



Press Release

KBC Infrastructures Pvt Ltd

July 06, 2020

Rating

Sl. No.	Facility	Amount (Rs. Crore)	Rating Assigned
1	Long Term Bank Facilities	17.98	IVR BB/ Stable (IVR Double B with Stable Outlook)
2	Short Term Bank Facilities	8.00	IVR A4 (IVR A Four)
	Total	25.98	

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of KBC Infrastructures Pvt Ltd (KBCI) derives comfort from its long track record under its experienced promoters, proven project execution capability, reputed clientele and moderate order book giving visibility to revenue in the near to medium term. The ratings also positively note fund infusion by the promoter leading to improvement in the capital structure during FY20. These rating strengths are partially offset 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, its moderate financial risk profile and high working Capital intensity.

Rating Sensitivities

Upward factors

- 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 and debt protection metrics
- Improvement in the operating cycle

Downward Factors

- More than expected moderation in scale of operations and/or profitability on a sustained basis impacting the debt protection metrics
- Withdrawal of subordinated unsecured loans amounting to Rs.3.75 crore and/or moderation in the capital structure with deterioration in the overall gearing to more than 1.5x
- Elongation in the operating cycle impacting the liquidity profile



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Detailed Description of Key Rating Drivers

Key Rating Strengths

- **Experienced promoters and long track record**

Mr. K. Butchaiah, managing director, has over four decades of experience in the construction industry. This apart, other director, Mrs. K. Vasavilatha, is also having around a decade long experience in the similar line of business. The operation of the company has started from 2007, thus it is enjoying a long and track record of operation.

- **Fund infusion by the promoter leading to improvement in the capital structure**

During FY20, the promoter undertakes to maintain interest free unsecured loan aggregating to Rs.3.75 crore as quasi equity (fresh infusion of Rs.1.59 crore during FY20 and conversion of existing unsecured loans to subordinated unsecured loans amounting to Rs.2.16 crore) in the business. Significant infusion of subordinated unsecured loans strengthens the capital structure of the company to a large extent. Infomerics believes, the capital structure will remain comfortable in the near term.

- **Proven project execution capability**

KBCI has successfully completed many projects in and around AP for various government departments and Non-government organizations. Thus, the company is enjoying a proven track record. The repeat orders received from its clientele validate its construction capabilities.

- **Reputed clientele**

The company is designated as Class-1 Contractor under Government of AP and participates in Government tenders and engaged in various civil construction works in and around AP.

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

The company has order in hand of Rs.79.50 crore as on May 31, 2020, which is ~1.10x of its FY19 turnover. The orders are expected to be completed within one year, indicating a satisfactory near to medium term revenue visibility.



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Key Rating Weaknesses

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

Total operating income (TOI) of the company has shown an erratic movement during the last three financial years due to volatility in execution of orders. During FY19, TOI has improved by ~14% 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, during 9MFY20 the company has earned a TOI of ~18.00 crore. Infomerics expects sharp moderation in its scale of operation in FY20 due to change in state Government and procedural disruption in order execution in the initial months of the year. Further, KBCI is predominantly working in the state of AP, hence has high degree of geographical concentration.

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

Major raw materials used in construction activities are steel, cement and bitumen 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 during last three financial years ending on FY19, any adverse movement in raw material cost will impact the operating margin as the company could not pass on the same due to lack of escalation clause in few tenders. However, PAT margin has improved marginally in FY19 with increase in EBITDA margin on the back of long term contract with IOCL for supply of bitumen for Govt projects and own RMC plant and other construction equipment, which gives further comfort to some extent.

- **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,



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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 has declined as on March 31, 2019 to 1.96x on account of avilment of higher unsecured loan and higher utilisation of bank borrowing to fund the its enhanced scale of operation. TOL/TNW remained moderate at 2.66x as on March 31, 2019. Interest coverage ratio remained satisfactory and has slightly improved in FY19 on the back of increase in operating profit level coupled. Current ratio was adequate as on March 31, 2019. Going forward, Infomerics expects that the financial risk profile of KBCI will improve on the back of infusion of subordinated unsecured loans in the business.

- **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 generally takes short-medium duration contracts and optimize the execution time to realize the payments faster and also focusing on development grant projects from organisations like Asian Development Bank, Asian Infrastructure Bank etc. Average utilization of fund-based limit was high at around~95% for the last 12 months ended May, 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.6.20 crore during FY21 which is adequately matched to its debt repayment obligations during the aforesaid period of ~Rs.2.62 crore. However, its highly utilized bank limits indicate limited liquidity buffer.



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About the Company

KBC Infrastructures Private Limited (KBCI) incorporated in 2007 by one Mr K. Butchaiah of Guntur to initiate civil construction business. The company is designated as Class-1 Contractor under Government of Andhra Pradesh (AP) and participates in Government tenders and engaged in various civil construction works in and around Andhra Pradesh. The company largely works on road projects like erection, levelling, maintenance, and other related works of road.

Day to day affairs of the company are looked after by Mr. K. Butchaiah, Managing Director, along with other director Mrs. K. Vasavilatha and a team of experienced personnel.

Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	63.02	72.13
EBITDA	8.10	9.88
PAT	2.70	3.46
Total Debt	18.71	30.31
Tangible Net worth	12.03	15.49
EBITDA Margin (%)	12.85	13.70
PAT Margin (%)	4.28	4.80
Overall Gearing Ratio (x)	1.56	1.96

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: INC from ACUITE (PR dated April 24, 2019) and Brickworks (PR dated May 20, 2020)

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term Loan	Long Term	1.98	IVR BB /Stable	-	-	-



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Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
2	Cash Credit	Long Term	16.00	IVR BB / Stable	-	-	-
3	Bank Guarantee	Short Term	8.00	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.

Name and Contact Details of the Rating Analyst:

Name: Mr. Sanmoy Lahiri Tel: (033) 46022266 Email: slahiri@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@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	-	-	-	16.00	IVR BB/Stable
Long Term Fund Based Limits – Term Loan	-	-	April 2022	1.98	IVR BB/Stable
Short Term Non-Fund Based Limits – Bank Guarantee	-	-	-	8.00	IVR A4