

Press Release

Karan Construction Company

March 01, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB+**' (read as **ACUITE BB plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 20.00 crore bank facilities of Karan Construction Company. The outlook is '**Stable**'.

Karan Construction Company (KCC) was established in 1986 as proprietorship firm by Late Mr. Shankar Pada Karan. Later in 1991, the constitution changed into partnership firm with Mr. Suresh Chandra Karan, Mr. Suman Karan and Mr. Susobhan Karan. It is engaged in execution of civil construction. The list of clientele include various Indian Oil Corporation Limited.- Haldia, Indian Oil Corporation Limited.- Bongaigaon, Hindustan Uniliver Ltd.-Haldia Factory to name a few. The firm mainly operates in West Bengal, Assam, Jharkand and others.

Analytical Approach

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

Key Rating Drivers

Strengths

• Established track record of operations with experienced management

Karan Construction Company (KCC), a West Bengal based firm was initially established in 1986 as proprietorship firm by Late Mr. Shankar Pada Karan. Later in 1991, the constitution changed to a partnership firm. The firm is currently managed by Mr. Suresh Chandra Karan, Mr. Suman Karan and Mr. Susobhan Karan who has more than two decades of experience in the said industry.

• Moderate Financial Risk Profile

The financial risk profile of KCC is average marked by networth of Rs. 16.37 crore as on 31 March 2018 as against Rs. 14.88 crore as on 31 March, 2017. Gearing (Debt-equity) stood low at 0.64 times as on 31 March, 2018 as against 1.00 times in the previous year. Total outside liabilities to tangible net worth (TOL/TNW) stood at 0.80 times as on 31 March 2018 as against 1.18 times as on 31 March 2017. The total debt of Rs. 10.41 crore as on 31 March 2018 comprises of hire purchase loan of Rs. 0.92 crore and short term borrowings of Rs. 9.50 crore. Interest coverage ratio (ICR) stood at 1.75 times for FY2018 as against 1.77 times for FY2017. DSCR stood at 1.75 times for FY2018 as against 1.77 times for FY2017. Net Cash Accruals/ Total Debt (NCA/TD) stood at 0.17 times as on 31 March 2018 as against 0.14 times as on 31 March 2017.

• Moderate order book position

As on February 2019, KCC has a moderate order book position of around Rs.133.24 crore and is expected to be executed by FY2020-21. The orders in hand are from a diversified clientele with projects. The order book includes orders from "Indian Oil Corporation Ltd., Haldia Petrochemicals Ltd., Hindustan Unilever Limited" to name a few.

Weaknesses

• Moderate scale of operations with fluctuating margins

KCC operates on a moderate scale with revenues of Rs.52.95 crore in FY2018 as compared to Rs. 45.08 crore in FY2017. The revenues improved due to better execution of projects. The firm has clocked operating revenue of Rs. 50 crore during April to December 2018 (provisional).

The profitability margins of the company have witnessed a fluctuating trend with operating margins ranging between 7.17 per cent to 9.9 per cent in the past three years ended FY'2018. Similarly, the PAT margins fluctuated between 2.70 per cent to 3.54 per cent in the past three years ended FY'2018.

• Working capital intensive nature of operations

The operations of the firm are working capital intensive in nature as evident by its gross current assets (GCA) of 141 days in FY2018 as compared to 184 days the previous year. The GCA days are high on account of inventory of 113 days in FY2018 and 122 days in FY2017 which is mainly due to high work in progress. The debtor days stood moderate at 33 in FY2018 and 69 in FY2017.

Liquidity Position

Liquidity of KCC is moderate marked by moderate cash accruals against no major repayment obligations. Cash accruals stood at Rs. 1.74 Crores in FY2018 as compared to minimum repayment obligations of Rs. 0.36 Crore in FY2018. Its expected cash accruals are in the range of Rs.4-5 crores over the medium term. Working capital intensive operations with GCA days of 141 days as on March 31, 2018 which has led to high utilization of its bank lines. Acuite believes that with moderate accruals to obligations and incremental working capital requirements, the liquidity would remain at moderate levels over the medium term.

Outlook: Stable

Acuite believes KCC will maintain a stable business risk profile in the medium term on account of its long track record of operation. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues and net cash accruals while maintaining financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the firm's financial risk profile or higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	52.95	45.08	41.25
EBITDA	Rs. Cr.	3.80	4.16	4.08
PAT	Rs. Cr.	1.43	1.60	1.31
EBITDA Margin	(%)	7.17	9.23	9.90
PAT Margin	(%)	2.70	3.54	3.18
ROCE	(%)	13.27	14.72	27.83
Total Debt/Tangible Net Worth	Times	0.64	1.00	1.00
PBDIT/Interest	Times	1.75	1.77	1.77
Total Debt/PBDIT	Times	2.56	3.20	3.09
Gross Current Assets (Days)	Days	141	184	186

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)

Not Applicable

*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	7.00	ACUITE BB+ / Stable
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4+

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About Acuité Ratings & Research:

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