

Press Release

K K Builders Private Limited

April 20, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.42.50 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.42.50 Cr. bank facilities of K K Builders Private Limited (KKB). The outlook is '**Stable**'.

About the Company

KKB was incorporated in 1990 in Jamshedpur, Jharkhand by Mr. Kaushal Kishore Singh and his family members. The company is primarily engaged in civil construction work for building roads, bridges, and irrigation segments, mainly in Jharkhand and Bihar. KKB majorly works for the Central Government entities such as National Projects Construction Corporation Limited, Central Public Works Department, etc. The company is a Class-1 civil contractor for government departments.

Analytical Approach

Acuite has considered the standalone view of the business and financial risk profile of KKB to arrive at the rating.

Key Rating Drivers

Strengths

- **Moderate business risk profile supported by healthy order book and the ability to overcome the impact covid-19**

KKB and its promoters' long standing presence in the civil construction industry since 1990 manifests the company's established track record of operations and the extensive experience of its promoters. The day to day operations of KKB are managed by Mr. Vikash Singh, who has an experience of over 2 decades in the civil construction industry and directors being supported by experienced professionals. Since inception, KKB has been executing projects floated through tenders by central government and by the Jharkhand state government executing numerous orders for its key clients such as National Projects Construction Corporation Ltd, Central and State Public Works Department for around 2 decades. KKB is presently registered as Class – I Civil Contractor with multiple government departments. Promoter's extensive industry experience and established track record has enabled KKB in establishing long-standing relationship with its key suppliers and customers.

KKB has been able to overcome from the impact of covid-19 in FY2021 on account of improvement the execution rate of projects and billings on Y-O-Y basis when compared with FY2020, with revenue expected to be more than ~Rs.90.00-Rs.100.00 Cr. Improvement in revenue expected in FY2021 and going forward is supported unexecuted order book of Rs.319.89 Cr as on March 31, 2021 to be executed in the next 12-18 months of time. The outstanding order book is 3 times of the FY2021 expected revenue, thus providing revenue visibility in the near to medium term.

However, KKB did witness moderation in its revenues in FY2020 as reflected in the operating income of Rs.45.26 Cr. as against Rs.72.36 Cr. in FY2019 on account of delays in execution of projects. Nonetheless, the profitability indicators remained stable during this period. This is reflected in the improvement of Operating (EBIDTA) margin to 16.00 percent in FY2020 as against 13.95 percent in FY2019. The PAT margins witnessed moderation to 4.16 percent in FY2020 as against 4.78 percent in FY2019 on account of increase in interest obligations.

Acuité believes that the business risk profile of KKB is expected to improve in the near to medium supported by healthy order book and minimal impact of Covid-19.

Weaknesses

• Moderation in the financial risk profile

KKB's financial risk profile stands moderate marked by stable capital structure and moderated coverage indicators.

The tangible net worth of the company stood at Rs.34.35 Cr. as on March 31, 2020 as against Rs.32.47 Cr. as on March 31, 2019 on account of accretion of profits to reserves. KKB follows a moderate financial policy as reflected in its Gearing (Debt to Equity) of 0.39 times as on March 31, 2020 as against 0.22 times as on March 31, 2019. The debt profile majorly consists of long term equipment finance loans of Rs.9.21 Cr. and short term fund based working capital facilities of Rs.4.15 Cr. The company also avails non-fund based facilities in the form of bank guarantees to meet its working capital requirements.

The TOL/TNW (Total Outside Liabilities to Tangible Net Worth) and the Debt-EBITDA stood at 0.93 times and 1.42 times respectively as on March 31, 2020 as against 0.46 times and 0.67 times respectively as on March 31, 2019. Moderation of these indicators can be attributed to the decline in the revenue in FY2020 that has impacted the financial risk profile.

The coverage indicators have moderated on a Y-O-Y basis, as reflected in the Interest Coverage Ratio (ICR) of 6.11 times in FY2020 as against 9.51 times in FY2019, and Debt-Service Coverage Ratio (DSCR) of 2.29 times in FY2020 as against 3.43 times in FY2019.

The NCA/TD (Net Cash Accrual to Total Debt) too has witnessed significant moderation to 0.54 times in FY2020 as against 1.15 times in FY2019 primarily due to moderation in performance in FY2020. The additional debt availed by the company has also been a contributing factor to the deterioration of NCA/TD.

Acuité believes that the financial risk profile of KKB is expected to improve in the near to medium term supported by stable capital structure and improvement in the coverage indicators.

• Working capital intensive nature of operations

KKB's operations are working capital intensive marked by Gross Current Assets (GCA) of 246 days in FY2020 as against 61 days in FY2019. Elongation in GCA days is primarily on account of delay in execution of projects, realisation of bills from government departments, and significant increase in the other current assets in the form of retention money, security deposits and other short term advances. The aforementioned factors along with the lockdown implemented just before the end of FY2020 have also contributed to deterioration of healthy debtors' collection period and inventory holding period which have in-turn contributed to the deterioration of the overall GCA.

