

Press Release

K Bhupal Engineers and Contractors Private Limited

September 10, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs. 80.00 Cr.
Long Term Rating	ACUITE BBB / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB**' (**read as ACUITE Triple B**) and the short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 80.00 Cr bank facilities of K Bhupal Engineers and Contractors Private Limited. The outlook is '**Stable**'.

Established in 1993, K Bhupal converted itself into K Bhupal Engineers and Contractors Private Limited (KBECPL) in September, 2013 from a sole proprietor firm. Based in Hyderabad (Telangana), KBECPL is a civil construction company primarily undertaking contracts for laying pipelines for drinking water and sewerage, under the central government-led scheme 'Jal Jivan Mission' (erstwhile known as National Rural Drinking Water Programme), in the state of Andhra Pradesh, Telangana, Maharashtra and Karnataka.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management and healthy order book providing revenue visibility over the next 2-3 years**

KBECPL, a special-class civil contractor, has been into existence for more than two decades with its forte in laying pipeline for water supply and sewerage under the central government-led scheme 'Jal Jivan Mission' (erstwhile known as National Rural Drinking Water Programme), in the state of Andhra Pradesh, Telangana, Maharashtra and Karnataka. Mr. K Bhupal, the managing director of KBECPL, is a post-graduate having 25 years of experience in the line of civil construction. With intent to bid for high value projects, K Bhupal (sole proprietorship firm) had been reconstituted into KBECPL. KBECPL has executed multiple orders which included construction work of Impounding Reservoirs, Intake Wells, Jack Wells and Connecting Pipes, Pump Houses with various pump sets, Various Water Treatment Plants, GLSR/ GLBR, OHBRs, OHRSs, Pipe Lines of DI, HDPE, PVC, Valve Chambers, DI & CI Valves, Flow Meters, Sewer Lines, Wet Wells, Manholes, Other Pumping Machineries and others. KBECPL has constructed pipeline of more than 2,375 kilometres (Kms) and completed more than 60 projects worth Rs.718 Cr until FY2020. With promoter's extensive industry experience and timely execution of past projects, KBECPL has been able to establish a long-standing relationship with its suppliers and various government bodies. As of March 31, 2020, KBECPL has an unexecuted order book position of Rs.458 Cr; estimated to be executed over the next 24-36 months providing adequate revenue visibility over the medium term. Acuité believes that the promoter's extensive industry experience and established relation with its principal contractors and suppliers will aid KBECPL's business risk profile over the medium term.

- Moderate scale of operations; Improving operating margin and profitability**

KBECPL's scale of operations is moderate, with revenue improving from Rs.59.3 Cr in FY2018 to 85.3

Cr in FY2020 (Provisional). The operating margin improved from 7.5 percent in FY2018 to 11.6 percent in FY2020 (Provisional). The revenue growth is on account of continuous execution of its order book while improvement in margins is attributable to a lower amount of sub-contract work and focus on central-government funded high-margin yielding orders. KBECPL has booked year-to-date revenue of Rs.26.7 Cr and operating margin of 7.0 percent until July, 2020. The lower year-to-date revenue was on account of the company remaining non-operational in the month of April and May, 2020 due to outbreak of Covid-19. Despite lower year-to-date revenue, the overall FY2021 revenue is expected to show healthy Y-o-Y growth backed by the execution of its healthy order book (5x of its FY2020 revenue). The operating margins are expected to be marginally lower between 9.5 to 10 percent. Acuité believes that KBECPL's scale of operations is likely to improve yet remain moderate over the medium term given the timely execution and billing of its unexecuted order book in hand.

- **Moderate working capital operations**

KBECPL's working capital cycle is moderate with Gross Current Assets (GCA) days in the range of 184-206 days over the last 3 years ending March, 2020. The moderate GCA days are marked by moderate inventory days (consists mainly of work-in-progress) and low debtor days. The GCA days include the other current asset portion in the form of security deposits, retention money and EMD which manifests GCA days at slightly elevated levels. The inventory days were high at 49 days as on March 31, 2020 (Provisional) vis-à-vis historical levels ranging between 2-12 days. This was on account of lower billing due to Covid-19. These were partially offset by comfortable creditor days of 72 days as on March, 2020 (Provisional). KBECPL pays its raw material creditors within 60-90 days. Despite moderate GCA cycle, the bank lines of Rs.8.0 Cr has remained utilized at low levels in the range of 15-20 percent over the past 12 months ending July, 2020. Acuité believes that the operations of the KBECPL will remain moderately working capital intensive on account of continuous submission of security deposits and retention money.

