

Press Release

KCP Infra Limited (erstwhile KCP Engineers Limited)

June 19, 2021



Rating Assigned

Total Facilities Rated*	Rs. 240.00 Cr
Total Bank Facilities Rated	Rs. 190.00 Cr.
Long Term Rating	ACUITE BBB+ / Outlook: Stable
Short Term Rating	ACUITE A2+
Fixed Deposit Rated	Rs. 50.00 Cr
Fixed Deposit Rating	ACUITE FA

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB+**' (read as **ACUITE Triple B Plus**), short term rating of '**ACUITE A2+**' (read as **ACUITE A Two Plus**) to the Rs. 190.00 Cr bank facilities and Fixed deposit rating of '**ACUITE FA**' (read as **ACUITE F A**) to the Rs 50.00 Cr proposed fixed deposits of KCP Infra Ltd. The outlook is '**Stable**'.

Acuite has received the following documents:

- Receipt of the final term sheet

About the Company

KCP Infra Limited (erstwhile KCP Engineers Ltd, "KCPIL") was established as a partnership business in 2005 based out of Coimbatore and is promoted by civil engineer Mr. K Chandraprakash. The company is engaged in undertaking infrastructural construction projects like construction of roads, bridges, irrigation projects, solid waste management projects, water supply projects and smart city projects. The company operates mainly out of Chennai and Coimbatore and caters to projects in Tamil Nadu, Kerala and Andhra Pradesh. The company is a Class 1 Licensed contractor with various agencies in state and central government.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of KCPIL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced promoters and Established nature of operations

KCP Infra Limited (erstwhile KCP Engineers Ltd, "KCPIL") was established as a partnership business in 2005 based out of Coimbatore and is promoted by civil engineer Mr. K Chandraprakash who has more than two decades of experience in infrastructural construction industry. The company is engaged in undertaking infrastructural construction projects like construction of roads, bridges, irrigation projects, solid waste management projects, water supply projects and smart city projects. The company operates mainly out of Chennai and Coimbatore and caters to projects in Tamil Nadu, Kerala and Andhra Pradesh. The company is a Class 1 Licensed contractor with various government agencies. The company has executed projects including national highway projects, state high way projects, projects for PWD, Water Board and municipalities, Chennai Corporation and various other government agencies.

• Strong Order Book position

KCPIL as on 01 April 2021 had projects worth Rs 1862.98 Cr under its stable of which Rs 1530.49 Cr worth of work remaining and to be completed in 12-24 months. KCPIL bids for a wide variety of projects and has a bidding success ratio of 60 percent. The company subcontracts around 20 percent of the project

value and collects security deposits to that extent. Acuite believes that, stable the order book and favorable bid success ratios provide stable revenue visibility for medium term.

- **Strong operating performance**

The company's performance over the past 3 years improved from Rs 453.92 Cr to 603.78 Cr from FY19 to FY21 (Prov). The company has also almost doubled its manpower with the expectation of improving revenue in coming years. The company also reported healthy operating margin in the range of 9.00 percent to 10.82 percent over past 3 years ending FY21 (Prov). PAT margins strong in the range of 6.04 percent to 6.35 percent. Acuite believes that, the strong revenue growth and favorable operating margins will result in improved financial flexibility in medium term.

- **Comfortable Financial Risk Profile**

KCPIL's financial risk profile was comfortable as observed from comfortable net worth, strong capital structure and comfortable coverage indicators. The net worth of the company was Rs 172.27 Cr as on FYE21 (Prov) improving from Rs 135.75 Cr as on FYE20. The increase in net worth was primarily as a result of accretion of profit to reserves in FY21 and equity issue in FY20. The capital structure of the company was strong as observed from the adjusted gearing of 0.58 times to 1.04 times over the past 3 years ended FY21 (Prov). Further to this, the total outside liabilities to total net worth was in the range of 1.44 times to 2.55 times over the same period. The capital structure improved over the past 3 years primarily due to strong profits and no dividend payouts in the past 3 years and fund infusion in FY20. The coverage indicators were comfortable with debt service coverage ratio in the range of 2.73 to 3.74 times over the past 3 years ended FY21 (Prov). The interest coverage ratio was comfortable in the range of 6.38 to 9.37 times over the same period. Acuite believes that, the financial risk profile to remain comfortable, considering the increase in tender execution albeit the increase in debt associated with acquiring equipment required to execute the projects.

Weaknesses

- **Volatile raw material prices impacting profitability**

Most EPC projects undertaken by the company has a gestation period of 12-24 months, and during this time period, profitability remains susceptible to fluctuations in the input prices. However, majority of orders in hand have a built-in inflation index-linked price escalation clause, depending upon the extent of coverage of the actual increase in input prices, which mitigates the risk to an extent.

- **Tender based nature of Operations**

KCPIL operates in infrastructural construction industry which is highly competitive with presence of large number small, regional and large players. EPC projects executed by the company are tender based with wins going to, the lowest bidder qualifying the terms and conditions stipulated by the respective agencies floating the bids. Acuite believes that, aggressive bidding can put strain on profitability of the company.

- **Geographic concentration of projects**

Majority of the projects executed by the company are based out of Tamil Nadu which is responsible for a large portion of the revenue in FY20 and FY21 (Prov) resulting in exposure to significant concentration risk. To mitigate the concentration risks, the company has started acquired new projects in Telangana, Andhra Pradesh and Kerala. Acuite believes that, geographic diversification will be a key rating monitorable.

Liquidity Position: Adequate

KCPIL's liquidity profile was adequate as observed from comfortable net cash accruals in the range of Rs 30.97 to Rs 41.01 Cr for 3 years ended FY21 (Prov) way higher than the debt repayments for the same period in the range at Rs 6.23 to 10.84 Cr. Further to this, the average utilization of the fund based facilities for 6 months ended March 2021 was 49 percent leaving a 51 percent headroom in fund based working capital limits available for the company in case of any unforeseen circumstances. Additionally, gross current assets days was comfortable in the range of 100 to 177 days over the past three years ending FY21 (Prov). Acuite believes that, at the current level of cash generation, the liquidity profile of the company is expected to stay adequate over medium term.

Rating Sensitivities

- Improvement in financial risk profile
- Elongation in working capital cycle and delays in collecting receivables
- Any geopolitical disturbances impacting the ongoing projects or order book of the company

Outlook: Stable

Acuité believes that KCPIIL will maintain stable credit profile on account of its stable operating performance. The outlook may be revised to 'Positive' on case of significant improvement in scale of operations while improving the financial profile. Conversely the outlook may be revised to 'Negative' in case of any further elongation of working capital cycle and delay in realization of bills from the government institutions.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	603.78	427.70
PAT	Rs. Cr.	36.45	27.15
PAT Margin	(%)	6.04	6.35
Total Debt/Tangible Net Worth	Times	0.58	0.47
PBDIT/Interest	Times	9.37	6.38

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>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- 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 (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Bank	Name of the Facilities	Date of Issuance	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/ Outlook
Karnataka Bank Ltd	Overdraft	Not Applicable	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB+/Stable (Assigned)
Karnataka Bank Ltd	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Not Applicable	70.00	ACUITE A2+ (Assigned)
Proposed	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE A2+ (Assigned)
Proposed Fixed Deposit		Not Applicable	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE FA (Assigned)

Contacts

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About Acuité Ratings & Research:

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