Press Release

K.R.C. Infraprojects Private Limited
January 24, 2022

Ratings:

(INR Crore)

Facility	Amount	Ratings	Rating Action	Complexity Indicator
Long Term Fund Based Bank Facilities – Cash Credit/ Drop Line Overdraft/ Overdraft	13.00	IVR BBB- / Stable (IVR Triple B Minus with Stable Outlook)	Rating Reaffirmed and Outlook assigned; removed from Credit Watch with Developing Implications	Simple
Proposed Long Term Fund Based Bank Facilities – Cash Credit	12.00	IVR BBB- / Stable (IVR Triple B Minus with Stable Outlook)	Rating Reaffirmed and Outlook assigned; removed from Credit Watch with Developing Implications	Simple
Short Term Facility Non-Fund Based - Bank Guarantee	25.00	IVR A3 (IVR A Three)	Rating Reaffirmed; removed from Credit Watch with Developing Implications	Simple
Total	**50.00**			

Details of Facilities are in Annexure 1

Detailed Rationale:

The reaffirmation of ratings assigned to the bank facilities of K.R.C. Infraprojects Private Limited continue to derive strength from its experienced promoters & management team, proven project execution capability, strong order book reflecting satisfactory medium term revenue visibility, y-o-y improvement in EBITDA margin and PAT Margin and comfortable capital structure and healthy debt protection metrics. However, the rating strengths are partially offset by degrowth in revenues during FY21; expected to improve in the short run, geographical & client concentration of order book, highly fragmented and competitive nature of the sector and susceptibility of operating margin to volatile input prices.

Earlier, the rating was placed under credit watch with developing implications to monitor the company’s performance as a principal contractor and company’s ability to timely tie up incremental funding requirement with the lenders.

As the company was able to procure new orders amounting to INR 420.07 Crores as a principal contractor from BRO in the state of Arunachal Pradesh, additionally the company's bank guarantee limits got enhance by INR 15.00 Crore. These recent developments majorly extinguish the concern led for placing the rating under credit watch with developing implications. Hence, the watch was resolved and stable outlook was assigned.

Key Rating Sensitivities:

Upward Factors

- Substantial & sustained improvement in the Company's revenue and profitability leading to sustained improvement in debt protection metrics.

Downward Factors

- Any decline in the scale of operation and profitability leading to deterioration of debt protection metrics.

Key Rating Drivers with detailed description

Key Rating Strengths:

Experienced promoters & management team:

The company is being managed by experienced directors and promoters. Collectively, they have rich experience in the industry and are instrumental in setting up and developing the company. Having operated in industry since last 3 decades, the promoters have established a strong network with suppliers and customers. The company has a team of experienced and capable professionals, having over a two decade of experience in the segment, to look after the overall management. The day-to-day operations of the company are looked after by the senior management having considerable experience required in the current line of business.

Proven project execution capability:

Over the past years, the company has successfully completed many projects in Maharashtra, Uttar Pradesh, Madhya Pradesh, Rajasthan & Haryana and ensured timely completion of its projects. Also, the company receives repeat orders received from its clientele accrediting its execution capability. Currently, the company has unexecuted orders from some of the reputed clients like National Highways Authority of India (NHAI), Border Roads Organisation (BRO) and Ministry of Road Transport and Highways (MoRTH).

Strong order book reflecting satisfactory medium term revenue visibility:

The company has a strong unexecuted order book of INR 1848.16 crore as on 31 December 2021 with orders across 9 contracts which is about 15 times of its FY21 revenue. Majority of the orders are expected to be completed by FY25, indicating a satisfactory near to medium term revenue visibility.

Y-o-Y improvement in EBITDA margin and PAT Margin:

There has been a constant improvement in the EBITDA margin and PAT Margin of the company. EBITDA margins and PAT Margin has improvement for the last three years ending FY21. EBITDA margins improved to 10.90% in FY21 from 9.46% in FY20 (FY19: 8.95%). PAT Margin improved to 4.35% in FY21 from 3.98% in FY20 (3.74%).

During 9M FY22, Company's EBITDA Margin and PAT Margin stood at 11.93% and 5.81% respectively.

Comfortable capital structure and healthy debt protection metrics:

Company's capital structure remained comfortable as on the past four account closing dates ending FY21. The overall gearing ratio was around 0.74x in FY21 (FY20: 0.83x) and Long debt-equity stood at 0.33x (0.39x). The net worth of company stood at INR 29.36 Crore as on 31 March 2021 (INR 23.86 Crore). Total debt increased to INR 21.83 Crore in FY21 from INR 19.90 Crore in FY20. Total Debt / GCA ratio was at 2.20x in FY2021 (1.43x). Further, TOL/TNW stood at 1.70x as on 31 March 2021 (3.12x).

