

Press Release

Kapston Facilities Management Limited

(Previously Known as Kapston Facilities Management Private Limited)

November 06, 2018

Rating Assigned and Upgraded



Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Stable
Short Term Rating	ACUITE A3+

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs.10.00 crore bank facilities. Acuite has also assigned the long term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short term rating of '**ACUITE A3+**' (read as **ACUITE A3 plus**) on the Rs.15.00 crore bank facilities of Kapston Facilities Management Limited (KFML). The outlook is 'Stable'.

Kapston Facilities Management Private Limited (KFMP) was incorporated in the year 2009 and is a provider of private security and facility management services in India. The company is an ISO 9001 & OHSAS 18001 certified company for providing Integrated Facility Management Services for Security, House Keeping, M&E (Electro Mechanical) and Landscaping (Horticulture) and allied services. As on Oct 2018, the company has a team of 9123 employees. In March 2018, the name of the company was changed to Kapston Facilities Management Limited (KFML) and got listed in NSE Emerge (SME Platform) on 4th April, 2018.

The rating upgrade reflects sustained growth in the revenues and profitability. The revenues have improved at a compound annual growth rate (CAGR) of about 26 per cent over four years through FY2018. Also, the profitability has improved consistently from 7.1 per cent in FY2016 to 9.4 per cent in FY2018. Regular addition of clientele while maintaining sector diversification, employee training and recruitment has fueled the revenue growth. Rating upgrade is also driven by improvement of its financial risk profile partly supported by proceeds from public issue. However, the ratings continue to be constrained by working capital intensive operations and competitive and fragmented industry.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established Track record of operations, experienced management and revenue growth**

The company is promoted by Mr. Kodali Srikanth, who has over a decade of experience in facilities management and security services. Further, he is supported by experienced team across domains: Mr. Chereddi Ramachandra Naidu, Ex IG (Govt of AP), Mr. Naveen Nandigam, CA and Mr. Pinnamaneni Radha Krishna, Entrepreneur. Mr. Ramachandra Naidu is a retired Inspector General of Police of State of Andhra Pradesh; he guides the teams on human resource management, industrial relations, strategy and project management. Other Directors supports in bringing and improvising the policies, procedures, transparency while acquiring and managing the client relations.

KFML started its operations in 2009, and has gradually expanded to the present branch network- Hyderabad (2 offices - Registered office and corporate office), 4 branch offices and 8 training centres across 10 cities in 8 states. KFML's operations are further supported by well qualified and experienced second line personnel. Continued business drive, promoter's experience and healthy relations fueled

growth in revenues at a CAGR of 26 per cent over four years through FY2018; operating income increased from Rs.58.9 crore in FY2015 to Rs.118.45 crore in FY2018. Also, its clientele has improved with an overall active employee base of about 9123 as of September 2018. Acuite believes that promoter's extensive experience, dearth for the trained security team and improving client base, the business risk profile is expected to further improve over the medium term.

• **Comfortable financial risk profile**

The financial risk profile is marked by healthy capital structure and comfortable debt protection metrics. The net worth is moderate at Rs.26.19 crore in FY2018 as against Rs.10.48 crore in FY2017 an increase by Rs.15.70 crore; improvement owing to public issue proceeds of about Rs.10.6 crores, and accretions to reserves. KFML was listed on NSE-Emerge (SME Platform) on 4th April, 2018. The gearing (debt-to-equity) and total outside liabilities to total net worth have improved to comfortable levels of 0.83 and 1.38 times as on March 31, 2018 from 1.46 and 2.48 times as on March, 2017; mainly by equity infusion and accretions. Debt protection metrics are moderate: with net cash accruals to total debt and interest coverage ratio of 0.33 times and 4.35 times in FY2018 vis-à-vis 0.26 times and 4.59 times in FY2017, respectively. KFML's cash accruals are expected to be in the range of Rs.9.0 – 13.0 crores over the medium term against which its repayment obligations are marginal at about Rs.1.0 crore which gives adequate cushion on its liquidity. Acuite believes that with moderate profitability margins and no significant capex plans, the financial risk profile is expected to improve over the medium term.

Weaknesses

• **Moderate working capital operations**

The company has moderate working capital operations as evident from its Gross Current Assets (GCA) of 150 days as on March 31, 2018 as against 102 days as on March 31, 2017. The company maintains negligible inventory levels, and offers credit of about two months to its clientele; resulted in receivable days of about 71 as on March 31, 2018 (67 days in FY2017). However, increasing amount of other current assets of loans and advances, tax deductions are expected to weigh on the working capital management. With increasing scale of operations, the dependency on the working capital has also increased; its cash credit limits have got enhanced to Rs.20.0 crores from Rs.12.0 crores in August, 2018. Its limits have been utilised on an average above 80 per cent during March – July 2018. Acuite believes that operations continue to be working capital intensive with the increasing scale of operations and the business model.

• **Competitive and fragmented industry**

KFML operates in a competitive industry marked by organised and unorganised players; impacting the revenue growth as well as realisations.

Outlook: Stable

Acuite believes that the company will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while maintaining its profitability and working capital management. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital operations owing to increasing revenue base and higher credit period, leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	118.45	93.63	74.96
EBITDA	Rs. Cr.	11.12	7.06	5.35
PAT	Rs. Cr.	6.02	2.89	2.57
EBITDA Margin	(%)	9.39	7.54	7.14
PAT Margin	(%)	5.08	3.08	3.43
ROCE	(%)	27.74	27.54	48.64

Total Debt/Tangible Net Worth	Times	0.83	1.46	1.48
PBDIT/Interest	Times	4.35	4.59	5.27
Total Debt/PBDIT	Times	1.92	2.13	2.09
Gross Current Assets (Days)	Days	150	102	142

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>
- Entities in Services Sector - <https://www.acuite.in/criteria-manufacturing.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-8.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
16 th Nov 2017	Cash Credit	Long Term	10.00	ACUITE BBB-/Stable (Upgraded)
7 th Apr 2017	Cash Credit	Long Term	6.00	ACUITE BB+/Stable (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/ Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+/ Stable (Assigned)

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About Acuité Ratings & Research:

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