

## Press Release

K K Builders Private Limited

June 14, 2022



### Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14.86	-	ACUITE A3   Assigned
Bank Loan Ratings	17.50	ACUITE BBB-   Negative   Reaffirmed   Stable to Negative	-
Bank Loan Ratings	25.00	-	ACUITE A3   Reaffirmed
Bank Loan Ratings	7.14	ACUITE BBB-   Negative   Assigned	-
Total Outstanding Quantum (Rs. Cr)	64.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

Acuite has reaffirmed long term rating at '**ACUITE BBB-** (read as **ACUITE triple B minus**)' and 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 (KBPL). The outlook is revised from '**Stable**' to '**Negative**'.

Acuite has assigned long term rating of '**ACUITE BBB-** (read as **ACUITE triple B minus**)' and short term rating of '**ACUITE A3 (read as ACUITE A three)**' on Rs.22.0 crore bank facilities of KBPL. The outlook is '**Negative**'.

The ratings derive strengths from increase in total operating income during FY21 resulting in comfortable financial risk profile, improvement in Gross Current Asset days and adequate liquidity during FY21. The strengths are however, underpinned by moderate order book position which is concentrated on geographical basis, tender based nature of business and decline in profitability margins in FY21.

#### Revision in Outlook

The revision in outlook from 'Stable' to 'Negative' on account of lower order book led by absence of order addition during FY21-22. Further, the revision in outlook also takes into account slow moving order book led by delays in execution of orders on account non receipt of requisite approval.

### About the Company

KKBPL was incorporated in 1990 in Jamshedpur, Jharkhand by Mr. Vikas 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. The entity majorly works for the Central Govt. entities such as National Projects Construction Corporation Ltd, Central Public Works Department, etc. The company is a Class-1 contractor for government departments.

## **Analytical Approach**

Acuité has considered the standalone business and financial risk profile of K K Builders Private Limited to arrive at the rating.

## **Key Rating Drivers**

### **Strengths**

#### **Improvement in total operating income during FY21**

The total operating income of the company increased by 38.53%; from Rs.45.26 crore in FY20 to Rs.86.86 crore in FY21, led by execution of work orders in Jharkhand. As per the unaudited YTD shared by the company, the KKBPL has already reported total operating income of Rs.112.29 crores from work order execution.

#### **Comfortable financial risk profile**

The capital structure as represented by debt-equity ratio remained at similar level at 0.39 times during FY20-21, despite company availing additional term loan during FY21 as the impact of same was offset by increase in tangible net worth. The tangible net worth of the company marginally improved to Rs.38.20 crore as on March 31, 2021 vis-à-vis Rs.34.35 crore as on March 31, 2020, backed by accretion of profit to reserves. Hence, total outstanding liability to tangible net worth improved marginally to 0.86 times in FY21 as against 0.93 times in FY20. The interest coverage ratio improves to 7.21 times during FY21 as against 6.11 times in FY20, despite increase in interest cost, mainly due to increase in operating profit before tax. The net cash accruals to total debt also improved to 0.65 times in FY21 over 0.54 times in FY20 due to increase in net cash accruals during the year. The debt-EBITDA also improved to 1.18 times in FY21 as against 1.42 times in FY20.

However, the company would be availing additional loan to the tune of Rs. 3.6 crores during FY23-24 for the purchase of equipment and vehicle and hence ability of the company to generate net profit would be critical to maintain the financial risk profile of the company.

#### **Improvement in Gross Current Asset (GCA) days**

The Gross Current Asset (GCA) days improved significantly during the year to 163 days in FY21 as against 246 days in FY20, mainly on account of increase in total operating income during the year. The debtors' days also increased marginally to 35 days in FY21 over 24 days in FY20. Further, the company realises bill within 30-45 days of raising it. Further, the inventory days also improved significantly to 9 days in FY21 as against 92 days in FY20, the inventory outstanding remained at higher level in FY20 at Rs.9.58 crore as on March 31, 2020 mainly on increase in uncertified work order resulting in increase in contract work in progress led by COVID induced lockdown. The creditors days also improved to 49 days in FY21 over 156 days in FY20. The company receives credit days of 25-30 days w.r.t purchase of material such as cement and bitumen. However, the average working capital utilization for past 11 months ending February 2022 remained at higher level at 99.04%.

## **Weaknesses**

#### **Slow moving order book with entire work order to be executed in Jharkhand**

The outstanding order book of the company remained at Rs.136.31 crore as on February 28, 2022 with entire outstanding order to be executed in Jharkhand. The order book comprises of 9 orders with ticket size ranging between Rs.3.03-Rs.40.0 crores with average tenor of 1-2 years. Further, the order book is concentrated with top three orders constituting to 76% of total order book. Further, the company has also received some orders on sub contract basis. On clientele front, the company executes major portion of order, i.e. 62.35% for Road Construction Department. There has been delay in execution of orders on account non-receipt of approvals and clearance resulting in company receiving revised completion date. Further, the company has also not added any orders during FY21-22, hence, the same resulted in moderate order book size.