Debt protection parameters also remained healthy with interest coverage ratio of 6.01x in FY21 (7.69x). Total debt/GCA, interest coverage & other debt protection metrics are expected to remain healthy moving forward.

Key Rating Weaknesses:

Degrowth in revenues during FY21; expected to improve in the short run:

The Total Operating Income of the company grew to INR 125.41 Crore in FY21 at CAGR of 18.51% in the last four years ended FY21. However, there was a decline in total operating income in FY21 and remains modest. Decline is majorly attributed to headwind arising out of nationwide lock down in the month of March 20 due to Covid-19 pandemic and change in the company's business model whereby company started to bid directly for infrastructure projects from being a Sub-Contractor. Company had completed the sub-contract projects in FY21 and had not taken any new sub-contracts during the period. The unexecuted orders are on Principal &/or JV basis due to this the revenue is expected to grow from FY22 onwards.

During 9M FY22, the company has achieved revenue of INR 118.72 Crore FY22 (9M FY21: INR 85.77 Crore).

Geographical & Client concentration of order book:

The unexecuted order book remained concentrated with 48.58% from Arunchal Pradesh, followed by 25.00% from Gujarat, 14.30% from Punjab and remaining 12.12% from Madhya Pradesh & Uttarakhand (Combined together). The unexecuted order book is Client concentrated with 51.42% from NHAI, 33.33% from BRO & 15.25% from NHIDCL. However, the company has adequate experience to execute projects in these states and also operating in a concentrated geography and clients provides efficient control and reduces the logistical expense.

Highly fragmented and competitive nature of the sector with significant price war:

The domestic infrastructure/construction sector is highly crowded 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 concern as the same can dent the margins.

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, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including subcontracting) 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. However, presences of escalation clause in most of the contracts protect the margin to an extent.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies.

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity – Adequate

The Company has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. Further, the company had gross cash accruals of INR 9.93 Crore in FY21. The average cash credit utilisation was around 93.77% during the last twelve months ended

December 2021. The unutilized bank guarantee limit amounting to INR 7.64 Crore as on 31st December 2021. The current ratio stood at 1.59 times as on 31 March 2021.

About the Company:

K.R. Construction Company, a proprietorship firm was founded by Mr. Kanhi Ram, a seasoned businessman in the year 2001. Later on his son Mr. Mahipal Singh had converted the proprietorship firm into a Private Limited Company in the name of M/s K.R.C. Infraprojects Private Limited. The company is a Class-A contractor and is involved in Processes of earthwork for road projects and include excavation, removal of material to spoil, filling, compacting, construction and trimming work of various road projects and National Highways in different States of India.

Financials: Standalone

(INR Crore)

For the year ended/ As On	31-03-2020	31-03-2021
	(Audited)	(Audited)
Total Operating Income	208.22	125.41
EBITDA	19.70	13.66
PAT	8.30	5.49
Total Debt	19.90	21.83
Tangible Net-worth	23.86	29.36
Ratios		
EBITDA Margin (%)	9.46	10.90
PAT Margin (%)	3.98	4.35
Overall Gearing Ratio (x)	0.83	0.74

Status of non-cooperation with previous CRA: Nil

Any other information: NA

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (INR Crore)	Rating	Date(s) & Rating(s) assigned in 2021-22 (15/Jun/21)	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20
1.	Long Term Fund Based Bank Facilities – Cash Credit/ Drop Line Overdraft/ Overdraft	Long Term	13.00	IVR BBB- / Stable	IVR BBB- / Credit Watch with Developing Implications	--	--

2.	Proposed Long Term Fund Based Bank Facilities – Cash Credit	Long Term	12.00	IVR BBB- / Stable	IVR BBB- / Credit Watch with Developing Implications	--	--
3	Short Term Facility Non Fund Based – Bank Guarantee	Short Term	25.00	IVR A3	IVR A3 / Credit Watch with Developing Implications	--	--

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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.

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 Fund Based Bank Facilities – Cash Credit/ Drop Line Overdraft/ Overdraft	--	--	--	13.00	IVR BBB- / Stable
Proposed Long Term Fund Based Bank Facilities – Cash Credit	--	--	--	12.00	IVR BBB- / Stable
Short Term Facility Non-Fund Based – Bank Guarantee	--	--	--	25.00	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not Applicable

Annexure 3: Facility wise lender details
https://www.infomerics.com/admin/prfiles/KRC-Infra-lenders-24jan2022.pdf

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.