



Press Release
KHALATKAR CONSTRUCTION INFRA PRIVATE LIMITED
September 12, 2023
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	40.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	50.00	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	90.00	-	-

Rating Rationale

Acuite has assigned its long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and its short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 90.00 Cr bank facilities of Khalatkar Construction Infra Private Limited (KCIPL). The outlook is '**Stable**'.

The rating considers the sound business risk profile of the company supported by healthy profitability margins. The ratings favourably factor in KCIPL's modest order book position providing medium-term revenue visibility supported by the strong execution capabilities. The ratings also reflect the extensive experience of the promoters in the construction industry and the healthy financial risk profile marked by comfortable gearing and strong debt coverage metrics due to lower reliance on external debt. The rating further takes into account the adequate liquidity position of the company marked by the sufficient accruals, unencumbered cash and cash equivalents and comfortable current ratio. These strengths are, however, offset by the working capital intensive management and susceptibility to intense competition in the industry and high geographic concentration.

About the Company

Incorporated in 2020, Khalatkar Construction Infra Private Limited (KCIPL) is engaged in construction of roads, canals for the state government of Maharashtra and undertakes irrigation project under Vidarbha Irrigation Department mainly in and around Nagpur. The company has also ventured into toll collection contracts with counterparties such as Maharashtra State Road Development Corporation and National Highways Authority of India for the Nagpur Mumbai route.

The business was started as a sole proprietorship firm in 1985 in the name of Khalatkar Construction Company (KCC) and changed constitution to a closely held company in 2020 with name changed to its current name. Currently, the company is headed by Mr. Jayant Khalatkar, and Mr Nihar Khalatkar.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and established relationship with customers

Mr. Jayant Khalatkar is the leading promoter of the company who is supported by other partner Mr. Nihar Jayant Khalatkar. KCIPL has a long operational track record of more than two decades in the civil construction industry, through their erstwhile proprietorship concern, KCC, established in 1985. It has successfully completed various projects under different departments of government like rural development, water resources, National Highway, Railway, PWD, MSRDC etc. 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. Acuité believes that the long track record and rich experience of the promoters augur well for the relationship with their key suppliers and customers.

Sound business risk profile

The company reported growth in margins even though it grappled with revenue headwinds. The operating revenue of the company declined to Rs 211.44 Cr in FY 2023 (provisional) as compared to Rs 381.54 Cr in FY 2022, attributable to a dip in orders due to delay in re-registration process with the change in constitution. However, with the rationalization of the contract expenses along with reduction in subcontracting charges, the company reported steady margins in FY23, whereas the high labour cost amid the economic slowdown and higher cost inventory kept the margin under pressure in FY 2022. The profitability margins of the company improved with operating margin at 9.49 per cent in FY2023 (Provisional) as compared to 6.98 per cent in the previous year. The PAT margins also increased to 4.76 per cent as on FY2023 (Provisional) as against 4.47 per cent as on FY2022. The RoCE levels for the company stood comfortable at 12.64 per cent in 2023 (Provisional). Though the company's profitability is exposed to volatility in raw material prices as their prices are volatile in nature, it have an in-built price escalation clause for major raw materials (such as steel, cement, fuel and bitumen) in most of its contracts. Till June 2023, the company has been able to achieve a revenue of Rs. 88.78 Cr (Prov).

The company had an unexecuted order book of ~Rs. 533.33 Cr as on June 2023, thereby providing revenue visibility in the medium term. Nearly ~53 per cent of the company's order book comprised the toll collection segment, ~29 per cent from the road construction and ~18 per cent of service orders from the Indian Railways. The company's order inflows reduced in FY23 owing to its delay in re-registration process following the change in its constitution. Therefore, an incremental order inflow will be a key monitorable, going forward. The company expects to receive new orders of ~Rs. 125 Cr in the near term, which is likely to support sales, going forward. Acuité believes that the company will continue to sustain its order book position and maintain its business risk profile over the medium term.

Healthy financial risk profile

The company's financial risk profile is marked by healthy network base, comfortable gearing and strong debt protection metrics. Post the infusion of Rs. 18.74 Cr of 0.1 per cent compulsorily convertible preference shares with a 20 year tenure in FY22, the network stood healthy at Rs. 111.94 Cr as on 31st March 2023 along with accretion of reserves. Even with increasing dependence on the working capital limits, the gearing of the company stood comfortable below unity at 0.38 times as on March 31, 2023 (provisional) as compared to 0.34 times as on March 31, 2022. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) increased marginally to 1.50 times as on 31st March, 2023 (prov.) as against 1.26 times as on 31st March, 2022. The moderation in operating profitability moderated the debt protection metrics in FY23, but still the coverage ratios stood strong as marked by Interest Coverage Ratio at 5.88 times and Debt Service coverage ratio at 3.00 times as on 31st March, 2023 (prov.). Net Cash Accruals/Total Debt (NCA/TD) stood at 0.30 times as on 31st March, 2023 (prov.). Acuité believes that going forward the financial risk profile of the company will remain healthy backed by steady accruals and no major debt funded capex plans.