The inventory holding period (mostly work-in-progress) stood at 92 days in FY2020 as against 12 days in FY2019, while the Debtors collection period stood healthy at 24 days in FY2020 as against <1 day in FY2019. Similarly, such factors have also contributed to the elongation of creditors' payment period to 227 days in FY2020 as against 8 days in FY2019.

The fund based working capital limit has a significantly varying utilisation levels with peak average utilisation being 98.38 percent for the trailing 7month period ending March 31, 2021, while the non-fund based facilities remain utilised at ~50 percent as on March 31, 2021. The utilisation of bank guarantee is driven by the following process, wherein, once the tender is allotted the earnest money deposits (EMD) in the range of 1 percent is deposited against the bank guarantee. Further, the retention money is usually 10 percent of the contract value which is in few instances released against Bank guarantee.

Acuité believes that the company's ability to manage its varying working capital requirements that significantly get impacted by the market conditions regularly will be a key rating sensitivity factor.

• Execution and other industry-related risks in a competitive and fragmented industry

KKB is engaged as an EPC contractor for construction of Roads, Bridges and Dams. The sector is marked by the presence of several mid to large size players operating in the organised and unorganised segment. KKB, like any other EPC company is also exposed to the execution risks inherent in the construction sector such as time/cost overruns as per its contractual obligation, slowdown in new order inflows, high exposure to non-fund-based limits vis-à-vis its net worth, amongst others.

• Tender based nature of operations further exaggerated by exposure to concentration and geopolitical risks

KKB majorly executes tender based projects from government authorities with low reliance on subcontract

work. Since the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent on account of extensive experience of the management which has resulted in the success rate of 70 to 80 percent of the contracts bid.

KKB's revenue and profitability are susceptible to risks inherent in tender based operations which limits pricing flexibility in an intensely competitive industry. At the same time, given the volatile economic environment there has been slowdown in release of new contracts which has resulted in sluggish growth being witnessed by the construction industry.

Further, the project portfolio of KKB is concentrated in the state of Jharkhand. Any change in geopolitical environment would affect all the projects at large. Furthermore, any changes in current policies of the state government with regard to change in budget allocation would also impact KKB revenue considerably.

Liquidity position: Adequate

KKB has adequate liquidity position supported by adequate NCA (Net Cash Accruals) vis-à-vis its maturing debt obligations; albeit constrained by high exposure to fund-based limits vis-à-vis its growing scale of operations and with fund based working capital limits having a peak utilisation of 98.38 percent for the trailing 7month period ending March 31, 2021, while the non-fund based facilities remain utilised at ~50 percent as on March 31, 2021.

The company generated net cash accruals of Rs.7.25 Cr vis-à-vis its maturing debt obligations of Rs.2.32 Cr in FY2020. The cash accruals of the company are expected to be remain in the range of Rs.10.00-Rs.15.00 Cr. for the FY2021-23 period. The company maintains unencumbered cash and bank balances of Rs.0.17 crore as on March 31, 2020 while the current ratio of the company stood moderate at 1.40 times as on March 31, 2020.

Acuite believes that the liquidity of the company is expected to remain moderate owing to improving net cash accruals and declining debt repayment obligations going forward. However, the working capital management due to the nature of its business in the near to medium term, will remain a key rating sensitivity factor amidst the growing scale of operations and the impact of Covid-19.

Rating Sensitivities

- Significant improvement in scale of operations while sustaining its profitability margins and financial risk profile.
- Deterioration in the working capital cycle leading to stress on the debt protection metrics or the liquidity position of the company.
- Timely execution of projects as per predefined timelines.

Material Covenants

None

Outlook: Stable

Acuite believes that KKB will maintain a 'Stable' outlook in the near to medium term on account of its growing scale of operations supported by healthy order book. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in its scale of operations, while also sustaining/improving its operating profitability and coverage indicators. Conversely, the outlook may be revised to 'Negative' in case the company registers significant decline in revenues or profitability margins, cash accruals, delay in execution of projects or if the financial risk profile deteriorates due to higher-than-expected increase in debt-funded capex/requirements or working capital requirements resulting in deterioration in the overall capital structure.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	45.26	72.36
PAT	Rs. Cr.	1.88	3.46
PAT Margin	(%)	4.16	4.78
Total Debt/Tangible Net Worth	Times	0.39	0.22
PBDIT/Interest	Times	6.11	9.51

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

CRISIL, vide its press release dated February 13, 2020 has classified the credit rating of K K Builders Private Limited (KKB) as [CRISIL]B-/Stable/A4 (Issuer Not Cooperating); on account of lack of adequate information required for monitoring of ratings.

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. Cr.)	Ratings/Outlook
28-Jan-2020	Cash Credit	Long Term	4.50	ACUITE BBB- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Short Term	5.00	ACUITE A3 (Reaffirmed)
14-Mar-2019	Cash Credit	Long Term	4.50	ACUITE BBB- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	30.00	ACUITE A3 (Reaffirmed)
18-Apr-2018	Cash Credit	Long Term	4.50	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	30.00	ACUITE A3 (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	10.40%	Not Applicable	6.00 (Revised from 4.50)	ACUITE BBB- / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	11.50 (Revised from 5.00)	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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