## **Moderation in profitability level and margins**

The operating profit, however moderated to Rs.6.39 crore in FY21 as against Rs.7.24 crore in FY20, led by higher cost of material consumed. Further, the company reported operating loss before tax of Rs.1.11 crore as against operating profit before tax of Rs.0.33 crore in FY20. The same is due to higher capital charge (interest and depreciation). Nevertheless, KBPL reported net profit of Rs.3.85 crore in FY21 over Rs.1.88 crore in FY20 mainly due to increase in other income through sale of stone and miscellaneous income. On profitability margin front, there was significant decline in operating profit margin from 16% in FY20 to 7.36% in FY21, due to under absorption of fixed overheads. The net profit margin, however remained at similar level at 4.44% in FY21 vis-à-vis 4.16% in FY20.

## **Fragmented nature of construction sector with tender-based nature of operations and execution challenges**

The infrastructure sector in India is highly fragmented and competitive with many small and mid-sized players. This coupled with tendering process in order procurement results in intense competition within the industry, fluctuating revenues and restrictions in profitability. Additionally, continued increase in execution challenges including delays in land acquisition, regulatory clearances, aggressive bidding, interest rate risk and delays in project due to environmental clearance are other external factors that affect the credit profile of industry players. All these are tender-based and the revenues are dependent on the ability of the company to bid successfully for these tenders. Profitability margins come under pressure because of competitive nature of the industry. Hence, company's ability to successfully bid and get new orders is critical from rating perspective.

## **ESG Factors Relevant for Rating**

Not Applicable

## **Rating Sensitivities**

- >Improving scale of operations along with the diversification of its order book on clientele and geographical front.
- >Any delay in execution of projects impacting revenue stream and profitability level and margins of company.

## **Material covenants**

None

## **Liquidity Position: Adequate Adequate**

The liquidity profile of the company remains at adequate level with net cash accruals of Rs.9.60 crore in FY21 as against debt repayment of Rs.2.71 crore. The cash and bank balance remained at Rs.0.17 crore as on March 31, 2021. The current ratio continues to remain above unity. The company is expected to report net cash accruals of Rs.11-15.0 crore during FY22-24 as against the expected debt repayment of 2-3 crores during the year. Further, the company is expected to avail additional loan of Rs.3-4 crores in FY22-24 for the purchase of vehicle and equipment. Hence, company's ability to generate sufficient cash accruals in order to maintain the liquidity would be a key aspect. However, the working capital utilisation remains at higher level at 99.04% for the past 11 months ending February 2022.

## **Outlook: Negative**

Acuité believes that the outlook on KKBPL will remain 'Negative' over the medium term on account of decline in order book and slow moving orders. The outlook may be revised to 'Positive' in case of significant improvement in scale of operations while maintaining the profitability and successful execution of work orders. Conversely, the outlook may be revised to 'Stable' in case of any order addition and addition of orders

## Other Factors affecting Rating

Not Applicable

## Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	86.86	45.26
PAT	Rs. Cr.	3.85	1.88
PAT Margin	(%)	4.44	4.16
Total Debt/Tangible Net Worth	Times	0.39	0.39
PBDIT/Interest	Times	7.21	6.11

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

Not Applicable

## Any other information

Not Applicable

## Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Apr 2021	Bank Guarantee	Short Term	25.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Short Term	11.50	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	6.00	ACUITE BBB-   Stable (Reaffirmed)
28 Jan 2020	Proposed Bank Guarantee	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	4.50	ACUITE BBB-   Stable (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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3   Reaffirmed
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3   Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB-   Negative   Reaffirmed   Stable to Negative
OXYZO Financial Services Private Limited	Not Applicable	Inventory Funding	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A3   Assigned
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.86	ACUITE A3   Assigned
Hinduja Leyland Finance Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	9.07	ACUITE BBB-   Negative   Reaffirmed   Stable to Negative
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	2.00	ACUITE BBB-   Negative   Reaffirmed   Stable to Negative
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	0.43	ACUITE BBB-   Negative   Reaffirmed   Stable to Negative
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	0.52	ACUITE BBB-   Negative   Assigned
							ACUITE

Axis Bank	Not Applicable	Term Loan	Not available	Not available	Not available	5.12	BBB-   Negative   Assigned
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	1.50	ACUITE BBB-   Negative   Assigned

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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