

Press Release

Kram Infracon Private Limited

September 21, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.20.00 Cr.
Long Term Rating	ACUITE BBB/Outlook: Stable (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB (read as ACUITE triple B)**' on the Rs.20.00 Cr. bank facilities of Kram Infracon Private Limited (KIPL). The outlook is '**Stable**'.

The rating assigned reflects healthy order book position, comfortable financial risk profile and working capital management, stable revenue during FY19-21 led by order addition during the period and adequate liquidity profile of the company. However, the rating is constrained by short track record of operation, decline in profitability margin in FY20-21, lower revenue booking during 5MFY22, tender based nature of business and concentrated order book.

About the rated entity

Kram Infracon Private Limited (KIPL) was incorporated in February 2016, by Mr. Rahul Kumar and Mr. Sachin Gaur. The company is engaged in construction of roads, highways, bridges, irrigation and other infrastructure projects. In addition to this, the KIPL also provides consultancy and advisory services in the fields of engineering and constructions services to other entities.

In 2017, KIPL had acquired all India franchise for 'Wok to Walk', Netherland based food chain.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Kram Infracon Private Limited to arrive at the rating.

Key Rating Drivers

Strengths

- **Healthy order book led by constant order addition during FY19-21**

The outstanding order book as on August 31, 2021 remained at Rs.590.75 crore, with unexecuted order size ranging between Rs.23.0 crore to Rs.388.0 crore. The company has been adding healthy orders of more than Rs.100.0-Rs.500.0 crore during FY19-21. Further, the tenor of the unexecuted projects ranges between 2.5- 3 years, which provides medium-term revenue visibility. The company also has escalation clause for all the contracts for materials and the same is added when the bills are raised.

Acuite believes that healthy order book with continuous order addition over the years ensure stable revenue streams.

- **Stable revenue stream during FY19-21.**

The company has witnessed stable revenue, with marginal variation during FY19-FY21. KIPL reported total operating income of Rs.220.74 crore during FY19 which increased to Rs.224.73 during FY20. During FY19-20, the company had executed various work orders across Uttar Pradesh, Madhya Pradesh and Jharkhand. The total operating income of the company, however declined by ~10% to Rs.201.62 crore during FY21 on account of lower work execution due to COVID-19. The company has initiated working on road projects and water projects in Mizoram during H2FY21.

Acuite believes that execution of existing work orders would ensure stable revenue streams going forward.

- **Moderate financial risk profile**

The financial risk profile of the company moderate with debt-equity ratio below unity. Further, the tangible net worth of the company has improved over the years, backed by accretion of profit to reserves. The Net

Cash Accruals to Total debt moderated to 0.77x as on March 31, 2021 against 1.97 times as on March 31, 2020 on account of decline in NCA and increase in total debt. There has been increase in debt (both term loan and unsecured loan) to the tune of Rs.9.41 crore to fund working capital and purchase of equipment/vehicles. The company has not availed any working capital borrowings from the bank and the same is managed through internal accruals. The total outstanding liabilities to tangible net worth, has improved over the period of FY19-21 from 2.14 times to 1.26 times, due to increase in tangible net worth. The debt-EBITDA, albeit moderated, continues to remain below unity. The interest coverage ratio on an average remained at 24.50 times during FY19-21.

Acuite believes that going ahead, financial risk profile of the company is expected to remain at moderate level, backed by execution of orders.

- **Efficient working capital management**

The Gross Current Assets days of the company remained at 160 days during FY21 against 114 days in FY20. The same is due to increase in recoverable. However, the debtors' days remained between 28-36 days during FY19-21. As the company executes major work orders for Ministry of Road Transport and Highway (MORTH), this ensures, speedy recovery of receivables. The company purchases materials as and when required, which results in lower inventory days. The company avails credit period upto 90 days from its suppliers and other creditors. KIPL has not availed any working capital borrowings as the same is managed through internal accruals.

