



Press Release

K G N Electricals

September 14, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
2.	Long Term Bank Facilities	7.00	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
3.	Short Term Bank Facilities	55.00	IVR A3 (IVR A Three)	Assigned
	Total	62.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The rating assigned to the bank facilities of KGN Electricals (KGNE) draws comfort from its experienced promoters and their long track record, continuous scale of operations and satisfactory capital structure. However, these rating strengths are partially offset by its tender based nature of business and concentration risk. Further, the rating also notes expected moderation in its capital structure and debt protection metrics.

Key Rating Sensitivities:

Upward Factor:

- Substantial and sustained growth in operating income and improvement in profitability
- Sustenance of the capital structure and improvement in debt protection metrics

Downward factor:

- Moderation in operating income and/or cash accrual or deterioration in operating margin,
- Stretch in the working capital cycle driven by pile-up of inventory or stretched receivables, or sizeable capital expenditure affecting the financial risk profile, particularly liquidity.



Press Release

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Promoters and long track of record:

KGNE undertakes electrical works contracts and has been catering to the Karnataka Government for more than two decades since 1997. The firm benefits from its experienced promoter, Mr. Mohammed Idrees and Mr. Mohamed Younus who possesses over 25 years of experience in the contractor business. The firm is well supported by second line of management. The extensive experience of the partners and established presence of the firm in the said industry has helped the firm to maintain regular flow of orders resulting in improvement in business profile of the company.

Continuous scale up of operations:

The firm has a healthy order book which stood at ~Rs. 360 Crore as on 31st July 2020 to be executed in FY21 providing revenue visibility over near term. The operating income has improved to Rs. 203.16 crore in FY19 from Rs.155.74 crore in FY18. The operating income declined to Rs. 151.86 crore for FY20 (Provisional) due to delay in execution of orders and slowdown in work due to lockdown by impact of COVID-19. However, the sales have improved from ~Rs. 38 Crore in Q1FY20 to ~Rs. 54 Crore in Q1FY21. The firm primary undertakes works for projects for Government of Karnataka and caters to reputed clients like Karnataka Power Transmission Corporation Limited (KPTCL) and Bangalore Electricity Supply Company Limited (BESCOM) reducing counterparty risk.

Satisfactory capital structure:

KGNE has a moderate net worth stood at Rs 39.42 crore as on March 31, 2020. The company has maintained a healthy long-term debt equity ratio and overall gearing ratio of 0.01 and 0.09 respectively as on March 31, 2019. The total indebtedness of the company as reflected by TOL/TNW stood as 0.94x as on March 31, 2020. Total debt of the company is in FY20 comprises repayment of term loan is Rs 0.21 crore and bank borrowing of Rs 3.25 crore.

Key Rating Weaknesses



Press Release

Concentration Risk:

KGNE executes contractual work for only two government entities, Karnataka Power Transmission Corporation Limited and Bangalore Electricity Supply Company Limited. Moreover, the operations of the company are restricted to the state of Karnataka. These factors expose the company to customer concentration risk. However, the company has a Super Grade License for Karnataka State Government leading to a regular stream of order from the government entities.

Tender Based Nature of Business:

The business is highly dependent on the tender issued by KPCTL and BESCOM. The dependence on tender based work may sometimes lead to contraction of orders and revenue as visible in FY20 due to delay in getting order from the entities because of the lockdown in the last quarter in Karnataka.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies
Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

KGNE had a GCA of Rs.9.53 crore in FY20 as against its repayment obligation of Rs.3.46 crore and bank limits remained utilized to the extent of ~33% during the past 12 months ended July 2020 indicating an adequate liquidity buffer. The company has a Current Ratio of 1.54x as of March 31, 2020. The free cash & cash equivalent was Rs. 20.75 Crore as on March 31, 2020. Liquidity is expected to remain Adequate.

About the Company

KGNE Electricals was set up in 1993 as a partnership firm. The firm provides turnkey electricals engineering contract work for government entities in Karnataka such as Karnataka Power Transmission Corporation Limited (KPTCL) and Bangalore Electricity Supply Company (BESCOM). The Engineering, Procurement and Construction (EPC)



Press Release

contract that the firm executes includes erection of transmission lines, construction of sub-stations and high-voltage distribution system (HDVS) work.

Financials (Standalone):

For the year ended*/As on	(Rs. crore)	
	31-03-2019 Audited	31-03-2020 Provisional
Total Operating Income	203.16	151.87
EBITDA	22.91	14.06
PAT	13.33	8.65
Total Debt	2.18	3.46
Tangible Net worth	31.70	39.42
EBITDA Margin (%)	11.28	9.26
PAT Margin (%)	6.53	5.66
Overall Gearing Ratio (x)	0.07	0.09

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	7.00	IVR BBB-/Stable	-	-	-
2.	Bank Guarantee	Short Term	55.00	IVR A3			

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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Press Release

About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Bank Facilities – Cash Credit	-	-	-	7.00	IVR BBB- /Stable
Short Term Bank Facilities–Bank Guarantee	-	-	-	55.00	IVR A3