

Press Release

J K ELECTRIC CONTRACTOR

06 March, 2018



Rating Assigned

| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 15.00 Cr. |
| Long Term Rating | SMERA BB / Outlook: Stable |
| Short Term Rating | SMERA A4+ |

* 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 A four plus) on the Rs.15.00 crore bank facilities of J K Electric Contractor (JKEC). The outlook is 'Stable'.

J K Electric Contractor (JKEC) is a Jaipur-based proprietorship firm established in 1981 by Mr. Rameshwar Dayal Khandelwal. JKEC is registered as 'A' grade electric contractor with the Electricity Board of Rajasthan. The firm undertakes electric wiring of government buildings, street lighting and grid connection up to 220 KVA for various government agencies.

Key Rating Drivers

Strengths

Experienced promoters

Mr. Rameshwar Khandelwal, the proprietor has more than three decades of experience in electric works. He is joined by his brother, Mr. Gopal Khandelwal who has more than two decades of experience in managing the overall affairs of the firm.

Established clientele

JKEC is engaged in the execution of electrical contracts for government agencies in Rajasthan including Jaipur Development Authority (JDA), Rajasthan State Road Development Corporation (RSRDC), Public Works Department (PWD) Rajasthan, Jaipur VidhutVitan Nigam Limited (JVNL) and Jodhpur VidhutVitan Nigam Limited (JDVNL). The firm has received repeat orders from the aforementioned entities.

Healthy revenue growth and comfortable order book position

JKEC reported revenue growth (CAGR) of 39 per cent over the previous year registering revenue of Rs.27.08 crore for FY2017, Rs.26.56 crore for FY2016 and Rs. 14.08 crore for FY2015. The significant growth in FY2016 was due to increase in orders received from Jodhpur VidyutVitan Nigam Limited (JDVBNL). Further, JKEC has an unexecuted order book position of Rs. 216.00 crore as on 31 January, 2018 which provides revenue visibility over the medium term.

Weaknesses

Working capital intensive operations

The operations are working capital intensive marked by high Gross Current Assets days of 244 days in FY2017 and 241 days in FY2016. The GCA days have been high on account of high inventory days of 98 days in FY2017 and 112 days in FY2016. The inventory days are high as the orders are booked as work-in-progress till the

completion of orders and prior to customer acceptance.

Tender based nature of business

The operations are tender-based. Besides, the firm is exposed to intense competition from other players in the industry. However, revenue is expected to increase over the medium term because of high value of tenders secured.

High geographical concentration

JKEC is exposed to geographical concentration risk since it has executed most of its projects in Rajasthan. The firm is also vulnerable to changes in government policies as also the socio-economic and political conditions in the region.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profile of JKEC.

Outlook: Stable

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

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 27.08 | 26.56 | 14.08 |
| EBITDA | Rs. Cr. | 2.52 | 2.08 | 1.18 |
| PAT | Rs. Cr. | 1.45 | 1.39 | 0.76 |
| EBITDA Margin | (%) | 9.32 | 7.83 | 8.37 |
| PAT Margin | (%) | 5.37 | 5.24 | 5.41 |
| ROCE | (%) | 21.56 | 27.49 | 52.17 |
| Total Debt/Tangible Net Worth | Times | 0.32 | 0.36 | 1.49 |
| PBDIT/Interest | Times | 2.28 | 2.84 | 2.82 |
| Total Debt/PBDIT | Times | 1.20 | 1.33 | 2.21 |
| Gross Current Assets (Days) | Days | 244 | 241 | 334 |

Status of non-cooperation with previous CRA (if applicable) -CARE Ratings vide its press release dated February 16, 2018 has stated, "J K Electric Contractor (JKEC) has not paid the surveillance fees for the rating exercise agreed to in its Rating Agreement. In line with the extant SEBI guidelines, CARE's rating on JKEC's bank facilities will now be denoted as CARE BB-/CARE A4 ISSUER NOT COOPERATING*."

Any other information

None

Applicable Criteria

- Default Recognition -<https://www.smerra.in/criteria-default.htm>
- Service Sector Entities- <https://www.smerra.in/criteria-services.htm>
- Financial Ratios And Adjustments -<https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

NotApplicable

*Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------|------------------|-------------|---------------|-------------------------------|-------------------|
| Overdraft | NA | NA | NA | 1.00 | SMERA BB / Stable |
| Bank Guarantee | NA | NA | NA | 14.00 | SMERA A4+ |

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ABOUT SMERA

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