

Press Release

Keyem Infra Project Private Limited (Erstwhile Keyem Engineering Enterprises)

March 31, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.00	ACUITE BBB+ Stable Assigned	-
Bank Loan Ratings	15.75	ACUITE BBB+ Stable Reaffirmed	-
Bank Loan Ratings	10.65	-	ACUITE A2 Assigned
Bank Loan Ratings	118.65	-	ACUITE A2 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	146.05	-	-

Rating Rationale

Acuite has reaffirmed the **long-term rating to 'ACUITE BBB+' (read as ACUITE Triple B Plus)** and the **short term rating to 'ACUITE A2' (read as ACUITE A two)** on the Rs. 134.40 crore bank facilities of Keyem Infra Project Private Limited (KIPPL) (erstwhile Keyem Engineering Enterprises). Acuite has also assigned the **long-term rating to 'Acuite BBB+' (read as ACUITE Triple B Plus)** and the **short-term rating to 'ACUITE A2' (read as ACUITE A two)** on the Rs. 11.65 crore bank facilities of Keyem Infra Project Private Limited (KIPPL) (erstwhile Keyem Engineering Enterprises). The outlook is **'Stable'**.

Rating Rationale

The ratings reflect extensive experience of its proprietor in the civil construction industry, strong order book position providing adequate revenue visibility and healthy financial position characterized by negligible debt and robust debt coverage indicators. The upgrade also factors in adequate liquidity position of the firm. These strengths are partly offset by KIPPL moderate scale of operations in the fragmented industry as well as its constitution which is proprietorship in nature.

About the Company

Established in 1996, Keyem Engineering Enterprises (KEE) is a Chennai-based proprietorship concern managed by Mr. Ramachandran. KEE is a Class-1 contractor, engaged in construction and development of underground sewerage systems, pumping stations, water and sewage treatment plants. The firm has been in this business for over two decades, and primarily works for various Municipal Corporations, Municipalities, Panchayats under the purview of Tamil Nadu Water Supply and Drainage Board (TWAD).

Analytical Approach

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

Acuite Ratings & Research Limited

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Key Rating Drivers

Strengths

Experienced management and established relationship with customers

The company has around three decades of experience in Water and Sewage construction business. Mr. Rama Chandran had an experience in designing of water motors, working as a sub-contractor for companies like Koya & Company Construction Limited, and L&T Ltd in the initial years. Mr. Rama Chandran is supported by his son in the business activities. All the contracts are on tendering basis from TWAD, and various other Municipalities of Palanichettipatti, Pallavapuram, Villupuram District, Kodaikanal among others in the state of Tamil Nadu. KIPPL has implemented over 400 projects till date. The long standing experience of the promoter and long track record of operations has helped him to establish comfortable relationships with key suppliers and reputed customers across the continents.

Acuité derives comfort from the long experience of the management and believes this will benefit the company going forward, resulting in steady growth in the scale of operations

Improving revenue coupled with strong order pipeline

KIPPL has shown improving revenue trends from FY2020 to FY2022. The operating revenue stood at Rs 412.69 crore in FY 2022 as compared to Rs 265.23 crore in FY 2020 thereby achieving a compounded annual growth rate (CAGR) of 16 percent over three years from FY2020 to FY 2022. The consistent improvement in revenue along with rise in profit margins have translated into increased cash accruals. The operating revenue for 9 months ended FY23 stood at 277.03 crore (prov). The firm had an unexecuted order book of Rs. 786 Cr as on 31st December, 2022, which gives revenue visibility over the medium term. Nearly 52 per cent of the company's order book comprises of the sewerage projects and 40 per cent from the water supply projects. Acuité believes that the firm will continue to receive orders on an ongoing basis and maintain its business risk profile over the medium term.

Healthy financial risk profile

The company's healthy financial risk profile is marked by modest albeit improving net worth, healthy gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.44.79 Cr as on March 31, 2022 from Rs.27.56 Cr as on March 31, 2021 due to accretion of profits. Gearing of the company stood below unity at 0.22 as on March 31, 2022 as compared to 0.95 as on March 31, 2021. The debt of Rs.9.87 Cr mainly consists of working capital borrowing of Rs. 9.52 Cr, long term debt of Rs. 0.35 Cr. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 3.13 times as on 31st March, 2022 as against 5.25 times as on 31st March, 2021. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 25.09 times and Debt Service coverage ratio at 25.09 times as on 31st March, 2022. Net Cash Accruals/Total Debt (NCA/TD) stood at 3.44 times as on 31st March, 2022. Acuité believes that going forward the financial risk profile of the company will remain healthy with no major debt funded capex plans.

