Press Release

Kailash Devbuild India Private Limited

January 07, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 67.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs. 67.00 Cr bank facilities of Kailash Devbuild India Private Limited. The outlook is **'Stable'**.

Kailash Devbuild India Private Limited (KDBIL) was established in 1988 as a sole proprietorship under the name of 'Kailash Constructions' by Mr. K. K. Shukla. It is based out of Jabalpur, Madhya Pradesh and undertakes turnkey construction projects for EHV transmission lines and substations and is also engaged in tower fabrication business. The firm was later converted in 2013 and took over the proprietary books. KDBIL constructs high-quality EHV transmission lines and substations. For this purpose, they offer integrated services through electrical systems design, complete solutions for civil design and construction activities, complete engineering-procurement and turnkey solutions, commissioning and also maintenance services.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of KDBIL for arriving at the rating.

Key Rating Drivers

Strengths

- **Experienced management coupled with long track of operations**
  KDBIL, a special-class civil contractor, has been into existence for more than three decades in construction of high-quality EHV transmission lines and substations. Mr. K. K. Shukla, the promoter of KDBIL, is having more than three decades of experience in the civil construction industry. Currently, the business operations are handled and managed by Mr. Bhanu Shukla, who brings an experience of around a decade. KDBIL has executed multiple orders which included construction work of line bays along with installation of line reactors, turnkey construction of pooling substations and others. With promoter's extensive industry experience and timely execution of past projects, KDBIL has been able to establish a long-standing relationship with its suppliers and various government bodies. As of March 31, 2020 (Prov), KDBIL has an unexecuted order book position of Rs.186 Cr; estimated to be executed over the next 24-36 months providing adequate revenue visibility over the medium term coupled with expected orders to be received in KDBIL's favour amounting about ~Rs100 Cr to Rs.150 Cr by March 31, 2021. Acuité believes that the promoter's extensive industry experience and established relation with its principal contractors and suppliers will aid KDBIL's business risk profile over the medium term.

- **Presence in diverse geographies coupled with reputed clientele**
  KDBIL's operations are moderate and is spread across diverse geographies. The company currently has an unexecuted order book size of Rs.186 Cr to be executed over the next 24 to 36 months located in different geographical locations such as Madhya Pradesh, Maharashtra, Gujarat, Jammu & Kashmir, among others. The margin has remained in the range of 11 to 14 percent over the last three years ending FY2020. KDBIL constructs high-quality EHV transmission lines and substations. The company offers integrated services through electrical systems design, complete solutions for civil design and construction activities, complete engineering-procurement and turnkey solutions, commissioning and also maintenance services. The company has earlier executed orders for Hindalco Industries Ltd, Gamesa India Pvt Ltd, Madhya Pradesh Power Transmission Co. Ltd, among others.
  Acuité believes that KDBIL's presence in diverse geographies along with long term association with reputed clients is likely to aid the business risk profile over the medium term.

- **Average financial risk profile supported by comfortable debt protection metrics**
  KDBIL's financial risk profile is average, marked by average capital structure and supported by comfortable debt protection metrics. KDBIL has moderate net worth at Rs. 26.47 Cr as on March 31, 2020 (Prov) as against Rs.24 Cr as on previous year due to healthy accretion of profits to reserves. Moderate net worth and a comparatively low debt level resulted in average gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) ratio of 0.53 times and 0.80 times respectively, as on March 31, 2020 (Prov) vis-à-vis 0.64 times and 1.11 times March 31, 2019.
  Debt protection metrics were also comfortable, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 2.20 times and 0.21 times, respectively, in FY2020 (Prov) vis-à-vis 2.39 times and 0.22 times for FY2019. Its accruals are expected in the range of Rs. 3.2 Cr – Rs.4.4 Cr over the medium term, against repayment obligations of about Rs. 0.40 Cr. Acuité believes that in the absence of any major debt-funded capital expenditure plan in the near term; growth in networth supported by lower reliance on the debt will lead to healthy financial risk profile over the medium term.

