



Press Release
K BHUPAL ENGINEERS AND CONTRACTORS PRIVATE LIMITED
November 24, 2023

Rating Upgraded and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	30.00	ACUITE BBB Stable Upgraded	-
Bank Loan Ratings	30.00	Not Applicable Withdrawn	-
Bank Loan Ratings	120.00	-	ACUITE A3+ Upgraded
Bank Loan Ratings	40.00	-	Not Applicable Withdrawn
Total Outstanding Quantum (Rs. Cr)	150.00	-	-
Total Withdrawn Quantum (Rs. Cr)	70.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BBB**' (read as **ACUITE triple B**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating to '**ACUITE A3+**' (read as **ACUITE A three Plus**) from '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.150.00 Cr bank facilities of K BHUPAL ENGINEERS AND CONTRACTORS PRIVATE LIMITED (KBECPL). The outlook is '**Stable**'.

Acuite has also withdrawn the long term and the short term rating on the Rs 70.00 Cr proposed bank facilities of K BHUPAL ENGINEERS AND CONTRACTORS PRIVATE LIMITED.

The rating upgradation considers KBECPL improvement in operations during FY2023 and same being sustained during the first 6 months of FY2024. The company has reported revenue of Rs.134.25 Cr as on March 31, 2023 as against Rs.85.84 implying a growth rate of ~56.39 percent against the previous year. The ratings are supported by KBECPL's comfortable order book position of Rs. 703.80 as on October 31, 2023, which is ~5.25 times of the FY2023 revenue which provides medium-term revenue visibility. The financial risk profile of KBECPL continues to be healthy with comfortable debt protection metrics and low gearing. The overall gearing of the Company stood at 0.24 times as on March 31, 2023 as against 0.35 times as on March 31, 2022. The interest coverage ratio stood at 9.34 times in FY2023 as against 7.43 times in FY2022.

The rating is however constrained by working capital operations, significant Geographical concentration in revenue profile, risks associated with 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. Acuite 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.

- **Improving scale of operations and moderate order book**

The operating income of KBECPL has been improving last two years ending FY2023. The revenues stood at Rs.134.25 Cr in FY2023 with a YOY growth of 56.39 percent as compared to Rs.85.84 Cr in FY2022. In line with increase in operating revenue, however operating margins stood at similar levels i.e., 8.71 percent in FY2023 as against 8.97 percent in FY2022. The company has an unexecuted order book position of Rs.703.80 Cr as on October 31, 2023. The company is planning to execute around Rs.300-350 Cr in FY2025. The outstanding order book is 5.25x of the FY2023 revenue. Acuite believes that financial performance of the company is expected to improve going ahead, led by moderate order book.

- **Healthy financial risk profile**

The company's financial risk profile is healthy, marked by a moderate net worth, low gearing, and healthy debt protection metrics. The net worth of the company stood at Rs.42.87 Cr and Rs.35.48 Cr as on March 31, 2023 and 2022 respectively. The improvement in net worth is due to accretion of reserves. Gearing of the company stood at 0.24 times as on March 31, 2023 against 0.35 times as on March 31, 2022. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 9.34 times and 3.90 times as on March 31, 2023 respectively as against 7.43 times and 3.61 times as on March 31, 2022 respectively. TOL/TNW (Total outside liabilities/Total net worth) stood at 1.69 times and 1.22 times as on March 31, 2023 and 2022 respectively. The debt to EBITDA of the company stood at 0.80 times as on March 31, 2023 as against 1.50 times as on March 31, 2022. Acuite 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

- **Significant Geographical concentration in revenue profile**

KBECPL executes orders across Karnataka, Telangana, Andhra Pradesh and Maharashtra. However, KBECPL has almost executed 95-100 percent orders in the state of Karnataka over the past financial years. It can be observed that the contribution from a single state (i.e. Karnataka) is around 100 per cent in FY2023, thereby, leading to significant geographical concentration risk. Acuite believes that KBECPL will remain geographically concentrated over the medium term. Any geographical diversification in revenue profile will lead to lower concentration risk over the medium term.

- **Working capital intensive operations**

KBECPL's working capital operations is intensive marked by high gross current Asset (GCA) at 246 days as on March 31, 2023, as against 165 days as on March 31, 2022. The GCA days include the cash and bank balance which manifests GCA days at slightly elevated levels. Inventory days stood at 43 days as on March 31, 2023 as against 38 days as on March 31, 2022. Debtor day stood at 6 days as on March 31, 2023 as against 24 days as on March 31, 2022. Subsequently, the payable period stood at 36 days on March 31, 2023 as against 58 days on March 31, 2022 respectively.

- **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.

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

All Covenants

None

Liquidity: Adequate

KBECPL liquidity is adequate, marked by adequate net cash accruals to its maturing debt obligation. The company generated cash accruals in the range of Rs.8.42 Cr in FY2023, while its maturing debt obligations were Rs. 1.13 Cr during the same period. Going forward the company is expected to generate net cash accruals of Rs. 11- 13 Cr in FY 2024-25 against Rs.1.67-1.71 Cr debt obligations. The current ratio stood at 1.90 times as on March 31, 2023, and the limits remains utilized at 66 percent for fund based and 91 percent for non-fund based over the 12 months ended October 31, 2023 for fund based. The company maintains unencumbered cash and bank balances of Rs.56.54 Cr as on March 31, 2023. Acuité believes that the liquidity of the company is likely to improve over the medium term.

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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	134.25	85.84
PAT	Rs. Cr.	7.54	4.70
PAT Margin	(%)	5.61	5.48
Total Debt/Tangible Net Worth	Times	0.24	0.35
PBDIT/Interest	Times	9.34	7.43

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>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Sep 2022	Proposed Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Proposed Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Proposed Bank Guarantee	Short Term	105.00	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	22.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Proposed Letter of Credit	Short Term	20.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Bank Guarantee	Short Term	33.00	ACUITE A3 (Upgraded from ACUITE A4+)
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	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	75.00	ACUITE A3+ Upgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB Stable Upgraded
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE A3+ Upgraded
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	Not Applicable Withdrawn
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB Stable Upgraded
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	Not Applicable Withdrawn
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	Not Applicable Withdrawn
Not Applicable	Not Applicable	Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3+ Upgraded
Not Applicable	Not Applicable	Proposed Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	Not Applicable Withdrawn

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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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