KNK Projects Private Limited

November 11, 2022

Ratings

Facilities	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	1.00	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	38.00	CARE BB+; Stable / CARE A4+ (Double B Plus; Outlook: Stable/ A Four Plus)	Assigned
Short Term Bank Facilities	30.00	CARE A4+ (A Four Plus)	Assigned
Total Facilities	**69.00 (₹ Sixty-Nine Crore Only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of KNK Projects Private Limited (KNK) are primarily constrained by its low and concentrated order book position. Further, the ratings are also constrained by project execution risk inherent in various infrastructure projects and its presence in a highly competitive nature of industry along with business risk associated with tender-based orders.

The ratings, however, draws comfort from experienced promoters in the industry, growing scale of operations over the period, healthy profitability margins, comfortable capital structure and debt coverage indicators and moderate operating cycle. The ratings also factor in the price escalation clause in the contracts insulating it from price volatility.

Rating Sensitivities

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

- Consistent increase in scale of operations as marked by total operating income of above Rs.145.00 crore supported by unexecuted order book in hand covering 2.00x-2.5x of its TOI.
- Improvement in profitability margins as marked by PBILDT margin above 15.00% on a sustained basis.
- Timely and successful completion of the on-going projects without any significant cost over-run.

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

- Any significant deterioration in the capital structure of the company as marked by overall gearing ratio of above 1.00x.
- Elongation in the operating cycle of the company for more than 60 days.
- Decline in scale of operations by more than 20% from envisaged level and decline in profitability margins as marked by PBILDT margin below 9.00% on sustained basis.

Detailed description of the key rating drivers

Key Rating Weaknesses

Low and concentrated order book position: KNK has an unexecuted order book position of Rs.135.21 crore as on August 31, 2022 which is equivalent to ~1.04x the total operating income achieved in FY22. Further, the present unexecuted order book is concentrated around 80.56% towards a single contract from Department of Water Supply & Sanitation, Punjab. Thus, the company is exposed to risk of any unfavourable changes in the policies towards award of new contracts. Furthermore, effective and timely execution of the orders has a direct bearing on the total income and margins of the company.

Project execution risk inherent in various infrastructure projects: Given the nature of projects awarded, KNK is exposed to inherent risk in terms of delays in certain projects undertaken by the company due to delay in approvals and sanction from regulatory bodies such as land acquisition issues, thus exposing KNK towards the risk of delay in projects resulting in a delay in the realization of revenue growth. Furthermore, the company's ability to execute a project in timely manner would be led by its own operational efficiency and timely stage payments received from its clients which is also crucial from credit perspective.

Highly competitive nature of industry along with business risk associated with tender-based orders: KNK operates in a highly competitive construction industry wherein it faces direct competition from various organized and unorganized players

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

in the market given the low barriers to entry. There are number of small and regional players catering to the same market which has limited the bargaining power of the company. KNK receives all of its majority of work orders from government/ public sector undertakings. The risk arises from the fact that any changes in geo-political environment and policy matters would affect all the projects at large. Furthermore, any changes in the government policy or government spending on projects are likely to affect the revenues of the company.
The company majorly undertakes government projects which are awarded through the tender-based system. This exposes the company towards risk associated with the tender-based business, which is characterized by intense competition. The growth of the business depends on its ability to successfully bid for the tenders and emerge as the lowest bidder.

Key Rating Strengths
Experienced promoters: KNK is a family run business. Mr. Shankar Khandelwal, Mr. Nishant Khandelwal and Mr. Nikhil Khandelwal are the directors and they collectively look after the overall operations of the company. Mr. Shankar Khandelwal is a graduate and holds experience of more than four decades in executing water supply contracts through his association with this entity and in individual capacity. He is ably supported by his two sons namely; Mr. Nishant Khandelwal and Mr. Nikhil Khandelwal having considerable experience of varied up to one decade in executing water supply contracts through their association with this entity.

Growing scale of operations: Despite being operational for only half a decade, the scale of operations of the company has shown a growing trend for the past three financial years (FY20-FY22). The total operating income (TOI) of KNK has increased to Rs.130.47 crore in FY22 from Rs.75.63 crore in FY21 reflecting y-o-y growth rate of 72.52% owing to higher execution of contracts. Further, during H1FY23 (refers to the period April 1 to September 30; based on provisional results); the company has achieved the total operating income of Rs.49.58 crore and is expected to book revenue of Rs.137.00 crore in FY23 backed by order in hand of Rs.135.21 crore.

Healthy profitability margins: The company majorly undertakes government projects, which are awarded through the tender-based system and ~84% of TOI in FY22 is generated from the contracts which were procured through sub-contracting. The profitability margins of the company stood healthy for the past two financial years i.e. (FY21-FY22) since it largely depends upon the nature of contract executed. Further, PBILDT margin of the company improved by around 414 bps to 13.84% in FY22 as against 9.70% in FY21 owing to higher margin contracts executed by the company. Further, PAT margin also improved by 391 Bps to 9.92% in FY22 as against 6.01% in FY21 backed by increase in PBILDT levels coupled with decline in interest expenses owing to repayment of loans. Further, during H1FY23, profitability margins of the company improved as marked by PBILDT and PAT margin which stood at 19.50% and 13.51% respectively owing to execution of contracts which majorly pertains to repair & maintenance works and which generally fetches better margins. However, for the projected period PBILDT and PAT margin expected to remain at 14.07% and 9.82% respectively.

