

Press Release

Karan Development Services Private Limited

June 13, 2018

Rating Reaffirmed & Assigned



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|-------------------------------------|--|
| Total Bank Facilities Rated* | Rs. 98.00 Cr. |
| Long Term Rating | ACUITE BB/ Outlook:Stable (Reaffirmed & Assigned) |
| Short Term Rating | ACUITE A4+ (Reaffirmed & Assigned) |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed and assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 98.00 crore 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 also 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 procured 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 1989. 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 by virtue of prior employment.

- **Comfortable financial risk profile**

KDSPL has moderate financial risk profile marked by tangible network 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.

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 mainly consisting of deposits with various departments, and other receivables and recoveries.

• 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

Acuite has considered the standalone business and financial risk profiles of the company.

Outlook: Stable

Acuite 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 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 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition -<https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/criteria-fin-ratios.htm>
- Infrastructure Entities-<https://www.acuite.in/criteria-infra.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.Crore) | Ratings/Outlook |
|-------------|---------------------------------|------------|-------------------|---------------------------|
| 30th Apr 18 | Cash Credit | Long Term | 3.65 | SMERA BB/Stable(Assigned) |
| | Bank Guarantee | Short Term | 77.78 | SMERA 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 | 5.65 (enhanced from Rs. 3.65 cr.) | ACUITE BB/Stable (Reaffirmed) |
| Proposed Cash Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE BB/Stable (Assigned) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 77.78 | ACUITE A4+(Reaffirmed) |
| Proposed Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 4.57 | ACUITE A4+ (Assigned) |

Contacts

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