Weaknesses

Working capital intensive nature of operation

The working capital management of the company has increased significantly in FY23, marked

by Gross Current Assets (GCA) of 360 days in 31st March 2023 (prov) as compared to 152 days on 31st March 2022 with considerable stretch in the receivable cycle. The high GCA days are also led by significant amount of advances given to sub-contractors. The debtor period stood high at 104 days as on March 31, 2023 (Provisional) as compared to only 12 days as on March 31, 2022. The significant increase in debtor days were on account of with more than 40 per cent of the sales in Q4, resulting in elevated working capital indicators as on year ending dates. The company focuses on easy mobilisation of its resources, thereby improving the turnaround time and reducing the idleness of machinery and equipment with nil inventory holding. Acuité believes that the working capital operations of the company will remain almost at the same levels as evident from efficient collection mechanism over the medium term.

Nonetheless, the company has substantial dependence on its suppliers and creditors to support the working capital; creditors stood high at 122 days as on March 31, 2023 (Provisional). Sustained improvement in creditors will remain a key monitorable. Going forward, any material deterioration in the working capital cycle from the anticipated levels over the medium term can affect its liquidity position and will be a key rating sensitivity.

Segmental and geographic concentration, along with susceptibility to risks related to intense competition in construction segment, and to tender-based operations

Although the promoters has a long-standing presence of more than 20 years in the industry, as almost all its sales are tender based, the revenue depends on the company's ability to bid successfully for tenders. KCIPL specialises in civil works related to construction of roads mainly for government of Maharashtra and various municipal corporations in state of Maharashtra, along with collection of toll for NHAI. The company faces competition from large players, as well as many local and small unorganised players, adversely affecting the profitability. Nonetheless, the company is bidding for new projects in new geographies which is expected to mitigate the geographic concentration risk to some extent.

Rating Sensitivities

- Sustained growth in revenue and profitability
- Further elongation of debtors cycle

All Covenants

Not Applicable

Liquidity Position: Adequate

Liquidity is adequate, supported by adequate cash accrual, unutilised bank lines, and adequate cash and cash equivalents. The net cash accruals stood at Rs. 12.87 Cr as on March 31, 2023 (Provisional) as against debt repayment of only Rs. 0.77 Cr. over the same period. The large portion of its security deposits are being met through deposit from subcontractor (in proportionate to given work), which partly funds the working capital requirements of the company and therefore lower requirement of funds in business. However, the fund-based limit of Rs 15 Cr. was utilized at ~94 per cent over the six months ended June, 2023. The expected enhancement in limits is expected to provide some cushion in the near term. The cash and bank balances of the company stood at Rs.18.39 Cr as on March 31, 2023 (Provisional), of this Rs.6.28 Cr is liened against bank guarantee and remaining as unencumbered cash. The current ratio stood comfortable at 1.60 times as on March 31, 2023 (Provisional). However, the non-fund based limit remained highly utilized at ~76 per cent over the six months ended June, 2023. Moreover, the working capital intensive management of the company is marked by Gross Current Assets (GCA) of 360 days in 31st March 2023 (Provisional) as compared to 152 days in 31st March 2022. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes that the outlook on KCIPL will remain 'Stable' over the medium term on account of its experienced management, strong relationship with reputed customers, long execution track record and healthy order book position. The outlook may be revised to

'Positive' in case the company registers any significant improvement in its scale of operations or working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the liquidity position or delay in completion of its projects or further deterioration in its working capital cycle.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	211.44	381.54
PAT	Rs. Cr.	10.07	17.07
PAT Margin	(%)	4.76	4.47
Total Debt/Tangible Net Worth	Times	0.38	0.34
PBDIT/Interest	Times	5.88	10.52

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>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.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. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History :

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
A U Small Finance Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	27.50	ACUITE A3 Assigned
A U Small Finance Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Stable Assigned
Union Bank of India	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3 Assigned
A U Small Finance Bank	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	12.50	ACUITE A3 Assigned
Union Bank of India	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Stable Assigned
A U Small Finance Bank	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB- Stable Assigned

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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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