

Press Release

Karan Development Services Private Limited (KDSPL)

30 April, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 81.43 Cr.
Long Term Rating	SMERA BB/ Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned a long term rating of **SMERA BB (read as SMERA double B)** and a short term rating of **SMERA A4+ (read as SMERA A four plus)** to the Rs. 81.43crore bank facilities of Karan Development Services Private Limited (KDSPL). The outlook is '**Stable**'.

Karan Development Services Private Limited (KDSPL) was established in 1989. It is engaged in civil construction mainly of dam, canal and other associated construction of canals primarily in Madhya Pradesh. Previously it was involved in laying railway tracks in Madhya Pradesh. Currently the company is headed by Mr. Karan Singh Kirar, Mr. Girraj Singh and Mr. Divyaraj Singh. The main raw materials required are diesel, cement; bricks procure from Indian Oil Corporation limited (IOCL), Shree Cement Limited, and others from local players. The major clients are government clients- Narmada Valley Development Authority (NVDA) and Water Resource Department (WRD) in Madhya Pradesh. The company was registered with Central Railway in "A- class" category and in "A-5" category with Irrigation Department, NVDA, Bhopal in "A-5" category and presently Registered in "A Class" category with M.P. PWD Department, Bhopal.

Key Rating Drivers

Strengths

- Established track record of operations and experienced promoter**

KDSPL has established operational track record in the civil construction industry since. The company has undertaken construction of roads, dams, canals etc. for government entities in Madhya Pradesh. Further, the promoters, Mr. Karan Singh Kirar, possess more than four decades of experience in the civil construction industry.

- Moderate financial risk profile and comfortable liquidity position**

KDSPL has moderate financial risk profile marked by tangible networth of Rs. 30.84 crore as on 31 March, 2017 as against Rs.31.19 crore in the previous year. The gearing stood at 0.56 times on 31 March, 2017 as against 0.66 times in the previous year. The Net Cash Accrual to Total Debt (NCA/TD) stood at 0.35 times as on 31 March, 2017 as against 0.29 times in the previous year. The Interest Coverage Ratio (ICR) stood at 2.29 times in FY2017 as against 2.27 times in FY2016. The Total Outside Liabilities to Tangible Networth (TOL/TNW) stood at 1.68 times as on 31 March, 2017 against 2.18 times in the previous year.

Weaknesses

- Working capital intensive nature of operation**

KDSPL's operation is working capital intensive which is evident from high gross current assets (GCA) days of 216 days during FY2017 as compared to 222 days in FY2016. Inventory and debtors days are stand at 33 and 1 days respectively in FY 2017 as compared to 80 and 0 days in FY 2016. The high GCA days are mainly on account of high other current assets of Rs. 41.87 crore in FY2017 as compared to Rs. 42.96 crore in FY2016.

- High dependence on government orders**

KDSPL mainly executes contracts for two government departments i.e. Water Resources Department of

Madhya Pradesh (MPWRD) and Narmada Valley Development Authority (NVDA) of Madhya Pradesh and hence is exposed to customer concentration risk. However, the company has been dealing with government bodies for a long time and hence enjoys long term relations.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Karan Development Services Private Limited to arrive at the rating.

Outlook: Stable

SMERA believes that the outlook on KDSPL's rated facilities will remain stable over the medium term on account of its established presence and experienced promoters in the civil construction industry. The outlook may be revised to 'Positive' if the company registers significant growth in revenue and profitability while maintaining a comfortable liquidity position and capital structure. Conversely, the outlook may be revised to 'Negative' in case of company registers stretched working capital cycle resulting in deterioration of its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	82.09	108.62	67.56
EBITDA	Rs. Cr.	9.84	11.65	8.52
PAT	Rs. Cr.	3.83	3.05	0.95
EBITDA Margin (%)	(%)	12.0	10.73	12.61
PAT Margin (%)	(%)	4.66	2.81	1.40
ROCE (%)	(%)	19.67	20.03	28.89
Total Debt/Tangible Net Worth	Times	0.56	0.66	0.74
PBDIT/Interest	Times	2.29	2.27	2.02
Total Debt/PBDIT	Times	1.42	1.54	1.95
Gross Current Assets (Days)	Days	216	222	362

Any other information

None

Applicable Criteria

- Default Recognition-<https://www.smerra.in/criteria-default.htm>
- Infrastructure Entities-<https://www.smerra.in/criteria-infra.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):

None

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	CouponRate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.65	SMERA BB/Stable

Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	77.78	SMERA A4+
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ABOUT SMERA

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