Kiran Infra Engineers Limited

February 08, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	7.00	CARE BBB; Stable (Triple B; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	160.00	CARE BBB; Stable / CARE A3+ (Triple B; Outlook: Stable/ A Three Plus)	Reaffirmed
Total Bank Facilities	**167.00 (Rs. One Hundred Sixty-Seven Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of ratings to the bank facilities continues to factor in experienced promoters in the industry with support from other group companies along-with in house material manufacturing facilities, established relationship with reputed clientele, comfortable capital structure and debt coverage indicators, as well as healthy unexecuted order book; albeit reduced on a YoY basis.

The rating strengths are however, remain tempered due to its moderate scale of operations on back of high degree of competition arising out of its presence in fragmented construction industry and moderate profitability with limited ability to expand the margins owing to tender based nature of operations. The ratings also factor in the raw-material price volatility risk along-with segment concentration risk and execution challenges

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in pace of execution of present order book and garnering new orders leading to improvement in revenue and profitability.
- Improvement in profitability with PBILDT and PAT margin above 11% and 6% respectively on sustained basis.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Decline in PBILDT margin below 4%.
- Increase in gearing above 1x and interest coverage going below 1.50 times.
- Significant increase in working capital requirement or any major debt funded capex adversely affecting liquidity indicators.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters and support from other group companies and in-house material manufacturing facilities

KIEL is promoted by Mr. Radhe Shyam Gemini, Chairman, who has long standing track record of more than two decade in the cables industry. He manages the overall activities in the company along with his sons; Mr. Ravi Gemini and Mr. Kapil Gemini who have more than a decade of experience in the industry. Apart from that, the promoters are supported by professional and qualified second tier management. The promoters have been instrumental in scaling up the operations of the company and diversification of its product profile through other entities in Gemini Group. KIEL procures material such as wires and cables from other group companies and enjoys benefit in terms of stretched creditor period. KIEL also has in-house manufacturing of material such as Color light signal unit, Electric Key Transmitters, Shunt Signals, CD Cabinets etc. required for execution of railway signalling projects. The promoters of KIEL have supported the operations of the company, on need basis, by way of unsecured loans from time to time.

Established relationship with reputed clientele

KIEL was incorporated in May 2006. Over the period, the company has grown considerably as a railway infrastructure developer; however, it continues to remain a mid-sized player. KIEL has developed sound experience by virtue of its long-standing presence in railway infrastructure development business.

Apart from various divisions of Indian Railways, the company has executed work for reputed players like IRCON International, Rail Vikas Nigam Ltd., RITES Ltd.

Healthy order book position; albeit reduced as on December 31, 2021 and strong project execution capability

The company has a healthy unexecuted order book as on December 31, 2021 indicating orderbook to TOI (FY21) ratio of 2.53x as against 2.62x as on June 30, 2020, providing healthy revenue visibility. However, the addition of new orders has seen consistent decline over last four years, during 9MFY22 the company received orders worth Rs.117.76 crore as against Rs.168 crore worth of new orders for the full year FY21. Also, out of the present orders, majority of orders are spill over orders which are due for completion in FY22 and FY23 and the same is expected to fetch revenues in coming years.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Comfortable capital structure and debt coverage indicators
KIEL's capital structure improved with overall gearing improving from 0.25 times as on March 31, 2020 as compared to 0.03 times as on March 31, 2021 mainly on account of increase in net worth base backed by accretion of profit to reserve along with decrease in its total debt level factored by lower working capital utilization and nil LC backed creditors as on balance sheet date. Furthermore, Debt coverage indicators stood moderate with total debt to GCA of 0.13 times as on March 31, 2021; though the same improved from 0.77 times as on March 31, 2020 mainly due to lower debt levels. Moreover, PBILDT interest coverage stood moderate at around 8.35 times in FY21 which improved from 7.79 times in FY20 on account of lower interest cost, despite decline in PBILDT in absolute terms.

