Press Release

Kapston Facilities Management Limited(Erstwhile Kapston Facilities Management Private Limited)

January 30, 2020

Rating Reaffirmed

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

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE BBB**' **(read as ACUITE triple B)** and short-term rating of **'ACUITE A3+' (read as ACUITE A three plus)** on the Rs. 25.00 crore bank facilities of KAPSTON FACILITIES MANAGEMENT LIMITED (KMFL). The outlook is **'Stable'**.

KFML was incorporated in the year 2009 and is a provider of private security and facility management services in India. The company is ISO 9001 & OHSAS 18001 certified, for providing integrated facility management services for security, housekeeping, M&E (Electro Mechanical) and landscaping (Horticulture) and allied services. In March 2018, the name of the company was changed to Kapston Facilities Management Limited (KFML) and it was listed on NSE Emerge (SME Platform) on April 4, 2018. As on November 2019, the company has a team of ~13000 employees.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and established track record of operation**

  The company is promoted by Mr. Kodali Srikanth, who has over a decade of experience in facilities management and security services. Mr. Chereddi Ramachandra Naidu is the Chairman of the KMFL. He is a retired Inspector General of Police for the State of Andhra Pradesh; he guides the team on human resource management, industrial relations, strategy and project management. They are further supported the other directors, Mr. Naveen Nandigam, CA and Ms. Doddapaneni Kranti Kiran. KFML's operations are further supported by well qualified and experienced second line personnel. KFML started its operations in 2009, and has gradually expanded to the present branch network- Hyderabad (2 offices - Registered office and corporate office), 6 branch offices and 8 training centers across 8 cities in 8 states.

  Acuite believes KMFL will continue to benefit from its experienced management and established track record of operation.

- **Improving business risk profile**

  KMFL's improving business risk profile is reflected from its increasing operating income during the period under study. The operating income stood at Rs. 147.23 crore in FY2019, Rs. 118.45 crore and Rs. 93.63 crore in FY2017. KMFL has reported revenue of Rs. 97.81 crore in FY2020 (9M). The operating margins stood at 9.03 per cent in FY2019, 9.39 per cent in FY2018. PAT margins stood at 5.81 per cent in FY19 and 5.08 per cent in FY18. Acuite believes KMFL will maintain a stable risk profile on account of expanding scale of operations.

- **Comfortable financial risk profile**

The financial risk profile is marked by moderate capital structure and comfortable debt protection metrics. The net worth is moderate at Rs. 34.75 crore as on March 31, 2019 against Rs. 26.19 crore in the previous year. This is primarily on account of accrual of profit. The gearing (debt-to-equity) and total outside liabilities to total net worth have improved to comfortable levels of 0.73 and 1.15 times as on March 31, 2019 from 0.83 and 1.38 times as on March, 2018. Debt protection metrics are comfortable reflected in the net cash accruals to total debt and interest coverage ratio of 0.39 times and 5.26 times in FY2019 vis-à-vis 0.33 times and 4.35 times in FY2018, respectively. KFML's net cash accruals stood at Rs. 9.84 crores for FY2019 and are expected to be in the range of ~Rs.11-15 crore for period FY2020-22. The repayment obligations for FY2019 stood at Rs. 4.87 crore and are expected to be in the range of ~Rs. 2.90 – 3.10 crores for period FY2020-2022 which gives KMFL adequate cushion on its liquidity.
Acuité believes that the financial risk profile will not be significantly affected by ongoing debt-funded expansion and is expected to remain stable over the medium term.

Weaknesses

- **Operations are working capital intensive**

The company has working capital intensive operations as evident from its Gross Current Assets (GCA) of 150 days as on March 31, 2019 as against 102 days as on March 31, 2018. The increase in GCA days is primarily on account of increase in receivable period to 103 days in FY2019 from 71 days in FY2018. The receivables from government entities for the training programs undertaken by KMFL also contribute to high GCA days. Further, the payable period stood at 22 days in FY2019 against 17 days in FY2018. Hence, the increasing scale of operations and working capital requirement has increased the company's dependency on bank borrowing; its short term borrowing increased to Rs. 35.88 crores as on March 31, 2019 from Rs.17.oo crores as on March 31, 2018. Average bank limit utilization consistently stood above ~90 per cent during Apr – Sept 2019.

Acuite believes that operations will continue to remain working capital intensive with the increasing scale of operations.

- **Highly fragmented industry with intense competition**

KFML operates in a competitive industry marked by organized and unorganized players; impacting the revenue growth as well as realizations. However, this has partly mitigated by the introduction of GST which has pushed many unorganized players out of business.

Liquidity Position: Adequate

KFML's net cash accruals stood at Rs. 9.84 crores for FY2019 and are expected to be in the range of ~Rs.11-15 crore for period FY2020-22. The repayment obligations for FY2019 stood at Rs. 4.87 crore and are expected to be in the range of ~Rs. 2.90 – 3.10 crores for period FY2020-2022. The accruals are expected to remain adequate over medium term on account of expanding scale of operations. The company has working capital intensive operations as evident from its Gross Current Assets (GCA) of 150 days as on March 31, 2019 as against 102 days as on March 31, 2018. The increasing scale of operations and working capital requirement has increased the company's dependency on bank borrowing. Average bank limit utilization stood at above ~90 percent. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals marginally constrained by high bank limit utilization.

Rating Sensitivities

- A sustained improvement in the scale of operations while maintaining profitability will be a key monitorable.
- Any elongation of working capital cycle leading to increased dependence on banking borrowing will be a key rating sensitivity.

Material Covenants

None

Outlook: Stable

Acuité 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 elongation of its working capital cycle owing to expanding revenue and dependency on debt funding, leading to deterioration of its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	147.23	118.45
Profit After Tax (PAT)	Rs. Cr.	8.56	6.02
PAT Margin	(%)	5.81	5.08
Total Debt/Tangible Net Worth	Times	0.73	0.83
PBDIT/Interest	Times	5.26	4.35

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-17.htm
- Financial Ratios And Adjustments - https://www.acuite.in/view-rating-criteria-20.htm
- Entities in Services Sector - https://www.acuite.in/view-rating-criteria-50.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
06-Nov-2018	Cash Credit	Long Term	10.00	ACUITE BBB/ Stable (Upgraded)
	Cash Credit	Long Term	10.00	ACUITE BBB/ Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A3+/ Stable (Assigned)
16-Nov-2017	Cash Credit	Long Term	10.00	ACUITE BBB- /Stable (Upgraded)
07-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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:

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