

Press Release

K Bhupal Engineers and Contractors Private Limited

September 06, 2022



Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	125.00	-	ACUITE A3 Assigned
Bank Loan Ratings	15.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	25.00	ACUITE BBB- Stable Upgraded	-
Bank Loan Ratings	55.00	-	ACUITE A3 Upgraded
Total Outstanding Quantum (Rs. Cr)	220.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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 short-term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.80.00 Cr bank facilities of K BHUPAL ENGINEERS AND CONTRACTORS PRIVATE LIMITED (KBECPL). The outlook is '**Stable**'.

Acuite has assigned its long-term rating '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating to '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.140.00 Cr bank facilities of K BHUPAL ENGINEERS AND CONTRACTORS PRIVATE LIMITED (KBECPL). The outlook is '**Stable**'.

The ratings of KBECPL favourably factors the improvement in the year-on year (YoY) growth in its operating income (OI) by ~24% to ~Rs. 85.84 Cr and improvement in operating profitability to 10.26% in FY2022 from 8.68% in FY2021. The ratings are supported by KBECPL's comfortable order book position of Rs. 920 as on June 30, 2022, which is ~10.6 times the OI of FY2022, providing medium-term revenue visibility. The rating continues to derive comfort from the extensive experience of its promoters, its healthy execution track record in the civil construction business and its reputed clientele comprising primarily public sector/government entities. The rating also factors in its healthy financial risk profile marked by comfortable capital structure and strong credit metrics. These strengths are, however, partially constrained by its constrained by high working capital intensive nature of operations and inherent risk of susceptibility to tender based operations, intense competition due to the fragmented nature of the civil construction sector.

About the Company

K Bhupal Engineers and Contractors was established as a proprietorship firm by Mr. BHUPAL KAMEPALLI in 1993 and was reconstituted as a private limited company in September 2013. Mr. Bhupal Kamepalli Managing Director and his wife Mrs. Rajya Lakshmi Kamepalli is the other director of the Company. KBECPL is a Hyderabad-based company which undertakes contracts for laying pipelines for drinking water and sewerage, works in the states of Karnataka, Andhra Pradesh, Telangana and Maharashtra.

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, has twenty-five years of experience in the line of civil construction. 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 June 30, 2022, KBECPL has an unexecuted order book position of Rs.920 Cr; estimated to be executed over the next 24-36 months providing adequate revenue visibility 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. 85.84 Cr in FY2022 (Provisional). The operating margin improved from 8.68 percent in FY2021 to 10.26 percent in FY2022 (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. 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.

Comfortable 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. 36.25 Cr as on March 31, 2022 (Provisional) as against Rs.30.88 Cr as on March 31, 2021 due to 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 0.35 times and 1.18 times respectively, as on March 31, 2022 (Provisional) vis-à-vis 0.07 times and 1.09 times March 31, 2021. Debt protection metrics were also healthy, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 8.27 times and 0.49 times, respectively, in FY2022 (provisional) vis-à-vis 9.30 times and 1.98 times for FY2021. Acuité believes that in the absence of any major debt-funded capital expenditure plan in the near term; moderate cash accruals supported by lower reliance on the debt will lead to healthy financial risk profile over the medium term too.

Weaknesses

Moderate working capital intensive operations

KBECPL's working capital cycle is moderate with Gross Current Assets (GCA) days in the range

of 152-190 days over the last 3 years ending March, 2022 (provisional). 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 33 days as on March 31, 2022 (Provisional) vis-à-vis 54 days as on March 31, 2021. These were partially offset by comfortable creditor days of 65 days as on March, 2022 (Provisional) as against 109 days as on March, 2021. The bank lines has remained utilized at 80% and Bank Guarantee utilised about 69% over the past 12 months ending June, 2022. 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.

Risks associated with civil construction sector

The civil construction segment is characterised by stiff competition on account of the low complexity of work involved and minimal entry barriers in terms of qualifications required for the tenders floated. This results in the presence of a large number of contractors in this segment, leading to intensely competitive bids, putting pressure on margins. Further, the margin is exposed to volatility in raw material prices. However, the built-in price variation clause in the contracts mitigates the risk to an extent and long presence and established relationship with the clients provides comfort.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile
- Timely execution of its large order book

Material covenants

None

Liquidity Position: Adequate

KBECPL's liquidity is adequate marked by adequate cash accruals to its repayment obligations and moderate working capital intensive nature of its operations. KBECPL generated cash accruals of Rs.2.50 to 6.10 Cr during the last 3 years ended 2020-22 (Provisional), while its maturing debt obligations were in the range of Rs.0.50-1.00 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.6-8 Cr during 2022-25 while their repayment obligations are estimated to be around Rs.0.50-1.50 Cr during the same period. KBECPL's operations are working capital intensive as marked by Gross Current Asset (GCA) days of 152-190 days over the last 3 years ending March 31, 2022 (Provisional). Its working capital credit limits were utilised at about 80 per cent during the last 12 months period ended June, 2022. It has unencumbered cash and bank balance of Rs. 9.66 Cr as on March 31, 2022 and current ratio of 1.52 times as on March 31, 2022(Provisional). Acuité believes that though cash accruals are adequate, however, incremental working capital requirement for the growing size of operations are expected to absorb the cushion in the liquidity, though expected to continue at adequate levels.

Outlook: Stable

Acuité believes that KBECPL will continue to benefit over the medium term due to extensive experience of its promoters, healthy order book and healthy financial risk profile. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in

its revenues from the current levels while improving its profitability and working capital intensity. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in its revenues or significant volatility in its profitability or delay in order execution leading to significant time and cost overruns or any significant stretch in its working capital management or any large debt-funded capex.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	85.84	69.03
PAT	Rs. Cr.	5.47	3.75
PAT Margin	(%)	6.37	5.43
Total Debt/Tangible Net Worth	Times	0.35	0.07
PBDIT/Interest	Times	8.27	9.30

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.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
29 Nov 2021	Proposed Cash Credit	Long Term	17.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	20.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	8.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Proposed Bank Guarantee	Short Term	35.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
10 Sep 2020	Proposed Cash Credit	Long Term	17.00	ACUITE BBB Stable (Assigned)
	Proposed Bank Guarantee	Short Term	35.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	8.00	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	20.00	ACUITE A3+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE A3 Upgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Stable Upgraded
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE A3 Upgraded
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	105.00	ACUITE A3 Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- Stable Upgraded
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- Stable Assigned
Not Applicable	Not Applicable	Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 Assigned

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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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