Comfortable capital structure and debt coverage indicators: As on March 31, 2022, the debt profile of the company comprises of term/vehicle loan of Rs.0.12 crore, unsecured loans from directors and related parties of Rs.0.07 crore and working capital bank borrowings of Rs.1.00 crore. The capital structure of the company as marked by overall gearing ratio stood comfortable at 0.05x as on March 31, 2022 showing improvement from 0.64x as on March 31, 2021 mainly on account of repayment of loans coupled with accretion of profit to net reserves. As on September 30, 2022, overall gearing ratio remained almost stable over previous year balance sheet date. Further, the capital structure is expected to remain comfortable at 0.03x-0.04x in the near to medium term as envisaged.
Further, on account of limited debt levels, the debt coverage indicators of the company stood comfortable as marked by interest coverage ratio and total debt to GCA of 21.34x and 0.09x respectively, for FY22 as against 5.60x and 1.45x respectively, for FY21. The improvement is on the back of substantial increase in PBILDT owing to increase in its scale of operations coupled with low finance cost, consequently leading to higher gross cash accruals. During H1FY23, interest coverage ratio and total debt to GCA stood at 17.81x and 0.10x respectively. During projected period, the debt coverage indicators are expected to remain satisfactory at 17.81x and 0.10x respectively in the near to medium term owing low debt levels leading to lower interest cost.

Price escalation clause insulating it from price volatility: In the absence of any backward integration, the company procures its primary raw materials which includes steel, cement, sand, etc. from approved vendors/regional players specified by the respective clients at market rates and hence, it is susceptible to volatility in the input prices and which may have adverse impact on the profitability of the company. Nonetheless, the company is majorly insulated from any volatility in the input prices of raw materials as most of the contracts have a built-in price escalation clause for change in raw material prices owing to the long tenure of the project. Thus, the ability of the company to pass on increased price burden to the customers in a timely manner and maintain profitability margins is critical from the credit perspective.

Moderate operating cycle: The operations of the company stood moderate as marked by operating cycle of 13 days for FY22 as against 15 days for FY21. The inventory is in the form of work in progress at different sites on account of procedural delays involved in the certifications/validation of the invoices for the contracts executed resulting in an average inventory holding period of 6 days for FY22. The company raises bills on milestone basis i.e. on the completion of certain percentage of work and thereon which gets acknowledge by client after necessary inspection of work done by the respective departments. Post the inspection, department clears the payment within a month (maximum) by deducting certain percentage of bill raised (ranging from 5-6% of bill amount) in the form of retention money, which they refund after submission of bank guarantee/ after one year from the completion of contract. Thus, the average collection period stood at 30 days for FY22. Further, the company receives an average credit period of around 1-2 months from its suppliers. The average utilization of working capital limits remained around 70% utilized for past 12 months ending September, 2022.

Liquidity: Adequate
The liquidity position of the company remained adequate characterized by sufficient cushion in accruals vis-à-vis repayment obligations. The company is expected to generate GCA of Rs.13.76 crore for FY23 against low repayment obligations of Rs.0.12 crore in same year. Further, the average utilization of its working capital limits stood around 70% for the past 12 month's period ending September, 2022. However, the company has low free cash and bank balances which stood at Rs.0.25 crore as on September 30, 2022. With an overall gearing of 0.05x as on March 31, 2022, the company has sufficient gearing headroom, to raise additional debt to support the capex for growth.

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
New Delhi, Delhi based KNK Projects Private Limited (KNK) was incorporated in March, 2016 as a private limited company. The company is currently being managed by Mr. Shankar Khandelwal, Mr. Nishant Khandelwal and Mr. Nikhil Khandelwal. The company undertakes water supply contracts for setting up of water supply systems, laying of water supply distribution networks, wastewater treatment plants on turnkey basis (design, construction, supply, installation, testing and commissioning) and its operation & maintenance related works mainly for government departments like Public Health Engineering Department, (Haryana), Madhya Pradesh Urban Development Company Limited, (Madhya Pradesh), Madhya Pradesh Jal Nigam (Madhya Pradesh), Department of Water Supply & Sanitation (DWSS) (Punjab), etc. In order to get the business, company has to participate in tenders floated by government companies. The company has geographical coverage across Haryana, Madhya Pradesh and Punjab.
The company is having a joint venture partnership firm namely; "M/s KNK JWIL JV". It is a joint venture between "M/s KNK Projects Private Limited" and "M/s JWIL Infra Limited" having 60:40 ownership.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23* (Prov.)
Total operating income	75.63	130.47	49.58
PBILDT	7.33	18.06	9.67
PAT	4.55	12.95	6.70
Overall gearing (times)	0.64	0.05	0.05
Interest coverage (times)	5.60	21.34	21.02

A: Audited; Prov.: Provisional
**refers to the period from April 1, 2022 to September 30, 2022.*

Status of non-cooperation with previous CRA: CRISIL Ratings has conducted the review and has classified KNK Projects Private Limited as "Not Cooperating" vide its press release dated June 28, 2022.

Any other information: Not Applicable

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

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

Complexity level of various instruments rated for this firm: Annexure- 4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	1.00	CARE BB+; Stable
Fund-based/Non-fund-based-LT/ST		-	-	-	0.76	CARE BB+; Stable / CARE A4+
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	37.24	CARE BB+; Stable / CARE A4+
Non-fund-based - ST-Bank Guarantee		-	-	-	30.00	CARE A4+

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Bank Overdraft	LT	1.00	CARE BB+; Stable				
2	Non-fund-based - ST-Bank Guarantee	ST	30.00	CARE A4+				
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	37.24	CARE BB+; Stable / CARE A4+				
4	Fund-based/Non-fund-based-LT/ST	LT/ST*	0.76	CARE BB+; Stable / CARE A4+				

*Long term/Short term.

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities: Not Applicable

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Bank Overdraft	Simple
2	Fund-based/Non-fund-based-LT/ST	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Bank Guarantee	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:

Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.

With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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