

Press Release

L B Kunjir

March 10, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs.35.08 Cr.
Long Term Rating	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
Short Term Rating	ACUITE A2+ (Upgraded from ACUITE A2)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded the long term rating to '**ACUITE BBB+** (read as ACUITE triple B plus) from '**ACUITE BBB**' (read as ACUITE triple B) and short term rating to '**ACUITE A2+** (read as ACUITE A two plus) from '**ACUITE A2**' (read as ACUITE A two) on the Rs.35.08 crore bank facilities of L B Kunjir (LBK). The outlook is '**Stable**'.

Reason for rating upgrade

The rating upgrade is reflected by improvement in scale of operations and profitability despite of COVID-19 along with healthy financial risk profile and order book. The scale of operations have improved to Rs.89.60 crore in FY2020 from Rs.73.71 crore in FY2019. Further, it is expected to improve in FY2021, despite of COVID-19. Operating margins have stood healthy at 28.97 per cent in FY2020. Financial risk profile stood healthy marked by healthy networth, low gearing and high debt protection measures. Order book as on December, 2020 stood healthy at Rs.390.35 crore out of which Rs.170.77 crore of work is completed and Rs.219.58 crore of work is expected to be completed by FY2023.

About the Firm

Established in 2002, L B Kunjir is a partnership firm engaged in civil construction and irrigation development business. It has earlier completed projects like earthen dams, canals and barrage projects, etc. in the State of Maharashtra. The day to day operations are managed by its partners, Mr. Laxman B Kunjir, Mrs. Kusum L Kunjir and their son Mr. Amit L Kunjir. The firm also has Six Wind turbines of Suzlon and has 7.35 M.W. generation installed capacity at locations like Baramsar (Rajasthan), Dhule, Nandurbar, Nashik, Sangli and also has generation of electricity through Solar, Photovoltaic Panels with an installed capacity of 2.50 MW at location like Telangana, Dombivali (Rooftop Solar) & Ranjangaon (Rooftop Solar). The firm is registered as class I-A contractor with P.W.D. (Govt. of Maharashtra). It has completed irrigation projects for various districts like Jalgaon, Ahmednagar, Satara, Amravati, Washim, Akola, etc.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of LBK to arrive at the rating.

Key Rating Drivers

Strengths

• Long track record of operations and experienced management:

LBK was incorporated in 2002 by its partners, Mr. Laxman B Kunjir, Mrs. Kusum L Kunjir and their son Mr. Amit L Kunjir. Management collectively have experience of over three decades in the infrastructure industry. This has helped the firm to have a healthy order book of Rs.219.58 crore of unexecuted orders. Acuité believes that LBK will continue to benefit from its experienced management and established operations.

- **Improvement in scale of operations and healthy profitability**

The revenue of the firm has grown at a CAGR of 18.47 percent. The revenue stood at Rs.73.71 crore in FY2019 as against Rs.63.84 crore in the previous year. Further, the revenue grew by ~21.56 percent in FY2020 and stood at Rs.89.60 crore. The improvement in revenue is on the back of increase in number of new orders. The operating margins stood healthy marked by 28.97 per cent in FY2020 as against 30.09 per cent in FY2019. The operating margins from civil construction business is 24.41 per cent in FY2020 as against 23.06 per cent in FY2019 and operating margins from power generation business is 79.97 per cent in FY2020 as against 81.92 per cent in FY2019. Further, PAT margins have also stood healthy marked by 20.20 per cent in FY2020 as against 21.54 per cent in FY2019.

Acuité believes that the scale of operation will improve further in the near to medium term at the back of healthy order book from civil construction business.

- **Healthy financial risk profile**

The financial risk profile of LBK is healthy marked by healthy net worth, high debt protection measures and low gearing. Net worth of the firm stood healthy at Rs.58.35 crore as on 31 March, 2020 as against Rs.60.66 crore in the previous year. Further, quasi equity of Rs.7.55 crore which was considered in FY2019 has been withdrawn by the firm to meet capex in sister concern. Hence, networth of FY2019 has reduced from Rs.68.21 crore to Rs.60.66 crore. The gearing (debt-equity) stood low at 0.36 times as on 31 March, 2020 as against 0.46 times as on 31 March, 2019. The total debt as on 31 March, 2020 of Rs.21.17 crore majorly comprises of term loan of Rs.6.52 and working capital facility of Rs.14.65 crore. Though Interest Coverage Ratio (ICR) deteriorated to 6.83 times for FY2020 from 7.34 times for FY2019, it stood at higher levels. Debt Servicing Coverage Ratio (DSCR) improved to 4.76 times for FY2020 from 2.28 times for FY2019. Total outside Liabilities to Tangible Net Worth (TOL/TNW) stood at 0.45 times as on 31 March, 2020 as against 0.57 times as on 31 March, 2019. Net cash accrual to total debt (NCA/TD) stood at 1.06 times for FY2020 as against 0.72 times for FY2019.

Acuité believes that the financial risk profile of the firm will continue to remain healthy over the medium term on account of its improving scale of operations and net cash accruals along with low long term borrowing.

Weaknesses

- **Moderate working capital operations**

LBK has moderate working capital operations marked by Gross Current Assets (GCA) days of 132 in FY2020 as against 134 FY2019. The inventory and debtor levels stood at 75 and 35 days in FY2020 as against 97 and 20 days in FY2019, respectively. However, the bank limits are 80 per cent utilized for the last six months ending January, 2021.

Acuité believes that the working capital operations will remain moderate due to civil construction business nature of the firm.

- **Tender based business**

Major business is bagged through open tenders. Hence, the revenue earned is directly dependent upon the quantum of contracts bagged and executed during the year. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. The firm has to do tendering on competitive prices; this may affect the profitability of the company. This has resulted in fluctuating operating profit margins.

Liquidity Position: Strong

LBK has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.22.42 crore in FY2020 as against Rs.20.08 crore in FY2019, while its maturing debt obligation was Rs.1.68 crore and Rs.7.04 crore for the same period. The cash accruals of the firm are estimated to remain around Rs.25.00 to 34.00 crore during 2021-23. The firm's working capital operations are moderate as marked by Gross Current Asset (GCA) days of 132 in FY2020. However, working capital borrowings are 80 per cent utilized during the last 6 months' period ended January, 2021. The current ratio of the firm stands at 1.77 times as on March 31, 2020.

Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy cash accrual.

Outlook: Stable

Acuité believes that LBK will maintain a 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in LBK's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability.
- Stretch in working capital cycle and deterioration in liquidity position.
- Withdrawal of capital.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Crore	89.60	73.71
Profit after tax (PAT)	Rs. Crore	18.10	15.87
PAT margin	%	20.20	21.54
Total debt / Tangible Net worth	Times	0.36	0.46
PBDIT / Interest	Times	6.83	7.34

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-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-Jan-2020	Cash Credit	Long Term	15.00	ACUITE BBB/Stable (Assigned)
	Term Loan	Long Term	3.08	ACUITE BBB/Stable (Assigned)
	Bank Guarantee	Short Term	17.00	ACUITE A2 (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	15.00	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
Term Loan	20-Nov-2019	12.20%	20-Nov-2022	2.57	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A2+ (Upgraded from ACUITE A2)

Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.51	ACUITE BBB+/Stable (Upgraded from ACUITE BBB/Stable)
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About Acuité Ratings & Research:

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