

Press Release

Kailash Devbuild India Private Limited

June 24, 2022



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	67.00	ACUITE C Downgraded	-
Total Outstanding Quantum (Rs. Cr)	67.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE C**' (read as **ACUITE C**) from '**ACUITE BBB-**' (read as **ACUITE triple B minus**) on the Rs. 67.00 Cr bank facilities of Kailash Dev Build India Private Limited (KDBIL).

Rationale for rating downgrade

The rating is downgraded basis the information available in a credit bureau report which reflects asset categorization for some of the debt facilities availed by KDBIL as special mention account.

About the Company

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

Acuite has considered the standalone financial and business risk profiles of KDBIL to arrive 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, 2022, KDBIL has an unexecuted order book position of Rs.289 Cr; estimated to be executed over the next 12 to 24 months providing adequate revenue visibility over the medium term coupled with expected orders to be received in KDBIL's favour amounting about ~Rs 82 crore

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.289 Cr to be executed over the next 12 to 24 months located in different geographical locations such as Madhya Pradesh, Maharashtra, Gujarat, Jammu & Kashmir, among others. The operating margin is 10 percent for FY2022(prov) as against 21 percent for FY2021. 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.

> Below average financial risk profile

KDBPL's financial risk profile is below average marked by its moderate net worth, low gearing and moderate debt protection measures. The net worth increased to Rs.28.88 Cr as on March 31, 2022 (Prov.) from Rs. 26.33 Cr as on 31 March, 2021. The company's gearing stood at 0.84 times as on March 31, 2022 (Prov.) as against 0.70 times as on 31 March, 2021 and 0.57 times as on March 31, 2020. The total debt of Rs. 18.49 crore consists of long term debt of Rs. 4.39 crore and Rs. 14.10 crore of short term debt obligations. The interest coverage ratio stood at 2.41 times in FY2022 (Prov.) as against 1.48 times in FY2021 and 2.56 times in FY2020.

Acuité believes that in absence of any major debt funded capex plan, the financial risk profile of the company is likely to remain moderate over the medium term.

Weaknesses

> Irregularity in servicing of debt obligations

Irregularity reported by the lender in servicing of debt obligations in recent past, in case of some of the term loans and over draft facilities availed by KDBPL, in a credit bureau report. The accounts have been classified as special mention accounts.

> Working capital intensive nature of operations

The operations of KDBPL are working capital intensive reflected by high Gross Current Assets (GCA) which stood at 328_days as on March 31, 2022 (Prov.) as against 977 days as on March 31, 2021 and 341 days as on March 31, 2020. The GCA days are driven by high debtor and inventory days. The debtor days stood at 73 days as on March 31, 2022 (Prov.) as against 417 days as on March 31, 2021 and 115 days as on March 31, 2020. Inventory holding days also stood at 145 days as on March 31, 2022 (Prov.) as against at 639 days as on March 31, 2021 and 175 days as on March 31, 2020. The working capital cycle was significantly stretched in

FY2021 mainly due to slow down in execution of projects due to Covid-19 restrictions and repercussions which led to lower revenue generation during the period. The business performance improved in FY2022. Working capital requirement is funded through bank lines, the average utilisation of which is 95 per cent for the last twelve months ended March, 2022.

> **Tender based nature of operations**

KDBIL executes tender based projects from government & private players with no major reliance on subcontract 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

> Stretch in working capital cycle, leading to an increase in working capital borrowings and weakening of financial risk profile and liquidity

Material covenants

None

Liquidity Position: Stretched

The company has Stretched liquidity profile marked by delays in servicing of debt obligations and elongated working capital cycle. The net cash accruals stood in the range of Rs. 2.71 to 3.17 Cr for the period FY2020-22 as against repayment obligations of Rs.0.87 to 1.31 Cr. The GCA days stood at 328 as on March 31, 2022 (Prov). KDBPL maintains cash balance of 0.37 crore as on March 31, 2021. The current ratio stood at 1.75 times (prov.) as on March 31, 2022 as against 2.22 times as on March 31, 2021.

However, the average bank limit utilisation for its funded based facilities ranged between 94-96 percent for the twelve months ended March, 2022 and there are instances of full utilisation of the limits.

Outlook

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	13.49	40.18
PAT	Rs. Cr.	0.38	1.95
PAT Margin	(%)	2.81	4.85
Total Debt/Tangible Net Worth	Times	0.70	0.57
PBDIT/Interest	Times	1.48	2.56

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

[ICRA]B+/A4 (Stable); ISSUER NOT COOPERATING, rationale dated April 14, 2022.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.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
07 Jan 2021	Cash Credit	Long Term	8.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Long Term	19.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Long Term	8.00	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Long Term	4.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Long Term	22.00	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	6.00	ACUITE BBB- Stable (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 (BLR)	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE C Downgraded (from ACUITE BBB-)
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE C Downgraded (from ACUITE BBB-)
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE C Downgraded (from ACUITE BBB-)
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE C Downgraded (from ACUITE BBB-)
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE C Downgraded (from ACUITE BBB-)
Punjab National Bank	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE C Downgraded (from ACUITE BBB-)

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About Acuité Ratings & Research

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