

Press Release

Krans Projects Private Limited

April 15, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs.30.00 Cr.
Long Term Rating	ACUITE BBB-/Stable (Upgraded)
Short Term Rating	ACUITE A3 (Upgraded)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded its long-term rating to '**ACUITE BBB-**' (**read as ACUITE triple B minus**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) and the short term rating to '**ACUITE A3**' (**read as ACUITE A three**) from '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.30.00 crore bank facilities of Krans Projects Private Limited (KPPL). The outlook is '**Stable**'.

About the company

Hyderabad based KPPL was established as a sole proprietorship firm in 1984 and projects were executed in the name of Mr. K Ranga Rao. Later, it was reconstituted as a private limited company in 2008. The company was founded by Mr. K. Ranga Rao, who looks into day to day operations along with Mr. Ravi Chand and Mrs. Shrilakshmi. KPPL is engaged primarily in the execution of construction projects such as earthwork embankments and building bridges. Their major customers include South Central Railway, South Western Railway, Government of Andhra Pradesh, Government of Telangana, Singareni Collieries Company Limited, RITES Limited (Rail India Technical and Economic Service), Rail Vikas Nigam Limited, among others.

The rating upgrade on bank facilities of KPPL factors in its improved revenues, improved financial risk profile and moderate order book position. The rating also underpins its established track record of operations and experienced management. These rating strengths are partially offset by susceptibility of revenues and profitability to tender based nature of operations.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management and established track record of operations with healthy order book position**

The company has a long track record of over three decades of experience in the civil construction business with an established record of project execution related to earthwork embankment and building bridges. KPPL business risk profile is supported by director's extensive industry experience. The managing director, Mr. K. Ranga Rao has more than three decades of experience in executing civil contract works. The company has an unexecuted order book position of Rs.263.39 Cr as on March 31, 2021. The company is planning to execute Rs.145 Cr in FY2022 and remaining Rs.118.39 Cr in FY2023. The company is also under joint venture with ECIPL, Teja Construction and Pinnacle - Hyderabad based civil contractors. KPPL is the lead party and holds 51 percent of the order value execution. The 51 percent portion is also given on sub contract basis to the other JV party. The unexecuted order book portion of Rs.120 Cr is in joint venture as on March 31, 2021. Acuité believes that KPPL will continue to benefit from the promoter's established presence in the industry and its improving business risk profile over the medium term

- **Improving scale of operations and sustainable profitability margins**

KPPL's revenue has been improving Y-o-Y with a CAGR of 40.75 percent for the last three years. The revenues stood at Rs.50.87 Cr in FY2018, improved to Rs.75.35 Cr in FY2019 and Rs.141.85 Cr in FY2020 due to orders awarded to KPPL. The company has generated revenue of Rs.72.22 Cr for 11M of FY2021. The revenues for FY2021 were impacted on account of Covid-19 and lockdown imposition. The profitability margins of the company remained satisfactory albeit fluctuating during the review period of FY2018-2020. The EBITDA margins stood at 11.08 percent in FY2018 as against 11.79 percent in FY2019 and declined to 9.20 percent in FY2020. The decline in EBITDA margin in FY2020 was on account of low margin tenders. Acuité believes that the revenue is expected to show a marginal dip in FY2021 due to lower construction activity during the initial months of the onset of Covid-19 with sustainable EBITDA margins over the medium term.

- **Moderate financial risk profile**

The financial risk profile of the company remained above-average with moderate capital structure and debt protection metrics. The networth stood at Rs.28.26 Cr as on March 31, 2020 as against Rs.20.58 Cr as on March 31, 2019. The gearing stood below unity at 0.27 times as on March 31, 2020 as against 0.83 times as on March 31, 2019. The gearing improved on account of decline in total debt levels and increase in PAT in absolute terms. The debt protection metrics - Interest Coverage Ratio and Debt Service Coverage Ratio stood at 5.75 times and 4.67 times as on March 31, 2020, respectively. Total Outside Liabilities/ Tangible Net worth (TOL/TNW) stood at 0.96 times as on March 31, 2020 as against 1.32 times as on March 31, 2019. Acuité believes that the financial profile of the KPPL is expected to be at similar levels over the medium term owing to moderate accretion to reserves and absence of any significant debt-funded capex plans.

