

**Press Release**

**K&R Rail Engineering Limited**

**January 03, 2020**

**Ratings**

<b>Sl. No.</b>	<b>Instrument/Facility</b>	<b>Amount (Rs. Crore)</b>	<b>Rating Assigned</b>	<b>Rating Action</b>
1.	Long Term Bank Facilities/ Short Term Bank Facilities - Bank Guarantee	41.50	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook); IVR A3 (IVR A Three)	Assigned

**Details of Facilities are in Annexure 1**

**Detailed Rationale**

The aforesaid rating assigned to the bank facilities of K&R Rail Engineering Limited (K&R) derives comfort from its Experienced promoters & qualified management team, proven project execution capability, reputed clientele, strong order book reflecting satisfactory medium-term revenue visibility, expected reversal of declining revenue trend, comfortable capital structure with healthy debt protection metrics and liquidity margins remained strong supported by working capital management. However, the rating strengths are partially offset by thin operating margin & customer concentration & slower capex sentiments.

**Key Rating Sensitivities**

**Upward revision factors:**

Procurement of new orders providing medium to long term revenue visibility leading to substantial and sustained improvement in the revenue while maintaining the debt protection metrics.

**Downward revision factors:**

Any decline in the revenue & profitability leading to deterioration of the debt protection metrics.

## **Key Rating Drivers with detailed description**

### **Key Rating Strengths**

#### **Qualified and Experienced management team:**

The day to day operations are being managed by team of professional directors having a combined experience of around 100 years. The Directors are being supported by team of professionals who are having a vast experience in the railway engineering field as majority of them are the retired senior employees of the Indian Railways with rich experience in different disciplines of Railway Engineering.

#### **Proven project execution capability**

Over the past years, the entity has successfully completed many projects majorly in South Costal Railway region and ensured timely completion of all its projects. The repeat orders received from its clientele validate its execution capabilities. The management also contends that many of the projects they had completed before the schedule and received the bonus for the same.

#### **Reputed clientele**

Company has built up a strong clientele over the years, which is constantly expanding. Some of the reputed clients served by the company are Zuari Cements Ltd., The Ramco Cements Ltd., Jaypee Balaji Cement Project, ACC Ltd., Kakinada Seaports Ltd., Paradip Port Trust, AP State Ware Housing Corporation etc. With such strong clientele company expects constant flow of orders and to maintain its steady growth.

#### **Strong order book reflecting satisfactory short to medium-term revenue visibility**

The company has a strong unexecuted order book of Rs.432.0 crore as on October 31, 2019 which is 7.14x of FY19 audited & 3.6x of FY20 projected revenue. The orders are expected to be completed by FY22, indicating a satisfactory near to medium term revenue visibility. The management also contends that there are some high value orders which are in various stages of negotiation and are expected to materialize in the next 6-12 months. If materialized, these will lead to long term revenue visibility.

### **Expected reversal of declining revenue trend**

K&R's revenue is expected to improve significantly in FY20 after two consecutive years of declining trend. During FY19 the company reported revenue of Rs.60.72 crore (FY18: Rs.80.70 crore; FY17: Rs.108.26 crore). The decline in the revenue was attributed to slower orders flows in FY17 & FY18 owing to implementation of the goods and services tax. During that period, majority of the companies had either slowed down or deferred their capex. However, the company had received a good order to the tune of around Rs.345.0 crores from Ramco Cement Limited which will drive the revenue for the next three years. The company is also in negotiation for some high value orders which is expected to materialize in the next 6 months to 1 year. The company has already achieved Rs.51.07 crore of revenue with a growth of 47% in 1HFY20 vis-à-vis 1HFY19. However, the scale of operation remains moderate.

### **Comfortable capital structure with healthy debt protection metrics**

K&R's capital structure remained comfortable as on the past three account closing dates ending FY19. The overall gearing ratio was around 0.01x in FY19 (FY18: 0.01x) driven by scheduled repayment of term loans and accretion of profit to reserves and also the company doesn't have any fund based working capital limits as well as unsecured loans. Total debt/GCA & interest coverage also remained comfortable at 0.13x (0.37x) & 6.70x (1.66x) respectively. The company is also getting mobilisation advance on an average of around 10% for execution of the orders.