- **Moderate scale of operations and profitability remain partially impacted due to covid**
  KDBIL's scale of operations are marked as moderate with revenue in the range of Rs.48 Cr to Rs.62 Cr over the last three years ended FY2020. The company's profitability stood at 12.70 percent as on FY2020 (Prov) as against 11.51 percent in FY2019. For 7MFY2021, the company has reported Rs.13.27 Cr revenue with 6.86 percent margins which is comparatively lower than previous years. This is due to the outbreak of covid – 19 and the subsequent lockdown all over the country which led to no operations in April and May and slow momentum in business then onwards. Besides, the company has orders from several states where each state had different practices and timelines towards the lockdown which has further hindered the revenue momentum over the next few months. However, this is mitigated by the presence of healthy backlog of orders which ensures adequate revenue visibility over the next few years.

Weaknesses

- **Working capital intensive nature of operations**
  The operations are working capital intensive with Gross Current Asset (GCA) days in the range of 233 to 318 days over the last 3 years ending March 31, 2020. The GCA days are marked by high inventory days and moderate debtor days. The high GCA days also include the other current asset portion in the form of security deposits and EMD. The company's working capital intensity stood high due to the execution period of transmission works which is comparatively high and the high credit period offered to customers. It pays the creditors within 1-2 months. The High GCA days are on account of high other current assets like retention money, security deposits, etc. The high GCA cycle has led to high utilization of bank lines of at an average of 95 percent over the past twelve months ending November, 2020. Acuité believes that the operations of the KDBIL will remain working capital intensive on account of continuous submission of security deposits and retention money.

- **Tender based nature of operations**
  KDBIL executes tender based projects from government & private players with no major reliance on sub-contract work. Once the tender is allotted, EMD of 1-2 per cent is deposited. The company raises bills on a monthly basis. KDBIL has the flexibility to avail mobilization advance and for some of the orders the company avails mobilization advances; it generally bears a high interest rate. The retention money is usually 10 percent of the contract value (Few projects have 10 percent performance guarantee) which is released after a defect liability period of 1-2 years; which is usually the O&M of the project. Since the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. KDBIL has a success rate of 30 to 40 percent in bidding. KDBIL's revenue and profitability are susceptible to risks inherent in contract-based operations. Besides, tender based operations limit pricing flexibility in an intensely competitive industry. Acuité believes that KDBIL's revenue and profitability are susceptible to risks inherent in tender based operations which limit pricing flexibility in an intensely competitive industry.

Rating Sensitivities

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

Liquidity: Adequate

KDBIL's liquidity is adequate, marked by high unencumbered cash and bank balance in the form of fixed deposits, adequate net cash accruals against its modest debt obligations, moderate current ratio. KDBIL generated cash accruals of Rs.2.94 Cr in FY2020 (Prov) against debt obligations of Rs.0.44 Cr for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.3.2 Cr – Rs.4.0 Cr during FY2021-23 against repayment obligations of Rs.0.40 Cr for the same period. The average fund-based working capital utilization stood high between 97 percent for the past 12 months ended October, 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 (Prov) stood at Rs.6.17 Cr in the form of fixed deposits. The current ratio stood at 1.99 times as on March 31, 2020 (Prov). Acuité believes that KDBIL's liquidity will remain adequate over the medium term backed by adequate cash accruals against repayment obligations.

Outlook: Stable

Acuité believes that KDBIL 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 KDBIL 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.	51.92	61.41
PAT	Rs. Cr.	2.17	2.25
PAT Margin	(%)	4.18	3.66
Total Debt/Tangible Net Worth	Times	0.53	0.64
PBDIT/Interest	Times	2.20	2.39

Status of non-cooperation with previous CRA
Not Applicable

Any other information
Not Applicable

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
- Infrastructure Entities - https://www.acuite.in/view-rating-criteria-51.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)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE BBB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB-/Stable (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB-/Stable (Assigned)

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