

Press Release

Karan Development Services Private Limited

May 29, 2019



Rating Upgraded

Total Bank Facilities Rated*	Rs. 98.00 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) from '**ACUITE BB**' (**read as ACUITE double B**) and reaffirmed the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 98.00 crore bank facilities of Karan Development Services Private Limited (KDSPL). The outlook is '**Stable**'.

The upgrade in the rating is in the view of improvement in operating income, moderate debt protection measures and increasing no. of orders which the company has managed to get by bidding government projects leading to improvement in financial risk profile.

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.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of KDSPL to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

KDSPL is promoted by Mr. Karan Singh Kirar, Mr. Girraj Singh and Mr. Divyaraj Singh; they also manage the day to day operations of the company. Mr. Karan Singh Kirar has an experience of around four decades in the same line of business. KDSPL is engaged in providing different types of civil construction in segments such as dam, canal and other associated construction of canals under government and semi government entities. The promoter's extensive experience is also reflected through the healthy revenue growth over the last 4 years through 2017-18. The company's revenue grew at a CAGR of 8.25 percent to Rs.91.36 crore over the aforementioned period. KDSPL's order book position remains healthy at Rs.700.00 crore as on 31 December, 2018 out of which Rs.80.00 crore worth of orders are already executed as on 31 December, 2018. Hence, the healthy order book provides modest revenue visibility for the company over the medium term. Acuité believes that the company will continue to benefit through the promoter's extensive industry experience over the medium term

- **Moderate financial risk profile**

KDSPL's financial risk profile is marked by its moderate net worth, low gearing and moderate debt protection measures. The net worth increased to Rs.27.19 crore as on 31 March, 2018 as against Rs.23.85 crore in the previous year on account of increasing revenue and moderate profitability levels, leading to higher accretion to reserves. The company's gearing is estimated to be low at 0.83

times as on 31 March, 2018 as against 1.02 times in the previous year. The company has followed a conservative financial policy in the past, as reflected by its peak gearing of around 1.59 times as on March 31, 2016. The total debt of Rs.22.50 crore consists of long term debt of Rs.1.84 crore, Rs. 5.64 crore unsecured loans from promoters and Rs.15.03 crore of short term debt obligations. The healthy revenue growth coupled with moderate profitability levels has resulted in healthy net cash accruals of Rs.4.91 crore during 2016-18 while the debt levels have remained low at around Rs.22.50 crore during the same period, leading to healthy debt protection measures. The interest coverage ratio stood at 3.27 times in FY18 as against 2.29 times in the previous year. NCA/TD ratio stood 0.22 times in FY18. Acuité believes that the financial risk profile will continue to remain moderate on account of healthy cash accruals and minimal reliance on debt.

• **Reputed clientele base**

KDSPL caters to reputed clientele such as Narmada Valley Development Authority (NVDP), Water Resource Department (Madhya Pradesh) to name a few. Hence, the entire revenue is generated from State Government and Central Government, thus providing low counter party risk.

Weaknesses

• **Customer concentration risk**

About 90 percent of orders of the company are from top 5 customers, thus is exposed to significant customer concentration risk.

• **Profitability susceptible to fluctuations in input cost**

The input cost i.e. power cost, labour cost and raw materials - iron, steel and cement are highly volatile in nature with labour cost constituting around ~80 percent of the total revenue as the company sub-contracts its work. Hence, any adverse movement in input costs can impact profitability. However, the company reported EBITDA margin of 9.96 percent in FY2018 as against 11.99 percent in the previous year.

• **Working capital intensive nature of operations**

The operations of KDSPL are working capital intensive reflected by high Gross Current Assets (GCA) which stood at 297 days, driven by debtors of 62 days and inventory of 36 days, as on March 31, 2018. Inventory is expected to be around similar levels over the medium term. Working capital requirement is funded through bank lines that have been 95 percent utilised over the six months through January 2019. Creditors were at 124 days as on March 31, 2018. Acuité believes that the operations of KDSPL are likely to remain working capital intensive over the medium term.

Liquidity Position

KDSPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of ~Rs.5.00 to Rs. 6.00 crore during the last three years through 2017 - 18, while its maturing debt obligations were in the range of ~Rs.0.50 to Rs. 0.60 crore over the same period. The cash accruals of the company are estimated to remain at around Rs. 5.50 - Rs.8.00 crore during 2019-21. The company's operations are working capital intensive as marked by Gross Current Asset (GCA) days of 297 in FY 2018. The company maintains unencumbered cash and bank balances of Rs.0.69 crore as on March 31, 2018. The current ratio of the company stood moderate at 1.28 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual while its maturing debt obligations are estimated to be in the range of ~Rs.0.20 to Rs. 0.60 crore.

Outlook: Stable

Acuité believes that the outlook on KDSPL's rated facilities will remain stable over the medium term on account of its promoter's extensive experience, moderate financial risk profile and established operational track record. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	91.36	82.09	108.62
EBITDA	Rs. Cr.	9.10	9.84	11.65

PAT	Rs. Cr.	3.34	3.83	3.05
EBITDA Margin	(%)	9.96	11.99	10.73
PAT Margin	(%)	3.66	4.66	2.81
ROCE	(%)	19.41	19.67	39.98
Total Debt/Tangible Net Worth	Times	0.83	1.02	1.59
PBDIT/Interest	Times	3.27	2.29	2.27
Total Debt/PBDIT	Times	2.01	1.99	2.37
Gross Current Assets (Days)	Days	297	216	222

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>
- Infrastructure Entities -<https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments -<https://www.acuite.in/view-rating-criteria-20.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. Cr.)	Ratings/Outlook
13-June-2018	Cash Credit	Long Term	5.65	ACUITE BB/ Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	10.00	ACUITE BB/ Stable (Assigned)
	Bank Guarantee	Short Term	77.78	ACUITE A4+ (Reaffirmed)
	Proposed Bank Guarantee	Short Term	4.57	ACUITE A4+ (Assigned)
30-April-2018	Cash Credit	Long Term	3.65	ACUITE BB/ Stable (Assigned)
	Bank Guarantee	Short Term	77.78	ACUITE 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	ACUITE BB+ / Stable (Upgraded)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.57	ACUITE BB+ / Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	77.78	ACUITE A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A4+ (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Sanket Kotkar Analyst - Rating Operations Tel: 02249294073 sanket.kotkar@acuite.ratings.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.