### **Liquidity remained strong supported by working capital management**

The current ratio & quick ratio of the company remains comfortable as on March 31,2019. The company's cash flow from operation also remains adequate. The liquidity of the company is expected to remain strong in the near to medium term in view of sufficient cash accruals in comparison to financial obligations. At present, the company does not enjoy any fund based working capital limits. The company is able to manage their working capital requirements by keeping the gross cash conversion cycle below three months. Due to the company's reputation, they are being able to enjoy a credit period of around 2 months. However, net cash conversion cycle elevated in FY18 was a one-time instance resulting from delayed receivables. Net cash conversion cycle remains elevated in FY19 due to averaging effect of FY18 receivables & payables. However, on an absolute level receivables & payables had come down to Rs.19.82 crores (FY18: Rs.71.07crore) & Rs.4.76 crore (FY18: Rs.44.74 crore) respectively.

Managements expects to maintain Net cash conversion cycle to below two months moving forward.

## **Key Rating Weaknesses**

### **Thin operating margin**

The company operating margins remained thin and further deteriorated in FY17 & FY18 resulted from decline in sales leading to lower absorption of fixed cost. Infomerics expects profitability to improve in short to medium term due to economies of scale. Presence of escalation clause in most of the contracts will also protect the margin to an extent. The volatility in the margin is attributed to type & size of project executed.

### **Customer concentration & slower capex sentiments**

Customer concentration remains high as present order book is majorly concentrated to single customer. Any deferment or slowing down of the capex plan by the client can affect K&R's top line. As the company orders depends largely on the core sector and private players green field capex. For the Indian economy, June quarter marked a historic low for capex announcements and despite the improvement in the September quarter, the value of capex announcements is still second-lowest in fourteen years. The private sector investment slump only deepened in the past quarter, with new private capex announcements falling to a 16-year-low. Infomerics believes any extension of the economic slowdown can have the negative impact on company overall financial profile.

### **Analytical Approach & Applicable Criteria:**

Standalone Approach

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-Financial Sector)

### **Liquidity**

The current ratio & quick ratio of the company remains comfortable as on March 31,2019. The company cash flow from operation also remains adequate. The liquidity of the company expected to remain Strong in the near to medium term in absence of any significant term debt repayment coupled with absence of any major debt led capex. The company had cash & cash equivalents (Includes restricted cash also) of Rs.25.07 crore (FY18: Rs.8.47 crore) as on 31 March 2019.

## About the Company

Established in 1983 as Gupta Carpets International Limited, M/s K&R Rail Engineering Limited (Formerly Axis Rail India Limited) is one of the leading Professional Turnkey EPC Contractor executing railway siding projects all across India. K&R Rail Engineering Limited is a listed company having its registered office at Secunderabad, Telangana. The company is being promoted and managed by professionals with vast experience in disciplines of rail engineering, transportation, planning & project management and execution of complex railway siding projects. The operations of the company are looked after by Mr. Amit Bansal (Director & CEO) having an experience of around three decades in the sector.

## Financials:

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	80.70	60.72
EBITDA	1.09	2.25
PAT	0.04	1.97
Total Debt	0.49	0.32
Tangible Net-worth	39.43	41.11
EBITDA Margin (%)	1.35	3.71
PAT Margin (%)	0.04	3.34
Overall Gearing Ratio (x)	0.01	0.01

\* Classification as per Infomerics' standards

**Status of non-cooperation with previous CRA: N.A**

**Any other information: N.A**

## Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term/Short Term Bank Facilities – Bank Guarantee	Long Term/ Short term	41.50	IVR BBB-/ Stable Outlook/ 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](http://www.infomerics.com).

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## 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. 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
Long Term/Short Term Bank Facilities – Bank Guarantee	NA	NA	NA	41.50	IVR BBB-/ Stable Outlook/ IVR A3