Acuite believes that speedy realization of receivables from MORTH would be important for managing the working capital

Weaknesses

- **Short track record of operations**

The company was incorporated in 2016, hence has relatively short track record of operations. Due to this, the company has received major portion of orders around ~69% through subcontracting and remaining through direct tender.

- **Lower revenue booked during 5MFY22**

The company has book lower revenue of Rs.50.0 crores during 5MFY22 as against Rs.58.60 crore during the same period last year. This is due to Mizoram state witnessing heavy monsoon this year during April-September, wherein major work order is to be executed. Further, the company also witnessed challenge in terms of nationwide lockdown during April 2021.

Acuite believes that increase in work pace in H2FY22 would be required for maintaining the revenue stream and profitability margins.

- **Moderation in profitability level and margin**

The operating level, remained at similar level during FY20-21 at around Rs. 20.0 crore. The operating profit and net profit, however remained at higher level during FY19 on account of GST reimbursement by NHAI for few projects being executed by the Company, which were awarded in pre-GST period. The same was also due to lower operating cost and finance cost. The said costs increased during FY20-21 on account of increase in work orders and subsequent increase in expenses, which further impacted margins. Hence, the operating margin declined from 14.79% in FY19 to 9-11% in FY20-21. The net profit remained at Rs.12.90 crore during FY21 vis-à-vis Rs.15.10 crore on account of increase in interest cost, backed by increase in total debt. Hence, PAT margin also declined accordingly.

- **Geographic and client concentration risk**

The company has concentrated order book, both on geographical and clientele front. On geographical front, around 96% of outstanding work order is to be executed in Mizoram; and remaining in Madhya Pradesh. As the entire state of Mizoram is under the direct influence of monsoon, it rains heavily from May-September and hence, impedes the work progress. Further, the major portion of work orders around 90% are being funded by NHIDC, which is fully owned by MORTH, leading to clientele concentration. The top order, valuing Rs.387.77 crore accounts for around 65% of total outstanding work order. Hence, any delay in execution of the mentioned order would impact the revenue streams of the company.

Acuite believes that company's ability to diversify its order would mitigate the existing risk.

• **Highly competitive industry marked by tender based nature of business**

The company's performance is susceptible to the tender based nature of business, where the business depends on the ability to bid for contracts successfully. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts.

Rating Sensitivities

- Improving scale of operations along with the diversification of its order book on clientele and geographical front.
- Any delay in execution of projects impacting revenue stream and profitability level and margins of company.

Material Covenants

None

Liquidity Position: Adequate

The Net Cash Accruals of the company remained at 14.58 crore during FY21 against debt repayment obligation of Rs.2.16 crore. The NCA for projected period is expected to be at Rs.18.0 crore to Rs.25.0 crore. The liquidity is comfortable, as it provides adequate cushion against the debt repayment of Rs.3-12.0 crore (including repayment of unsecured loans) during FY22-24. Further, the current ratio remained at 1.57 times as on March 31, 2021 against 1.40 times as on March 31, 2020. The company has not availed for any working capital borrowing and has been meeting its requirements through internal cash accruals. Moreover, the company has a healthy cash and bank balance of Rs.14.06 crore as on March 31, 2021. Acuite believes, the liquidity is expected to remain adequate due to healthy existing order book

Outlook: Stable

Acuite believes that the company will continue to maintain a 'Stable' outlook over near to medium term owing to its experienced promoters and established position in market. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues consummating increase in order book size, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY21 (Actual)	FY20 (Actual)
Operating Income	Rs. Cr.	201.62	224.73
PAT	Rs. Cr.	12.90	15.10
PAT Margin	(%)	6.40	6.72
Total Debt/Tangible Net Worth	Times	0.29	0.16
PBDIT/Interest	Times	14.04	23.32

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

Not Applicable

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**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Bank Facility	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE BBB/Stable (Assigned)

Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022 49294041 aditya.gupta@acuite.in</p> <p>J Subhadra Senior Analyst – Rating Operations j.subhadra@acuite.in</p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022 49294011 rating.desk@acuite.in</p>

About Acuité Ratings & Research:

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