

Press Release

Kinjal Civilcon LLP

October 25, 2019

Rating

Sl. No.	Instrument/Facility	Amount (Rs. Crores)	Rating Assigned
1.	Long Term Facility – Fund Based – Cash Credit	25.00	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)
2.	Long Term Facility – Fund Based – Term Loan	60.90	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)
3.	Long Term Facility - Non-Fund Based – Bank Guarantee	43.60	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)
	Total	129.50	

Details of Facilities are in Annexure I

Detailed Rationale

The aforesaid rating derives comfort from experience of partners, close association with government departments, subordination of unsecured loans to bank loans, healthy order book providing revenue visibility. However, the strengths are partially offset by exposure to risks related to tender based business, average scale of operations, weak debt protection metrics, inherent risks associated with constitution as a partnership firm, high segment and geographic concentration risks.

Key Rating Sensitivities

Upward Factors

- Maintenance of healthy order book status
- Timely servicing of debt

Downward Factors

- Change in operating revenues
- Timely completion without cost overruns

Detailed Description of the Key Rating Drivers

Key Rating Strengths

Strong experience of proprietor turned partner

Kinjal Construction Company started as a proprietorship concern in 1994 by Mr Heeralal Meghraj Doshi, and later in April 2019, the constitution has been changed to LLP. Mr Doshi

is the senior partner along with Mr. Arvind Munnalal Jain. Mr. Doshi who carries over 22 years of experience in the construction field has steadily grown the business over the years.

Primary customers being government departments

As the firm has been doing work for the various state departments since inception, the counter party risk is minimal. It undertakes contracts through tender bidding and also through direct contacts for construction, repair and maintenance of buildings for the state government agencies such as the Public Works Department of Maharashtra. Additionally, it undertakes contracts for infrastructure work in Mumbai, mainly of Municipal Corporation of Greater Mumbai and Thane Municipal Corporation.

Subordination of unsecured loans to bank loans

The company has large unsecured loans from the promoters group which are subordinated to the rated bank loans. Hence there is a scope for capital and gearing levels to improve in the coming years. These unsecured loans have come down from Rs.74.99 crore in FY18 to Rs.33.92 crore in FY19 wherein part of the loans were converted to quasi equity.

Healthy order book providing revenue visibility for the medium term

Kinjal Civilcon has strong order book of Rs.456.2 crore, with projects running up to FY22. Hence, the healthy order book provides good revenue visibility for the near term. The firm expects to complete projects with potential revenue of Rs.59.4 crore within FY20, apart from other projects where the firm would achieve partial completion by March 2020. Since the firm's projects are related to the state government and various government departments there is an assurance in revenue inflows with minimal counterparty risk.

Key Rating Weaknesses

Exposure to risks related to tender based business

Since revenues depends on success in winning tenders in a competitive bidding process there are risks in fluctuations due to tender based business and the susceptibility of its operating margin to volatility in input prices.

Average scale of operations

The net operating income grew by 30% in FY18, before declining by 24% in FY19 and stood at Rs.84.91 crore. Moreover, the EBITDA also fell from Rs.22.79 crore in FY18 and stood at Rs.19.64 crore for FY19. Going forward the ability of the company to realise revenues in a timely manner holds the key for future profitability.

Weak debt protection metrics

The long term liabilities of the firm reduced to Rs.60.45 crore as on March 31, 2019 as against Rs.120.24 crore as on March 31, 2018. Due to this the overall gearing ratio came down to 4.63x as on March 31, 2019 from 26.83x as on March 31, 2018, though it still remains on the higher side. Interest coverage decreased to 1.49x due to a fall in EBITDA in FY19 as compared to 1.54x in FY18. The total debt to gross cash accruals stood at 13.38x in FY19.

Inherent risk associated with constitution as a firm

The entity is a partnership concern, which is associated with weak constitution. Hence, it is exposed to the risk of partners withdrawing funds from the business. Any withdrawal of capital from the firm leaves it prone to liquidity crisis during emergency.

High segment concentration and geographic concentration risks

It is noted that within the building construction segment, the company has not been able to diversify its customer base as well as geographical mix. The company has over the years strengthened its presence in the building construction segment with various government departments only causing delay in revenue recognition. Hence it is exposed to risks emanating from delays in getting approvals for the projects.

Analytical Approach & Applicable Criteria

Standalone

Rating Methodology for Construction Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The liquidity position appears to be stretched going forward. Though the current assets reduced in FY19 mainly due to decrease in receivables and cash, it remains comfortable. The liquidity position of the firm is marked by highly utilized bank limits and modest cash balances.

About the Company

Kinjal Construction Company was a proprietorship concern formed in 1994 by Mr. Heeralal Meghraj Doshi, based in Mumbai. In April 2019, the constitution was changed to LLP and the name was changed to Kinjal Civilcon LLP. Under the LLP agreement, the first party is Mr Heeralal Meghraj Doshi and the second party is Mr Arvind Munnalal Jain. The firm undertakes

contracts through tender bidding and also through direct contracts for construction, repair, and maintenance of buildings for state government agencies such as the Public Works Department of Maharashtra. The firm also undertakes road construction and maintenance for the Municipal Corporation of Greater Mumbai and the Thane Corporation. Kinjal Civilcon is now registered as I (A) Class Contractor with the Municipal Corporation of Greater Mumbai (M.C.G.M), Thane Municipal Corporation (T.M.C) and the Public Works Department. The company has an established track record amongst Government Authorities, being committed to completing the infrastructure projects within the timelines and maintaining quality work as per the contract specifications.

Financials

(Rs. crore)

For the year ended/ As On	31-03-2018	31-03-2019
	(Audited)	(Provisional)
Total Operating Income	112.48	84.91
EBITDA	22.79	19.97
PAT	7.66	6.26
Total Debt	145.57	88.22
Tangible Networth	5.43	19.06
<u>Ratios</u>		
EBITDA Margin (%)	20.26	23.52
PAT Margin (%)	6.81	7.37
Overall Gearing Ratio (x)	26.83	4.63

Note: 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.	Fund Based Limits – CC	Long Term	25.00	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)	--	--	--
2.	Term Loan	Long Term	60.90	IVR BB+/Stable Outlook	--	--	--

				(IVR Double B Plus with Stable Outlook)			
3.	Non Fund Based Limits – Bank Guarantee	Long Term	43.60	IVR BB+/ Stable Outlook (IVR Double B Plus with Stable Outlook)	--	--	--

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:

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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	--	--	Revolving	25.00	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)
Long Term Debt - Term Loan	--	--	December 2020	14.28	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)
Long Term Debt - Term Loan	--	--	December 2023	46.62	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)
Long Term Non-Fund Based Limits – Bank Guarantee	--	--	Up to 60 months	43.60	IVR BB+/Stable Outlook (IVR Double B Plus with Stable Outlook)