

## Press Release

L B Kunjir

July 22, 2022



### Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.00	-	ACUITE A2   Downgraded
Bank Loan Ratings	18.08	ACUITE BBB   Stable   Downgraded	-
Total Outstanding Quantum (Rs. Cr)	35.08	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

### Rating Rationale

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

#### Rationale for the rating downgrade

The rating downgrade is on account of deterioration in the operating performance and financial risk profile of the firm marked by decline in scale of operations, increase in overall gearing and elongated working capital cycle. The revenue stood at Rs. 68.73 Cr. in FY22(Prov.) as against Rs. 62.98 Cr. in FY21 and Rs. 89.60 Cr. in FY20. The gross current asset days of the firm stood at 279 days as on March 31, 2022 (Prov.) as against 275 days as on March 31, 2021 and 132 days as on March 31, 2020. The overall gearing of the firm rose to 0.93 times as on March 31, 2022 (Prov.) as against 0.73 times as on March 31, 2021 and 0.36 times as on March 31, 2020. The financial risk profile continues to remain moderate supported by comfortable debt protection metrics. The ICR of the Firm stood at 4.77 times in FY22(Prov.) as against 6.69 times in FY21 and 6.83 times in FY20.

#### About the Company

Established in 2002, L B Kunjir is a partnership firm engaged in undertaking civil construction projects mainly related to irrigation like earthen dams, canals and barrage etc. The firm is registered as class I-A contractor with P.W.D. (Govt. of Maharashtra). The day to day operations of the firm are managed by its partners, Mr. Laxman B Kunjir, Mrs. Kusum L Kunjir and their son Mr. Amit L Kunjir. LBK is also engaged in both wind power generation and solar power generation. It has six wind turbines of Suzlon with an installed capacity of 7.35 M.W. each and photovoltaic panels with an installed capacity of 2.50 MW (for solar power generation) at various locations in Rajasthan and Maharashtra.

## 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**

Established in 2002, LBK is promoted by Mr. Laxman B Kunjir, Mrs. Kusum L Kunjir and their son Mr. Amit L Kunjir. All three partners are involved in day to day operations of the business. The management is supported by a well-qualified and experienced team of professionals. The management collectively have experience of over three decades in the infrastructure industry. The extensive experience of the partners in the industry has helped the firm build its market presence. The firm has a un-executed order book of approx. Rs. 197 crore as on March 31, 2022.

Acuité believes that LBK will continue to benefit from its experienced management and established track record of operations over the medium term.

- **Moderate Financial risk profile**

LBK has a moderate financial risk profile marked by moderate net worth, modest gearing and comfortable debt protection metrics. The networth stood at Rs. 54.26 Cr. as on March 31, 2022(Prov.) as against Rs. 54.18 Cr. as on March 31, 2021 and Rs.58.35 Cr as on March 31, 2020. The decline in networth is primarily due to withdrawal of capital by the partners. The Firm generated net profit of Rs. 10.98 Cr during the year FY2022 (Prov.) and Rs. 9.20 Cr during the year FY2021, however, the partners have withdrawn Rs. 10.90 Cr and Rs. 13.37 Cr during the same period respectively. The total debt of LBK stood at Rs. 50.52 crore as on March 31, 2022(Prov.) which included long term debt of Rs. 27.30 Cr, interest-free unsecured loans of Rs. 4.03 Cr. and short-term borrowings of Rs. 19 Cr. The firm's overall gearing increased to 0.93 times as on March 31, 2022(Prov.) as against 0.73 times as on March 31, 2021 and 0.36 times as on March 31, 2020. The TOL/TNW increased to 0.97 times as on March 31, 2022(Prov.) as against 0.88 times as on March 31, 2021 and 0.45 times as on March 31, 2020. The ICR declined to 4.77 times in FY22(Prov.) as against 6.69 times in FY21 and 6.83 times in FY20. The DSCR decreased to 4.34 times in FY22(Prov.) as against 4.62 times in FY21 and 4.76 times in FY20. The NCA/TD declined to 0.33 times in FY22(Prov.) as against 1.04 times in FY21 and 1.06 times in FY20.

Acuité expects LBK's financial risk profile to improve over the medium term in absence of any major debt funded capex planned.

### Weaknesses

- **Decline in scale of operations**

LBK's operating income stood at Rs. 68.73 Cr. in FY22(Prov.) (Rs. 62.43 Cr. from the construction segment and Rs. 6.30 Cr. from the power segment) as against Rs. 62.98 Cr. in FY21 and Rs. 89.60 in FY20. The operating income of the construction business decreased due to slower execution of contracts mainly on account of disruption caused due to Covid- 19 pandemic, which lead to shortage of labour and raw material for interim period. The operating profitability increased to 29.98 percent in FY22(Prov.) as against 27.01 percent in FY21 and 28.97 percent in FY20. The operating profit increased in FY22(Prov.) despite decline in operating income majorly due to reduction in subcontracting costs. The firm' net profitability declined to 15.97 percent in FY22(Prov.) as against 14.61 percent in FY21 and 20.20 percent in FY20.

