



Press Release

K&R Rail Engineering Limited

April 01, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned	Rating Action
1.	Long Term Bank Facility – Fund Based – Cash Credit	1.00	IVR BBB-/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
2.	Short Term – Non Fund Based Limits – Bank Guarantee	29.00	IVR A3 (IVR A Three)	Assigned
3.	Short Term – Non Fund Based Limits – Bank Guarantee	11.50	IVR A3 (IVR A Three)	Re-affirmed
4.	Short Term – Non Fund Based Limits – Bank Guarantee	30.00	-	Withdrawn
	Total	41.50		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assignment and re-affirmation to the bank facilities of the entity derives comfort from steady business operations supplemented by growth in revenues, comfortable capital structure and debt protection metrics, moderate order book position providing medium term revenue visibility with proven project execution capability, experienced promoters and qualified management team, proven project execution capability with reputed clientele. However, customer concentration, project execution risk and susceptibility of operating margin to volatile input prices are the rating constraints.



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Key Rating Sensitivities

Upward factors:

- Successful commissioning and completion of projects
- Significant increase in scale of operations and profitability

Downward factors:

- Sharp changes in leverage
- Decline in profitability and elongation in operating cycle

Key Rating Drivers with detailed description

Key Rating Strengths

Steady operations supplemented by growth in revenues, comfortable capital structure and debt protection metrics

The company has seen their top line grow from INR60.72 crore in FY19 to INR128.07 crore in FY20 consequently the EBITDA in absolute terms has grown from INR2.25 crore in FY19 to INR8.24 crore in FY20 supported by the execution of the existing order book. The company's financial risk profile remains comfortable with an overall gearing ratio which remained strong at 0.13x due to company having minimal amounts of debt in their balance sheet. The interest coverage ratio has also remained strong at 3.90x in FY20.

Moderate order book position providing medium term revenue visibility with proven project execution capability

The company has an unexecuted order book position of INR463.24 crore with the order book providing revenue visibility for the next three years. Over the past years, the entity has successfully completed many projects and ensured timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities. The management also contends that many of the projects they have completed before the schedule and received the bonus for the same. Additionally the company has the company has roped in an upcoming project involving laying of pipelines from TATA projects amounting to INR750.00 crore – currently the project is under the land acquisition stage which has been delayed to the pandemic.



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Experienced promoters & Qualified management team

The company was established by Mr. Ajaz Farooqi & Asma Farooqi, However, day to day operation is being managed by team of professional directors having a combined experience of around 100 years. The Directors are being supported by team of professional who is having a vast experience in the railway engineering field as majority of them are the retired senior employee of the Indian Railways.

Proven project execution capability and reputed clientele

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. The 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.

Key Rating Weaknesses

Customer concentration

The company faces high customer concentration with their top 5 customers accounting to 96.01% of the total sales, their top customer accounting to ~82% of the total sales in FY20.

Project execution risk

The value of a project is measured by the ability of the entity to complete any project in a timely manner and in compliance of all committed specifications. Any delays in project execution can have a negative impact on collections from customers and saleability of projects, which can lead to constrained liquidity. The project costs are dependent on a variety of variables such as the nature of the terrain, environmental clearances and other externalities. Civil construction companies also face challenges relating to shortage of labour, equipment and availability of key raw materials on time. Weather, labour problems and difficulty in terrain may lead to construction delays and cost escalations.



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Susceptibility of operating margin to volatile input prices

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, steel, cement and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including sub-contracting) cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost.

Analytical Approach: Standalone

Applicable Criteria

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The company has had the current ratio of 1.78x in FY20. The company has short term obligations amounting to INR3.16 crore with gross cash accruals amounting to INR3.65 crore and a moderate cash balance of INR4.42 crore. Owing to the healthy profitability and cash accruals, the coverage ratios are expected to be comfortable.

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.



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Financials (Standalone)*:

(INR crore)

For the year ended/ As On	31-03-2018	31-03-2019	31-03-20
	(Audited)	(Audited)	(Audited)
Total Income	80.70	60.72	128.07
EBITDA	1.09	2.25	8.24
PAT	0.04	1.97	1.98
Total Debt	0.49	0.32	5.77
Tangible Net-worth	39.43	41.11	43.46
Ratios			
EBITDA Margin (%)	1.35	3.71	6.44
PAT Margin (%)	0.04	3.34	1.53
Overall Gearing Ratio (x) ²	0.01	0.01	0.13

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for last three years:

Sl. No.	Name of Instrument/ Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (INR crore)	Rating	Date(s) & Rating(s) assigned in 2019-20 (PR dated 03.01.20)	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Long Term Bank Facility – Fund Based – Cash Credit	Long Term	1.00	IVR BBB-/Stable	--	--	--
2.	Short Term Facility – Non Fund Based – Bank Guarantee	Short Term	29.00	IVR A3	--	--	--
3.	Short Term Facility – Non Fund Based – Bank Guarantee	Short Term	11.50	IVR A3	IVR A3	--	--
4.	Short Term Facility – Non Fund Based – Bank Guarantee	Short Term	30.00	Withdrawn	--	--	--

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. 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 (INR Crore)	Rating Assigned/ Outlook
Long Term Bank Facility – Fund Based – Cash Credit	NA	NA	Revolving	1.00	IVR BBB-/ Stable Outlook
Short Term – Non Fund Based Limits – Bank Guarantee	NA	NA	Up to 1 year	40.50	IVR A3