

Press Release

Kashi Kanchan Pvt Ltd

March 17, 2020

Ratings

Instrument / Facility	Amount (Rs. Cr)	Ratings	Rating Action
Long Term Bank Facilities	15.00	IVR BB/Stable (IVR Double B with Stable Outlook)	Assigned
Short Term Bank Facilities	4.00	IVR A4 (IVR A Four)	Assigned
Total	19.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid ratings assigned to the bank facilities of Kashi Kanchan Pvt Ltd (KKPL) derives comfort from its experienced promoters and long track record, proven project execution capability, reputed clientele and moderate order book giving visibility to revenue in the near to medium term. However, the rating strengths are constrained by its small scale of operation with regional concentration risk, susceptibility of profitability to volatile input prices, tender driven nature of business in highly fragmented & competitive construction sector and moderate financial risk profile marked by high working Capital intensity.

Key Rating Sensitivities:

Rating Sensitivities

Upward Factor:

- Growth in scale of operations with improvement in profitability and cash accruals on a sustained basis and consequent improvement in liquidity on a sustained basis
- Improvement in the capital structure
- Improvement in the operating cycle

Downward factor:

- More than expected moderation in scale of operations and/or profitability on a sustained basis
- Moderation in the capital structure with deterioration in overall gearing to more than 1.8x
- Elongation in the operating cycle impacting the liquidity profile

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced promoters and long track record**

Mr. Surendra Kr Padhi, managing director, has over four decades of experience in the construction industry. This apart, other three directors are also having around two decades of experience in similar line of business. The operation of the company has started from 1974, thus enjoying a long and proven track record of operation.

- **Proven project execution capability**

KKPL has successfully completed many projects in and around Odisha for various government departments and Non-government organisations. Thus, the company is enjoying a proven track record. In order to manage the projects in a better way and to grow in a balanced way, the promoters has a policy to take up short to medium tenure projects (1-2 years) and to handle limited number of projects at a time to ensure timely completion. The repeat orders received from its clientele validate its construction capabilities.

- **Reputed clientele**

The company is designated as Super Class Contractor under Government of Odisha and participates in Government tenders and engaged in various civil construction works in and around Odisha. This apart, the company is registered as Super Special Class contractor under Military Engineering Service (MES), Civil Category & Class CIV-IV contractor under Defence Research and Development Organisation (DRDO) and HT Electric contractor under Government of Odisha. Apart from Odisha, the company has branch offices in Visakhapatnam and Hyderabad.

- **Moderate order book giving visibility to revenue in the near to medium term**

The company has order in hand of Rs.47.35 crore as on February 29, 2020, which is ~1.55x of its FY19 turnover. The orders are expected to be completed within one year, indicating a satisfactory near to medium term revenue visibility.

Key Rating Weaknesses

- **Small scale of operation with regional concentration risk**

Total operating income (TOI) of the company has shown an erratic movement during last three financial years due to volatility in execution of orders. During FY19 the TOI has improved by 79.02% on the back of higher orders execution. Notwithstanding the growth in revenue in FY19 the scale of operations of the company continues to remain small in the

construction sector. Small scale of operation restricts the financial risk profile of the company. Further, KKPL is predominantly working in the state of Odisha, hence has high degree of geographical concentration. However, presence in the state like Andhra Pradesh coupled with long standing experience of the promoters in this segment and in the state of Odisha imparts comfort. During 9MFY20, the company has earned an operating income of Rs.18.38 crore.

- **Susceptibility of profitability to volatile input prices**

Major raw materials used in construction activities are steel and cement which are usually sourced from large players at proximate distances. The input prices are generally volatile and consequently the profitability remains susceptible to fluctuation in input prices. The EBITDA margin, though remained satisfactory, has declined in FY19 over FY18 due to increase in raw material cost which the company could not pass on due to lack of escalation clause in few tenders. However, PAT margin has improved marginally in FY19 on the back of lower capital charges.

- **Tender driven nature of business in highly fragmented & competitive construction sector**

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Business certainty is dependent on the ability to successfully bid for the tenders as entire business is tender based. The domestic infrastructure/construction sector is highly fragmented with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.

- **Moderate financial risk profile**

The overall gearing ratio though improved continuously mainly on the back of accretion of profit to reserve as on the past three account closing dates remained moderate at 1.42x as on March 31,2019. However, TOL/TNW remained satisfactory at 1.51x as on March 31, 2019 indicating a satisfactory indebtedness for the company. Interest coverage ratio remained moderate and has improved in FY19 on the back of increase in operating profit level coupled with lower interest expense. Current ratio was satisfactory as on March 31, 2019. Going forward, Infomerics expects that the financial risk profile of KKPL to remain moderate with

marginal deterioration in the overall gearing ratio due to availment of term debt to fund capex required for better execution of orders in hand.

- **High working Capital intensity**

Construction business, by its nature, is working capital intensive as a large part of working capital remained blocked in earnest money deposits, margin required for issuance of bank guarantees and retention money. The working capital requirement of the company is mainly funded through credit period availed from its creditors based on its established relationship and through bank borrowings. Further, the company has a strategy to take up short-medium duration contracts and optimize the execution time to realize the payments faster in order to manage working capital requirements efficiently. Average utilization of fund-based limit was around ~90% for the last 12 months ended Feb 29, 2020.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial sector)

Liquidity-Adequate

The company is expected to generate cash accrual around of Rs.1.52 crore during FY20 which is adequately matched to its debt repayment obligations during the aforesaid period of ~Rs.0.29 crore. However, its highly utilized bank limits indicates a limited liquidity buffer.

About the Company

Kashi Kanchan Pvt Ltd (KKPL) incorporated in 2005 by one Padhi family of Odisha to initiate civil construction business. Initially the company started as a partnership firm in 1974, namely, M/s Kashi Kanchan. The company is designated as Super Class Contractor under Government of Odisha and participates in Government tenders and engaged in various civil construction works in and around Odisha. Apart from Odisha, the company has branch offices in Visakhapatnam and Hyderabad.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	17.09	30.59
EBITDA	3.17	3.48

For the year ended* / As On	31-03-2018	31-03-2019
PAT	0.42	0.94
Total Debt	18.67	15.94
Tangible Net worth	10.19	11.22
EBITDA Margin (%)	18.57	11.39
PAT Margin (%)	2.44	3.03
Overall Gearing Ratio (x)	1.83	1.42

**as per Infomerics Standard*

Status of non-cooperation with previous CRA: KKPL has issuer non-cooperating rating from India Ratings (vide PR dated Apr 26, 2019) and CRISIL (vide PR dated Dec. 12, 2018).

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. 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.	Cash Credit	Long Term	15.00	IVR BB/ Stable	-	-	-
2.	Bank Guarantee	Short Term	4.00	IVR A4	-	-	-

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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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
Long Term Fund Based Limits – Cash Credit	-	-	-	15.00	IVR BB/Stable
Short Term Non-Fund Based Limits – Bank Guarantee	-	-	-	4.00	IVR A4