

Karan Construction Company

November 28, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	10.00	CARE BB; Stable (Double B; Outlook: Stable)	Assigned
Short-term Facilities	10.00	CARE A4 (A Four)	Assigned
Total	20.00 (Rupees Twenty crore only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Karan Construction Company (KCC) are constrained by its constitution as a partnership entity, relatively small scale of operation and low profitability margins, risk associated with participating in tenders and intense competition in the industry, working capital intense nature of business and volatility associated with fluctuation in input prices. However, the aforesaid constraints are partially offset by its experienced partners with long track record of operations, satisfactory order book position and comfortable capital structure.

Going forward, ability to increase its order book position, scale of operation, ability to execute orders within stipulated time period and ability to manage working capital effectively are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Constitution as a partnership firm

KCC, being a partnership firm, is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/insolvency of the partners. Furthermore, partnership entities have restricted access to external borrowing as credit worthiness of partner would be the key factors affecting credit decision for the lenders.

Relatively small scale of operation and low profitability margins

KCC has relatively small scale of operation over the last three financial years. However, the total operating income of the firm witnessed year on year growth during last three years (FY16-FY18) due to higher execution of orders and the same has grown at a CAGR of 16.30% during the aforesaid period. PBILDT level and PAT levels have also remained adequate at Rs.3.94 crore and Rs.0.96 crore, respectively. The profitability margins also remained low marked by PBILDT and PAT margins of 6.86% and 1.66%, respectively, in FY18. Further, the entity has booked revenue of Rs.25.00 crore during 7MFY19.

Risk associated with participating in tenders and intense competition in the industry

The entity has to bid for the contracts based on tenders opened by the various public sector and private sector units. Upon successful technical evaluation of various bidders, the lowest bid is awarded the contract. The entity receives projects which majorly are of a short to medium tenure (i.e. to be completed within maximum period of one to two years). Furthermore, orders are generally tender driven floated by government units indicating a risk of non-receipt of contract in a competitive industry. The outlook of construction sector appears challenging in view of slow execution of the existing order book in view of hindrances related to land acquisition, obtaining requisite clearances, labour shortage and liquidity issues with the clients, etc. Additionally, the sector is plagued with elongated working capital cycle leading to increase in debt level of construction companies.

Working capital intensive nature of business

The operations of the entity remained working capital intensive as the entity executes orders mainly for public sector units and private sectors. Accordingly, the average utilisation of working capital was on the higher side at around 90% during last 12 months ended October 2018.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Volatility associated with fluctuations in input prices

The major input materials for the entity are structural steel, ply wood, bitumen, cement, TMT bar, bricks, sand etc. the prices of which are volatile. Further the orders executed by the firm does not contain price escalation clause on the orders. This apart, any increase in labour prices will also impact its profitability being present in a highly labour intensive industry.

Key Rating Strengths
Experienced partners with long track record of operations

Karan Construction Company started its business from the year 1991 and thus has satisfactory track record of operations. Since its inception the firm is engaged in civil, mechanical and electrical works on behalf of various public and private entities. Mr. Suresh Chandra Karan has more than a decade of experience in civil construction industry. He looks after the day to day operations of the entity along with other two partners and other technical and non-technical professionals who are having long experience in this industry.

Satisfactory order book position of the entity

Karan Construction Company has satisfactory order book position of Rs.133.24 crore (which is 2.32x of FY18 turnover) as on November 21, 2018, which is expected to be completed by December 2020.

Comfortable capital structure

The capital structure of the firm remained comfortable marked by debt equity and overall gearing ratios both at 0.06x and 0.64x, respectively, as on March 31, 2018. The debt coverage indicators remained moderate during last three years (FY16-FY18). Furthermore, the interest coverage ratio remained satisfactory during last three years and stood at 1.70x in FY18. The total debt to GCA remained moderate at 8.20x as on March 31, 2018.

Analytical approach: Standalone

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Criteria for Short Term Instruments](#)

About the Entity

Karan Construction Company was established in the year 1991 with its office located at Haldia, Purba Medinipur. Since its inception the firm is engaged in civil, mechanical and electrical works on behalf of various public and private entities.

Mr. Suresh Chandra Karan has more than a decade of experience in civil construction industry. He looks after the day to day operations of the entity along with other two partners and other technical and non-technical professionals who are having long experience in this industry.

Liquidity

The liquidity position of the company remained moderate marked by current ratio of 1.26x and quick ratio of 0.57x as on March 31, 2018. The cash and bank balance amounting to Rs.0.03 crore remained outstanding as on March 31, 2018. The Gross cash accruals also remained moderate at Rs.1.27 crore as on March 31, 2018.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	47.31	57.50
PBILDT	4.63	3.94
PAT	1.10	0.96
Overall gearing (times)	1.00	0.64
Interest coverage (times)	1.77	1.70

A= Audited

Status of non-cooperation with previous CRA: Issuer Not Cooperating from CRISIL as per press release dated December 28, 2017.

Any other information: Not applicable

Rating History (Last three years): Please refer Annexure-2

CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	7.00	CARE BB; Stable
Fund-based - LT-Bank Overdraft	-	-	-	3.00	CARE BB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	10.00	CARE A4

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Cash Credit	LT	7.00	CARE BB; Stable	-	-	-	-
2.	Fund-based - LT-Bank Overdraft	LT	3.00	CARE BB; Stable	-	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	10.00	CARE A4	-	-	-	-

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