Acuite believes the ability of LBK to scale up operations while maintaining its profitability margins would be a key rating monitorable.

- **Elongation of Working Capital Cycle**

The Firm's working capital cycle elongated significantly over the last three years. The Gross Current Asset (GCA) days increased to 279 days as on March 31, 2022(Prov.) as against 275 days as on March 31, 2021 and 132 days as on March 31, 2020. The GCA days are driven by debtor days and inventory days. The debtor days stood at 114 days as on March 31, 2022(Prov.) as against 144 days as on March 31, 2021 and 35 days as on March 31, 2020. The stretch in debtor days is mainly due to delay in payment from group entity. The receivables from the entity account for ~ 39.84 % of the total receivables of LBK as on March 31, 2022.. The inventory days stood at 108 days as on March 31, 2022(Prov.) as against 101 days as on March 31, 2021 and 75 days as on March 31, 2020. The creditor days declined to 35 days as on March 31, 2022(Prov.) as against 174 days as on March 31, 2021 and 92 days as on March 31, 2020. The average bank limit utilisation stood at ~90 percent for the six months period ended May, 2022.

Acuite believes LBK's ability to restrict further elongation in its working capital cycle will be a key rating sensitivity.

- **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 firm. This has resulted in fluctuating operating profit margins.

- **Inherent risk of capital withdrawal in a partnership firm**

The Firm is susceptible to the inherent risk of capital withdrawal given its constitution as a partnership. Any significant withdrawal from the partner's capital will have a negative bearing on the financial risk profile of the firm. The partners have withdrew capital fo Rs. 10.90 Cr in FY2022(Prov.) and Rs. 13.37 Cr in FY2021.

### **Rating Sensitivities**

- Improvement in scale of operations and profitability while maintaining the capital structure.
- Ability to reduce elongation in working capital cycle will be key a monitorable.
- Withdrawal of capital

### **Material covenants**

None

### **Liquidity Position Adequate**

The LBK generated NCA of Rs. 16.65 Cr. in FY22(Prov.) vis-à-vis maturing debt obligations of Rs. 12 Cr. during the period. Going forward, the net cash accruals are expected to remain in the range of Rs. 19-25 Cr. in FY23-24 as against maturing debt obligations of Rs. 9-11 Cr. The firm has working capital intensive nature of operations marked by GCA days of 279 days as on March 31, 2022(Prov.) The current ratio of the firm stood at 4.46 times as on March 31, 2022(Prov.).The fund based working capital facility remain highly utilised at approx. 90 percent for the six months period ended May, 2022. The unencumbered cash and bank balance stood at Rs. 2.15 Cr. as on March 31, 2022(Prov.)

Acuité expects LBK's liquidity profile to remain adequate on account of comfortable cash accruals against repayment obligations constrained to some extent by working capital intensive nature of operations of LBK.

### Outlook: Stable

Acuité believes that LBK will maintain a stable outlook over medium term on account of extensive experience of its promoters and moderate financial risk profile. The outlook may be revised to 'Positive' in case the firm achieves higher than expected improvement in its scale of operations and profitability while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' in case of substantial reduction in its scale of operations, sharp decline in its operating margins and deterioration in working capital management adversely affecting its liquidity position.

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	68.73	62.98
PAT	Rs. Cr.	10.98	9.20
PAT Margin	(%)	15.97	14.61
Total Debt/Tangible Net Worth	Times	0.93	0.73
PBDIT/Interest	Times	4.77	5.60

### 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>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 Mar 2021	Proposed Bank Facility	Long Term	0.51	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Bank Guarantee	Short Term	17.00	ACUITE A2+ (Upgraded from ACUITE A2)
	Cash Credit	Long Term	15.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Term Loan	Long Term	2.57	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
28 Jan 2020	Cash Credit	Long Term	15.00	ACUITE BBB   Stable (Assigned)
	Bank Guarantee	Short Term	17.00	ACUITE A2 (Assigned)
	Term Loan	Long Term	3.08	ACUITE BBB   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A2   Downgraded ( from ACUITE A2+ )
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB   Stable   Downgraded ( from ACUITE BBB+ )
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.51	ACUITE BBB   Stable   Downgraded ( from ACUITE BBB+ )
Union Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	2.57	ACUITE BBB   Stable   Downgraded ( from ACUITE BBB+ )

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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