

Press Release

K And J Projects Private Limited

July 05, 2022



Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.45	-	ACUITE A4+ Downgraded
Bank Loan Ratings	6.78	ACUITE BB Stable Downgraded	-
Total Outstanding Quantum (Rs. Cr)	27.23	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) and short-term rating to **ACUITE A4+** (read as **ACUITE A four plus**) from '**ACUITE A3**' (read as **ACUITE A Three**) on the Rs.27.23 crore bank facilities of K and J Projects Pvt. Ltd. (KJPPL). The outlook is '**Stable**.'

Rationale for Rating

The rating has been downgraded considering the higher reliance of the company on bank finance with an utilization in limits of more than 97% for in 8 months ending April 2022 indicating stretched liquidity. Further, the working capital operations of company are intensive marked by GCA days of 166 days in FY 2022 (Prov.).

About the Company

Nagpur-based K and J Projects Pvt Ltd. (KJPPL) is an infrastructure consulting company. The company provides consulting services for road and highway, railway-bridge and building constructions. Mr. Milind Jawade and Mr. Narendra Kaware started the business as a partnership firm over 25 years back and was converted into the private limited company in the year 2004. Mr. Jawade and Mr. Kaware continued as directors and owners of the company. KJPPL mainly offers services for road and highways constructions, which account for ~95% of its revenue. Services rendered by KJPPL includes feasibility studies, detailed project report, asset and project management, designing of highways and structures, among other.

Analytical Approach

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

Key Rating Drivers

Strengths

>Experienced Management and established track record of operations

KJPPL 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 company's operating income in FY22 stood at Rs.44.30 crore and is targeting a growth of 25% further in FY2023. The company's current order book stood at Rs.171.40 Cr. as on April 30, 2022, thus giving healthy revenue visibility in near to medium term.

Acuité believes that the strong experience of management along with comfortable order book position would support KJPPL's growth going ahead.

>Moderate Financial Risk Profile

The financial risk profile of the company stood moderate marked by moderate net worth, low gearing and moderate debt protection metrics. The tangible net worth stood at Rs.25.10 crore as on 31 March, 2022 (Prov) as against Rs.23.38 crore as on 31 March, 2021 and Rs.19.96 crore as on 31 March, 2020. The total debt of the company stood at Rs.14.50 crore includes Rs.6.69 crore of long term debt, Rs.5.01 crore of short term debt, Rs.1.28 crore of unsecured loans and Rs.1.53 crore of CPLTD as on 31 March, 2022 (Prov). The gearing (debt-equity) stood at 0.58 times as on 31 March, 2022 (Prov) as compared to 0.51 times as on 31 March, 2021 and 0.58 times as on 31 March, 2020. Interest Coverage Ratio stood at 3.52 times for FY2022 (Prov) as against 5.84 times for FY2021 and 5.55 times for FY2020. Debt Service Coverage Ratio (DSCR) stood at 1.25 times in FY2022 (Prov) as against 2.28 times in FY2021 and 2.69 times in FY2020. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.03 times as on 31 March, 2022 (Prov) as against 0.80 times as on 31 March, 2021. Net Cash Accruals to Total Debt (NCA/TD) stood at 0.18 times for FY2022 (Prov). Acuité believes the financial risk profile of KJPPL is likely to improve on account of sufficient net cash accruals.

Weaknesses

>Intensive working capital operations

The working capital management of the company is intensive marked by GCA days of 166 days in FY2022 (Prov) as against 137 days in FY2021 and 113 days in FY2020. The debtor days stood at 139 days in FY2022 (Prov) as against 100 days in FY2021 and 45 days in FY2020. The reason for high debtors is that most of the company billings happens in the end of the month of March and the payment period mostly comes in April and May. However, the creditor days stood at 44 days in FY2022 (Prov) as against 41 days in FY2021 and 41 days in FY2020. Bank limit utilization for the company stood at ~97 percent for the 8 months ending April 2022.

Acuité believes the company's ability to efficiently manage its working capital will remain a key rating monitorable.

>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.

Rating Sensitivities

- Elongation in working capital cycle leading to higher reliance on working capital limits.
- Deterioration in debt protection metrics and liquidity profile
- Inability to improve scale of business while maintaining its profitability

Material covenants

None.

Liquidity Position: Adequate

The company's liquidity position is stretched as the average bank limit utilization for the past 08 months April 2022 is ~ 97.70 percent. However, they have sufficient net cash accruals

against its maturing debt obligations. The company has net cash accruals in the range of Rs.2.66-Rs.5.24 Crore from FY 2020- 2022 against its maturing debt obligations in the range of Rs.1.19-Rs.1.83 crore in the same tenure. In addition, it is expected to generate a sufficient cash accrual in the range of Rs.4.10-Rs.9.83 crores against the maturing repayment obligations of around Rs.1.76-Rs.2.09 crore over the medium term. The working capital management of the company is intensive marked by GCA days of 166 days in FY2022 (Prov) as against 137 days in FY2021. The company maintains unencumbered cash and bank balances of Rs.0.19 crore as on March 31, 2022 (Prov). The current ratio stands at 1.41 times as on March 31, 2022 (Prov).

Acuité believes that the liquidity of the firm is likely to improve over the medium term

Outlook: Stable

Acuité believes that KJPPL 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.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	44.30	39.05
PAT	Rs. Cr.	1.92	3.39
PAT Margin	(%)	4.34	8.69
Total Debt/Tangible Net Worth	Times	0.58	0.51
PBDIT/Interest	Times	3.52	5.84

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

CARE Ratings, vide its press release dated June 10, 2022, has mentioned the rating of KJPPL as 'C/Stable Issuer Not Cooperating' as on June 10, 2022.

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

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
22 Jun 2021	Bank Guarantee	Short Term	20.45	ACUITE A3 (Assigned)
	Term Loan	Long Term	0.63	ACUITE BBB- Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Term Loan	Long Term	1.15	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
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	20.45	ACUITE A4+ Downgraded
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB Stable Downgraded
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	1.78	ACUITE BB Stable Downgraded

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Siddharth Shah Management Trainee-Rating Operations Tel: 022-49294065 siddharth.shah@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

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