

Press Release

K And J Projects Private Limited

June 22, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.27.23 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short-term rating of **ACUITE A3** (**read as ACUITE A three**) on the Rs.27.23 crore bank facilities of K and J Projects Pvt. Ltd. (KJPL). The outlook is '**Stable**'.

The ratings assigned to KJPL derive comfort from long standing presence of over 25 years in the infrastructure consulting business supported by experienced management, healthy order book (~Rs.189.46 crore), sustainable operating margin and comfortable financial risk profile. The company's revenue in FY20 stood at Rs.51.42 crore and is estimated to have declined by ~24per cent in FY21. However, its EBITDA margin continues to remain at a healthy level of over 14per cent. The ratings, however, are constrained by moderately intensified working capital operations and tender-based business.

About the Company

Nagpur-based KJPL was incorporated by Mr. Milind Jawade and Mr. Narendra Kaware in the year 2004. The company is into infrastructure consulting business and provides consulting services for road and highway, railway-bridge and building constructions. KJPL mainly offers services for road and highways constructions, which account for ~90per cent of its revenue.

Analytical Approach

Acuite has considered the standalone financial and business risk profiles of KJPL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced Management and established track record of operations**

KJPL engaged in infrastructure consulting business for more than 25 years. The company is promoted by Mr. Milind Jawade and Mr. Narendra Kaware, who started the business as a partnership firm and later in 2004 the constitution was changed to private limited company.

Mr. Jawade and Mr. Kaware are post graduates in construction management and each with more than three decades of experience, which has enabled the company to expand the business in new geographies with good growth. Under the leadership of its experienced promoters, the revenues grew at a compounded annual growth rate of ~18 per cent during the three years ending March 31, 2020. While, the revenues for FY2021 were impacted on account of outbreak of Covid-19. The company's operating income in FY20 stood at Rs.51.42 crore and is estimated to have declined by ~24per cent in FY21 to ~Rs.38.86 crore.

The company's current order book stood at Rs.189.46 Cr. as on April 15, 2021, thus giving healthy revenue visibility in near to medium term. Further, the management is expecting new orders of Rs.20 in near term. Acuité believes that the strong experience of management along with comfortable order book position would support KJPL's growth going ahead.

- **Comfortable financial risk profile**

KJPPL has a comfortable financial risk profile marked by rising net worth, strong gearing level and moderate debt-protection metrics. The company's net worth as on March 31, 2020 stood at Rs.19.96 crore compared to Rs.15.85 crore as on March 31, 2019. Net worth, as on March 31, 2021 estimated at ~Rs.23 crore.

The company's gearing level (debt to equity ratio) remained comfortable at 0.58 times as on March 31, 2020 and is estimated at 0.51 times as on March 31, 2021. As on March 31 2020, the company's total debt stood at Rs.11.66 crore, comprising long-term debt of Rs.6.44 crore, short-term debt of Rs.4.37 crore and unsecured loans from directors/related party of Rs.0.85 crore. Total outside liabilities to tangible net worth (TOL/TNW) has been continuously improving since past two years. From 1.4 times as on March 31, 2019, TOL/TNW improved to 0.97 times as on March 31, 2020 and is estimated at 0.76 times as on March 31, 2021.

Interest coverage ratio (ICR) of the company, for FY20, stood at 5.55 times and is estimated at ~6 times for FY21. However, debt service coverage ratio (DSCR) is estimated to have deteriorated to 1.8 times for FY21 (estimated) compared to 2.69 times for FY20. Acuité believes the financial risk profile of KJPPL is likely to improve on account of expected healthy net cash accruals.

- **Sustainable operating margin**

KJPPL's revenues were impacted on account of outbreak of Covid-19-led challenges. After falling by 9.76per cent in FY20 to Rs.51.42 crore, the company's operating income is estimated to have fallen by ~24per cent in FY21. However, the company has able to maintain its operating margin at a healthy level of over 14per cent in FY20 and FY21 (estimated).

Acuite believes that KJPPL's operating margin would remain ~14per cent level in the medium term backed by comfortable order book with improved realization.

Weaknesses

- **Moderately intensified working capital operations**

KJPPL operates in a modest working capital nature of operations marked by Gross Current Asset (GCA) days of 111-113 for FY20 and FY19. GCA days for FY21 (estimated) increased to 149. The increase in GCA days is majorly on account of deterioration in debtor days, which stood at ~97 for FY2021 (estimated) as against 45 in FY2020. The increase in debtor days was on account of ongoing Covid – 19-led disruptions. Further, this has led to high reliance on external debt marked by high average bank limit utilization of ~89 per cent for last six months ending March 2021. Acuité believes the company's ability to efficiently manage its working capital will remain a key rating monitorable. Any further deterioration in working capital would entail a negative bias towards the ratings.

- **Tender based business**

Business of KJPPL is based on tender orders floated by state and central government and National Highway Authority of India (NHAI). Thus, the firm's revenue is subject to the successful bidding of orders amidst high competitive intensity, which also impacts the pricing power of players.

Liquidity Position: Adequate

KJPPL has adequate liquidity marked by sufficient net cash accruals to maturing debt. The company generated cash accruals of Rs.5.24 crore for FY20 against maturing debt obligations of Rs.1.05 crore. For FY21, cash accruals are estimated at Rs.4.06 crore compared to debt repayment obligations of ~Rs.2 crore. The company's current ratio stood at moderate level of 1.68 times as on March 31, 2020 and is estimated at the same level as on March 31, 2021. Average bank limit utilization of the company, during the six months through March 2021 stood higher at~89per cent.

During FY22 and FY23, KJPPL's cash accruals are estimated in the range of Rs.5.55 crore to Rs.6.70 crore against maturing debt obligations of Rs.1.85 crore to Rs.2.50 crore. Acuite believes that the company's liquidity position would remain adequate in the medium term with sufficient net cash accruals to the maturing debt obligations.

Rating Sensitivities

- Any further deterioration in working capital
- Inability to improve scale of business while maintaining its profitability

Material Covenants

No

Outlook: Stable

Acuité believes that KJPL would maintain 'Stable' outlook on the back of experienced management with long track record of operations and healthy order book and sustainable operating margin. The outlook may be revised to 'Positive' in case the company reports better than expected revenue growth and improvement in operating margin. Conversely, the outlook may be revised to 'Negative' in case the company reports lower than expected revenue, or deterioration in working capital thereby impacting financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	51.42	56.98
PAT	Rs. Cr.	4.07	3.60
PAT Margin	(%)	7.91	6.31
Total Debt/Tangible Net Worth	Times	0.58	0.58
PBDIT/Interest	Times	5.55	5.73

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

CARE Ratings, vide its press release dated March 25, 2021, has mentioned the rating of KJPL as 'BB+/Stable Issuer Not Cooperating' as on March 25, 2021.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.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 Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	1.15	ACUITE BBB-/Stable (Assigned)
Term Loan	Not Available	Not Available	Not Available	0.63	ACUITE BBB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.45	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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