

Press Release

Karan Development Services Private Limited

March 12, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 101.00 Cr. (Enhanced from Rs.98.00 crore)
Long Term Rating	ACUITE BB+ / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.101.00 crore bank facilities of KARAN DEVELOPMENT SERVICES PRIVATE LIMITED (KDSPL). The outlook is '**Stable**'.

KDSPL was established in 1989. It is engaged in civil construction of dam, canal and other associated construction of canals primarily in Madhya Pradesh. Currently, the company is headed by Mr. Karan Singh Kirar, Mr. Girraj Singh and Mr. Divyaraj Singh. The company undertakes civil construction projects for Narmada Valley Development Authority (NVDA) and Water Resource Department (WRD) in Madhya Pradesh. The company is presently registered as "Class A" category with M.P. PWD Department, Bhopal.

Analytical Approach

Acuite 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 civil construction in segments such as dam, canal and other associated construction of canals for government and semi government entities. The promoter's extensive experience is also reflected through the healthy revenue growth over the last 3 years through 2017-19. The company's revenue grew at a CAGR of 14.41 percent over the aforementioned period. KDSPL's unexecuted order book position remains healthy at Rs.604.57 crore as on 30 January, 2020. The healthy order book provides modest revenue visibility for the company over the medium term.

Acuite 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.29.67 crore as on 31 March, 2019 as against Rs. 27.19 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 0.58 times as on 31 March, 2019 as against 0.49 times in the previous year. The company has followed a conservative financial policy in the past, as reflected by its peak gearing of around 0.63 times as on March 31, 2017. The total debt of Rs.17.18 crore consists of long term debt of Rs.6.68 crore, Rs. 4.78 crore unsecured loans from promoters and Rs.5.72 crore of short term debt obligations.

Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.07 times as on 31 March, 2019 as against 3.08 times as on 31 March, 2018. The healthy revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) and Debt Service

Converge Ratio (DSCR) stood moderate at 3.19 times and 1.71 times in FY2019 respectively. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.20 times as on 31 March, 2019 as against 0.37 times as on 31 March, 2018. Acuite believes that the financial risk profile will continue to remain moderate on account of healthy cash accruals and minimal reliance on debt.

Weaknesses

• Working capital intensive operations

The operations of KDSPL are working capital intensive reflected by high Gross Current Assets (GCA) which stood at 239 days in FY2019 as against 297 days in FY2018. Collection period improved to 29 days in FY2019 as against 62 days in FY2018. Inventory holding stood at of 33 days for FY2019 as against 36 days in FY2018. Inventory holding is expected to be around similar levels over the medium term. Other current assets of Rs.54.78 crore as on FY2019 comprises mainly of deposits and advances to suppliers. The average cash credit utilisation stood at ~90 percent for the past six months January, 2020. However, the working capital cycle has been supported by high creditors of 121 days in FY2019.

Acuite believes that the operations of KDSPL are likely to remain working capital intensive over the medium term.

• 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. The company reported EBITDA margin of 8.95 percent in FY2019 as against 9.96 percent in the previous year.

Rating Sensitivities

- Substantial increase in GCA days to around 300-320 days.
- Substantial improvement in scale of operation (~Rs. 150.00-170 crore), while maintaining profitability margin of around 9.50-10.50 per cent over the medium term.

Material Covenants

None

Liquidity position: Adequate

KDSPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of ~Rs.4.00 to Rs. 6.00 crore during the last three years through 2017 - 19, while its maturing debt obligations were in the range of ~Rs.0.6 to Rs. 1.70 crore over the same period. The cash accruals of the company are estimated to remain at around Rs. 7.00 - Rs.12.00 crore during 2020-22. The company maintains unencumbered cash and bank balances of Rs.0.38 crore as on March 31, 2019. The current ratio of the company stood moderate at 1.64 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual from expected improvement in revenues and profitability levels.

Outlook: Stable

Acuite believes that the outlook on KDSPL 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	107.46	91.36
PAT	Rs. Cr.	2.48	3.34
PAT Margin	(%)	2.31	3.66
Total Debt/Tangible Net Worth	Times	0.58	0.49
PBDIT/Interest	Times	3.19	3.27

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-59.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/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
03-Jun-2019	Cash Credit	Long Term	5.65	ACUITE BB+ /Stable (Upgraded from ACUITE BB / Stable)
	Proposed Cash Credit	Long Term	2.57	ACUITE BB+ /Stable (Upgraded from ACUITE BB / Stable)
	Bank Guarantee	Short Term	77.78	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	12.00	ACUITE A4+ (Assigned)
13-Jun-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-Apr-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	3.65	ACUITE BB+ /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+ /Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	77.78	ACUITE A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	17.00 (Enhanced from Rs.12.00 cr)	ACUITE A4+ (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.57	ACUITE BB+ /Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuited.in</p> <p>Grishma Muni Analyst - Rating Operations Tel: 022-49294035 grishma.muni@acuited.in</p>	<p>Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuited.in</p>

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.acuited.in) for the latest information on any instrument rated by Acuité.