriorating financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	36.05	35.92	35.82
EBITDA	Rs. Cr.	1.60	1.88	2.08
PAT	Rs. Cr.	0.93	1.09	1.23
EBITDA Margin	(%)	4.44	5.22	5.80
PAT Margin	(%)	2.59	3.03	3.44
ROCE	(%)	11.67	12.67	22.46
Total Debt/Tangible Net Worth	Times	0.96	0.25	1.32
PBDIT/Interest	Times	2.73	2.78	2.71
Total Debt/PBDIT	Times	4.74	1.03	4.76
Gross Current Assets (Days)	Days	151	132	181

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

None

Any other information

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

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-8.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. Cr.)	Ratings/Outlook
04-Oct-2017	Cash Credit	Long Term	6.00	ACUITE BB- / Stable (Assigned)
	Term Loan	Long Term	0.20	ACUITE BB- / Stable

				(Assigned)
	Bank Guarantee	Short Term	3.00	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	8.00	ACUITE BB-/ Stable (Reaffirmed)
Term loans	Not Applicable	Not Applicable	Not Applicable	0.20	ACUITE BB-/ Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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