- **Healthy financial profile**

KBECPL's financial risk profile is healthy, marked by healthy capital structure and debt protection metrics. KBECPL has healthy net worth at Rs. 30.8 Cr as on March 31, 2020 (Provisional) as against Rs.24.8 Cr in FY2019 due to higher accretion of reserves. Healthy net worth and low debt resulted in healthy gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) ratio of 0.2 times and 0.7 times respectively, as on March 31, 2020 (Provisional) vis-à-vis 0.1 times and 0.6 times March 31, 2019. Debt protection metrics were also healthy, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 11.7 times and 1.1 times, respectively, in FY2020 (provisional) vis-à-vis 8.2 times and 0.3.6 times for FY2019. Its accruals are expected in the range of Rs. 8.0-12.0 Cr over the medium term, against negligible repayment obligations of about Rs. 0.3 Cr. Acuité believes that in the absence of any major debt-funded capital expenditure plan in the near term; healthy cash accruals supported by lower reliance on the debt will lead to healthy financial risk profile over the medium term too.

Weaknesses

- **Tender based nature of operations**

KBECPL executes only tender based projects from government bodies with no reliance on sub-contract work. Once the tender is allotted, earnest money deposits (EMD) of ~5-7 per cent is deposited. The company raises bills on a monthly basis. The retention money is usually 5 per cent of the contract value, which is released after a defect liability period (refers to O&M period) of 3-5 years. Since the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. KBECPL has a success rate of 70 to 80 percent in bidding. Acuité believes that KBECPL's revenue and profitability are susceptible to risks inherent in tender based operations which limit pricing flexibility in an intensely competitive industry.

- **Significant Geographical and segmental concentration in revenue profile**

KBECPL executes orders across Karnataka, Telangana, Andhra Pradesh and Maharashtra. Out of the total outstanding orders of approx. Rs.458 Cr as on March, 2020, 98 percent of orders are from Karnataka, thereby, leading to significant geographical concentration risk. Further, KBECPL's order book of Rs.458 Cr is majorly for water supply work under the 'Jal Jivan mission'; leading to significant segmental concentration risk too. Acuité believes that KBECPL will remain geographically and segmentally concentrated over the medium term. Any geographical diversification in revenue profile will lead to lower concentration risk over the medium term.

Liquidity Position: Strong

KBRECPL's liquidity is strong, marked by low bank limit utilization, high unencumbered cash and bank balance in the form of fixed deposits, adequate net cash accruals against its negligible debt obligations, moderate current ratio. KBRECPL generated cash accruals of Rs.6.5 Cr in FY2020 (provisional) against debt obligations of Rs.0.3 Cr for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.8.0 -12.0 Cr during FY2021-23 against negligible repayment obligations of Rs.0.3 Cr for the same period. The average fund-based working capital utilization stood between 15-20 percent for the past 12 months ended July, 2020. The company has maintained healthy unencumbered cash and bank balances over the last three years ending March 31, 2020. The cash and bank balance as on March 31, 2020 stood at Rs.13.9 Cr (Provisional) in the form of fixed deposits. The current ratio stood at 2.2 times as on March, 2020 (Provisional). Acuité believes that KBRECPL's liquidity will remain healthy over the medium term backed by lower reliance on debt and healthy accruals.

Rating Sensitivities

- Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term
- Stretch in working capital cycle, leading to an increase in working capital borrowing and weakening of financial risk profile and liquidity.

Outlook: Stable

Acuité believes that KBRECPL 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 KBRECPL registers lower-than-expected decline in revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	85.27	60.92
PAT	Rs. Cr.	6.05	3.19
PAT Margin	(%)	7.10	5.24
Total Debt/Tangible Net Worth	Times	0.20	0.06
PBDIT/Interest	Times	11.68	8.16

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

None

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-50.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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	8.00	ACUITE BBB/Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3+ (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE BBB/Stable (Assigned)
Proposed Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A3+ (Assigned)

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About Acuité Ratings & Research:

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