

Press Release

Kaveri Engineering Projects Private Limited

August 09, 2019



Rating Assigned

| | |
|-------------------------------------|-------------------------------|
| Total Bank Facilities Rated* | Rs. 60.00 Cr. |
| Long Term Rating | ACUITE BBB- / Outlook: Stable |
| Short Term Rating | ACUITE A3 |

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs. 60.00 crore bank facilities of KAVERI ENGINEERING PROJECTS PRIVATE LIMITED. The outlook is '**Stable**'.

Kaveri Engineering Projects Private Limited (KEPL) is a Telangana based company incorporated in 2015. It is engaged in civil, infrastructure construction works and primarily undertakes irrigation projects such as Canal works, earth work execution, lining works and feeder channel works, among others. The company was promoted by Mr. Suman Rao Gujja. Prior to this, he was executing works under a proprietorship concern, 'Suman Rao' established in year 2011. After incorporation of KEPL, all the new orders are taken up under KEPL and orders under the proprietary firm have reduced in a phased manner. Till FY2017, all the orders received by the company are on sub-contract. From FY2019, KEPL started bidding on its own and through joint ventures.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced Management**

The company is promoted by Mr. Suman Rao and family who possess over a decade of experience in the civil construction industry. Apart from this, the promoter is into construction and leasing of warehouses and agricultural activities. Mr. Suman Rao started with proprietorship firm in 2011 with small works under sub-contract with annual revenues of Rs.70-80 crore till FY2017. On incorporation of KEPL, they started participating in direct works or through joint ventures with Megha Engineering and Infrastructure Limited (MEIL), GVR Infra Constructions India Private Limited (GVR) and Amrutha Constructions Private Limited (ACPL) to name a few. Some works are executed under JV and few are taken on back-to-back basis from the JV partners. The same has reflected in healthy order book and revenue growth Y-O-Y. Revenues of the company grew from Rs.44.48 crore in FY2018 to Rs.207.21 crore in FY2019. As on 31 March, 2019, the company has executable orders of Rs.975.43 crore to be execute in next three to four years. Acuité believes that with the healthy order book in hand and good relationship with the JV's will benefit the company over the medium term in improving its business risk profile.

- **Comfortable financial risk profile**

Financial risk profile of the company is comfortable marked by comfortable gearing (Debt-Equity), total outside liabilities to total net worth (TOL/TNW) and healthy debt protection metrics. The gearing and TOL/TNW are comfortable at 0.66 and 2.68 times as on 31 March, 2019 as against 0.95 and 1.68 times as on 31 March, 2018. Net worth stood at Rs.20.68 crore as on 31 March, 2019 as against Rs.7.75 crore as on 31 March, 2018. Of the total debt of Rs.13.64 crore as on 31 March, 2019, long term debt stood at Rs.5.91 crore, unsecured loans of Rs.0.09 crore and short term debt at Rs.7.63 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood healthy at 14.22 times and 0.79 times in FY2019 as against 4.73 times and 0.27 times in FY2018. The company has plans of capital expenditure of Rs.4-5 crore every year for purchase of vehicles which

will be funded through debt to equity ratio of 70:30. The company reported net cash accruals (NCA) of Rs.10.78 crore in FY2019. Cash accruals are expected in the range of Rs.11-15 crore, against minimal debt obligations of about Rs.2-3 crore over the medium term. Acuité believes that with moderate accruals and debt funded capital expenditure program, the financial risk profile continues to be at similar levels over the medium term.

- **Comfortable working capital cycle**

Working capital cycle of the company is comfortable marked by comfortable gross current asset (GCA) of 85 days for FY 2019 as compared 136 days for FY 2018. Debtors cycle is comfortable at 31 days in FY2019 as against 4 days in FY2018. Inventory cycle is comfortable and improved to 27 days in FY2019 as against 113 days in FY2018. Comfortable cash accruals and efficient working capital management lead to low utilisation of its bank lines at about 22 percent for 12 months through March 2019. To support its operations, the company is stretching its creditors' on the back to back basis. Acuité believes that steady flow of execution and timely receipt of bills are critical to maintain the liquidity and working capital operations efficient.

Weaknesses

- **Modest scale of operations, though improving**

Revenues of the company in the past two years were modest at Rs.12.57 crore and Rs.44.48 crore in FY2017 and 2018, though the same have improved significantly to Rs.207.21 crore in FY2019. Though it has healthy order book of nearly 5X of FY2019 revenues, sustainability of the growth is key rating sensitivity factor amid revenue concentration with Government of Telangana. .

- **Geographic concentration risk**

KEPL is into civil works which is marked by the presence of several mid to large sized players. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts, and susceptibility to inherent cyclical in the sector. Further, the company is exposed to geographical concentration risk as the company is presently executing orders for Government of Telangana, Irrigation and CAD department. Also, work execution and revenue booking is linked to Government of Telangana finances and priority of the projects for fund release. Acuité believes that any change of priorities in fund allocation or project importance will have an adverse bearing on the business risk profile and liquidity of KEPL and key rating sensitivity factors over the medium term.

Liquidity Position

KEPL has adequate liquidity marked by comfortable net cash accruals to its repayment obligations and efficient working capital cycle. KEPL reported cash accruals of Rs.10.78 crore for FY2019. The cash accruals of the company are estimated to remain at around Rs.10-12 crore during 2020-22, against which its repayment obligations are about Rs.2 - 3 crore over the medium term. Working capital cycle is comfortable as reflected in GCA at 85 days in FY2019 from 136 days in FY2018. Bank limit utilisation is over 22 percent for 12 months through March 2019. The current ratio stood comfortable at 1.72 times as on March 31, 2019. Acuité believes that the liquidity of KEPL is likely to remain comfortable over the medium term.

Outlook: Stable

Acuité believes that KEPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and healthy revenue visibility. The outlook may be revised to 'Positive' in case of higher-than-expected growth in its revenues while maintaining its profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or any sharp decline in revenues or larger-than-expected debt-funded capital expenditure resulting in deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

| | Unit | FY19 (Actual) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 207.21 | 44.48 | 12.57 |
| EBITDA | Rs. Cr. | 15.63 | 3.84 | 0.89 |
| PAT | Rs. Cr. | 10.43 | 2.00 | 0.74 |
| EBITDA Margin (%) | (%) | 7.54 | 8.64 | 7.11 |
| PAT Margin (%) | (%) | 5.04 | 4.50 | 5.89 |
| ROCE (%) | (%) | 64.50 | 38.95 | 29.85 |
| Total Debt/Tangible Net Worth | Times | 0.66 | 0.95 | 0.37 |
| PBDIT/Interest | Times | 14.22 | 4.73 | 5.84 |
| Total Debt/PBDIT | Times | 0.84 | 1.86 | 1.54 |
| Gross Current Assets (Days) | Days | 85 | 136 | 186 |

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

None

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>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.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 |
|------------------------------------|------------------|----------------|----------------|-----------------------------|----------------------|
| Overdraft | Not Applicable | Not Applicable | Not Applicable | 5.50 | ACUITE BBB- / Stable |
| Bank guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 22.50 | ACUITE A3 |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A3 |
| Proposed Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 30.00 | ACUITE A3 |

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About Acuité Ratings & Research:

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