Key Rating Weaknesses
Moderate albeit growing scale of operations and moderate profitability margins
KIEL's scale of operation is moderate. TOI declined by 18.22% on y-o-y basis in FY21 to Rs. 250.63 crore (PY: Rs.306.49 crore) on account of slower execution of orders in hand due to covid impact. PBILDT margin of the company remained moderate due to competitive bidding in tenders however, the same reflected improving trend over past three financial years (FY18-FY21) and the same improved by 38 bps on y-o-y basis to 9.40% in FY21 due to lower construction expenses and the same can also be attributed to nature of the contracts executed in the fiscal and margin earned on the same. In line with PBILDT margin, PAT margin has improved by 79 bps on y-o-y basis to 6.39% in FY21. Consequent to decline in scale of operations as well as profitability level, GCA of the company declined to Rs.16.86 crore in FY21 from Rs.18.22 crore in FY20.
As per provisional results for 9MFY22, the company has reported TOI of Rs.185.13 crore with PBILDT of Rs.18.54 crore and PAT of Rs.12.26 crore reflecting PBILDT margin of 10.01% and PAT margin of 6.62%.

Raw material price volatility along with segment concentration risk
In majority of the large projects received from divisions of Indian Railways apart from RITES, IRCON etc., there is a built-in price variation clause which mitigates the risk arising due to adverse movements in raw material prices like steel, telecom and signalling materials as well as labour charges. However, price escalation is linked to Wholesale Price Index (WPI), while actual increase in the raw material prices can be higher exposing the operating profit margins to raw material price fluctuation risk.

Highly competitive industry because of the fragmented and tender-driven nature of business
The construction industry especially the railway infrastructure development industry in India is highly fragmented with a large number of small and mid-sized players present at regional level. This coupled with tendering process in order procurement results into intense competition within the industry, fluctuating revenues further exerts pressure on the profit margins of the players. Additionally, continued increase in execution challenges including delays in land acquisition, regulatory clearances, aggressive bidding, interest rate risk and delays in project due to environmental clearance are other external factors that affect the credit profile of industry players. However, comfort is drawn from the fact that the business from the railways is high entry barrier due to requirement of technical knowhow and also a long track of successfully execution with railways is required for winning the bids.

Liquidity: Strong
The average utilization of fund based working capital limit stood at 33.46% and non-fund-based working capital limit stood at 54.93% during the twelve months ended December 2021 (P.Y 54.45% during the twelve months ended August, 2020). The company had a current ratio of 1.95 times as on March 31, 2021 as compared with 1.43 times as on March 31, 2020. Further, KIEL has unencumbered cash and cash equivalent of Rs.16.22 crore as on March 31, 2021 and envisages gross cash accruals of Rs.19.54 crore in FY22 as against debt repayment of Rs.0.10 crore each during FY22. Cash flow from operating activities remained moderately stable to Rs.15.45 crore in FY21 as against Rs.18.84 crore in FY20.

Analytical approach: Standalone

Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction

About the Company
Kiran Infra Engineers Ltd. (KIEL) was incorporated in 2006 by Mr. Radhe Shyam Gemini and belongs to Gemini group of Industries. KIEL is engaged in execution of railway signalling projects for Indian Railways on turn-key basis. It also provides various services for development of railway network for core sector industries in both public and private sector. KIEL also manufactures material required for execution of railway projects such as colour light signal unit, electric key transmitters, shunt signals, CD cabinets etc. at its unit located at Jaipur (Rajasthan). KIEL also has overseas branch in Sri Lanka.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22 (Prov)
Total operating income	306.49	250.63	185.13
PBILDT	27.83	23.57	18.54
PAT	17.16	16.00	12.26
Overall gearing (times)	0.25	0.03	-
Interest coverage (times)	7.79	8.35	12.36

A: Audited; Prov: Provisional

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Covenants of rated facility: Detailed explanation of covenants of the rated facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Non-fund-based - LT/ ST-BG/LC		-	-	-	160.00	CARE BBB; Stable / CARE A3+
Fund-based - LT-Cash Credit		-	-	-	7.00	CARE BBB; Stable

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Non-fund-based - LT/ ST-BG/LC	LT/ST*	160.00	CARE BBB; Stable / CARE A3+	-	1)CARE BBB; Stable / CARE A3+ (11-Nov-20) 2)CARE BBB-; Positive / CARE A3 (06-Apr-20)	-	1)CARE BBB-; Positive / CARE A3 (25-Feb-19) 2)CARE BBB-; Stable / CARE A3 (06-Jun-18)
2	Fund-based - LT-Cash Credit	LT	7.00	CARE BBB; Stable	-	1)CARE BBB; Stable (11-Nov-20) 2)CARE BBB-; Positive (06-Apr-20)	-	1)CARE BBB-; Positive (25-Feb-19) 2)CARE BBB-; Stable (06-Jun-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated facilities - NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please **click here**

Note on complexity levels of the rated instrument: CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About CARE Ratings Limited:
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