Weaknesses

Segmental and geographical concentration in revenue

Orders from the sewage and water supply segment comprises around 75-80% of total executable orders as of December 2022. Furthermore, majority of the projects are funded by the Government of Tamil Nadu. Majority of the projects are located in Chennai. The order book stood at 786 crore as on 31st December, 2022.

Competitive and fragmented nature of industry

The company is engaged as a civil contractor and the particular sector is marked by the presence of several mid to big size players. The company faces intense competition from the other players in the sectors. Risk becomes more pronounced as tendering is based on a

minimum amount of bidding of contracts and hence the company has to make a bid for such tenders on competitive prices; which may affect the profitability of the company. However, this risk is mitigated to an extent as the company is operating in this environment for the years.

Rating Sensitivities

- Growth in revenue along with improvement in profitability margins
- Elongation of working capital cycle
- Reduction in order flow

Material covenants

None

Liquidity Position

Adequate

The company's liquidity is adequate marked by net cash accruals stood at Rs.34 Cr as on March 31, 2022 against no current maturity. The fund based limit remained utilised only at 45 per cent over nine months ended Dec, 2022. Further, the company has neither availed any loan moratorium nor applied for additional covid loan. The unencumbered cash and bank balances of the firm stood at Rs.7.35 Cr as on March 31, 2022 as compared to Rs. 2.59 Cr as on March 31, 2021. The current ratio stood moderate at 1.36 times as on March 31, 2022 .

Further, the working capital management of the company is marked by Gross Current Assets (GCA) of 95 days as on March 31, 2022 as against 118 days as on March 31, 2021. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes the outlook on KIPPL will remain 'stable' over the medium term backed by experience of its company and strong order book position. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or delay in completion of its projects or further elongation in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	412.69	291.89
PAT	Rs. Cr.	32.25	15.58
PAT Margin	(%)	7.81	5.34
Total Debt/Tangible Net Worth	Times	0.22	0.95
PBDIT/Interest	Times	25.09	5.67

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

None

Any other information

None

Applicable Criteria

- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors uncertainty in cash flow patterns number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as Simple' can carry high levels of risk. -or more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.Acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
30 Jan 2023	Bank Guarantee	Short Term	38.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Bank Guarantee	Short Term	15.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Bank Guarantee	Short Term	15.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Bank Guarantee	Short Term	29.50	ACUITE A2 (Upgraded from ACUITE A3+)
	Bank Guarantee	Short Term	16.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Cash Credit	Long Term	0.60	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Cash Credit	Long Term	12.50	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Cash Credit	Long Term	0.80	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
	Letter of Credit	Short Term	5.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Secured Overdraft	Long Term	2.00	ACUITE BBB+ Stable (Upgraded from ACUITE BBB Stable)
03 Nov 2021	Secured Overdraft	Long Term	2.00	ACUITE BBB Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	0.80	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	12.50	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	0.60	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	15.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	38.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	29.50	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	16.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	27.50	ACUITE A3+ (Upgraded from ACUITE A3)

20 Aug 2021	Cash Credit	Long Term	12.50	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Bank Guarantee	Short Term	15.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Bank Guarantee	Short Term	23.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Secured Overdraft	Long Term	2.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
05 Mar 2020		Long Term		
	Secured Overdraft	Term	2.00	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	27.50	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	23.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	12.50	ACUITE BBB- Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	29.50	ACUITE A2 Reaffirmed
Axis Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	38.00	ACUITE A2 Reaffirmed
Federal Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	23.65	ACUITE A2 Reaffirmed
Indusind Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	12.50	ACUITE A2 Reaffirmed
Federal Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	1.35	ACUITE A2 Assigned
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	9.30	ACUITE A2 Assigned
Indian Overseas Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A2 Reaffirmed
Indian Overseas Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	12.50	ACUITE BBB+ Stable Reaffirmed
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	0.65	ACUITE BBB+ Stable Reaffirmed
Federal Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	0.60	ACUITE BBB+ Stable Reaffirmed
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE BBB+ Stable Assigned
Axis Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	2.00	ACUITE BBB+ Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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