- **Moderate working capital management**

The working capital management of KPPL stood moderate with moderate Gross Current Assets (GCA) days at 92 as on March 31, 2020 as against 147 days as on March 31, 2019. The debtor days stood at 11 days as on March 31, 2020. The inventory days stood at 12 days as on March 31, 2020 as against 32 days as on March 31, 2019. The creditor days stood at 61 days and 25 days as on March 31, 2020 and 2019 respectively. The working capital limits of the company remained utilized at 67 percent for the last six months ended February 2021. Acuité believes that KPPL's working capital cycle will remain moderate over the medium term.

Weaknesses

- **Competitive and fragmented industry**

The company is engaged as a civil contractor. The particular sector is marked by the presence of several mid to big size players. The company faces competition from the other players in the sectors. Risk becomes more pronounced as tendering is based on a minimum amount of bidding of contracts. However, this risk is mitigated to an extent as Mr. K Ranga Rao has been operating in this environment for the last 3 decades.

- **Tender based nature of operations**

KPPL participates in tenders with respect to works related to South Central Railway, South Western Railway. 1 percent EMD of the tender value is to be submitted while quoting the tender. Once the tender is allocated 5 percent of the performance guarantee along with 5 percent of the security deposit is to be submitted. 10 percent of the security deposit is released along with the monthly bills and the remaining is released after the defective liability period of 6 months. After raising the bills, the company receives the payment in a week. Since the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. KPPL's revenue and profitability are susceptible to risks inherent in contract based operations. Also, Tender based operations limit pricing flexibility in an intensely competitive industry.

Rating Sensitivities

- Lower-than-expected revenue and profitability
- Any further deterioration in working capital management leading to deterioration in financial risk profile and liquidity

Liquidity Position: Adequate

The liquidity position of the company remained adequate with adequate net cash accruals to service its debt obligations. The NCA's stood moderate at 8.62 Cr for FY2020 and repaid the outstanding loan amount of Rs.4.50 Cr. in the same period; remaining portion of the outstanding amount of Rs.2.22 Cr is estimated to be repaid in FY2021. The NCA's are expected to be in the range of Rs.5.30-9.20 Cr through FY21-23 against the repayment obligation of Rs.0.50 Cr. The current ratio stood at 1.78 times as on March 31, 2020. The cash and bank balance stood at Rs.0.15 Cr as on March 31, 2020. KPPL also has liquid investments in corporate bonds of Rs.1.13 Cr and Fixed deposit of Rs.3.36 Cr as on March 31, 2020. The working capital limits are moderately utilized at 67 percent for the last six months ended in February 2021. Acuité believes that the liquidity profile continues to be adequate, supported by accruals and moderate working capital management.

Outlook: Stable

Acuité believes that KPPL will continue to benefit over the medium term due to its experienced management and healthy order book providing revenue visibility. The outlook may be revised to 'Positive', in case of timely execution of its unexecuted order book leading to higher-than-expected revenues and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case KPPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management leading to the deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	141.85	75.35
PAT	Rs. Cr.	7.69	4.02
PAT Margin	(%)	5.42	5.33
Total Debt/Tangible Net Worth	Times	0.27	0.83
PBDIT/Interest	Times	5.75	3.90

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

CRISIL, vide its press release dated March 25, 2021 had denoted the rating of Krans Projects Private Limited as 'CRISIL BB/A4+; Withdrawn; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any Material Covenants

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
14-July-2020	Cash Credit	Long Term	6.50	ACUITE BB+/ Stable (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Short Term	8.50	ACUITE A4+ (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	6.50	ACUITE BBB-/ Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3 (Upgraded)
Proposed	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE A3 (Upgraded)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Nagidi Bhavani Analyst - Rating Operations Tel: 040-40042327 nagidi.bhavani@acuite.in	

About Acuité Ratings & Research:

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