

Kean Construction LLP

February 14, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	30.00	CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Long Term / Short Term Bank Facilities	20.00	CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* (Single B Plus ; Outlook: Stable/ A Four ISSUER NOT COOPERATING*)	Revised from CARE BB-; Stable / CARE A4 (Double B Minus ; Outlook: Stable / A Four) and moved to ISSUER NOT COOPERATING category
Total Bank Facilities	50.00 (Rs. Fifty Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Kean Construction LLP (KC) to monitor the rating(s) vide e-mail communications dated August 25, 2021, September 7, 2021, December 02, 2021, December 06, 2021 and February 3, 2022 among others and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. Kean Construction LLP's bank facilities will now be denoted as **CARE B+; Stable / A4 ISSUER NOT COOPERATING***.

The revision in ratings factors in deterioration in the operating as well as financial performance of the entity based on the FY21 provisional results and non-cooperation by KC and CARE's efforts to undertake a review of the ratings outstanding. CARE views information availability risk as a key factor in its assessment of credit risk.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

Detailed description of the key rating drivers

At the time of last rating on December 24, 2020, the following were the rating strengths and weaknesses (Updated for FY21 Provisional financials provided by client).

Detailed description of Key rating drivers

Key rating Weakness

Limited track record with small scale of operations: KC was established on July 2017 however; commercial operations begin from February 2019. KC was established on July 2017 however; commercial operations begin from February 2019. TOI of the company has decline significantly by 38% in FY21 i.e. from Rs. 88.60 crore in FY20 to 54.53 crore in FY21(prov.).

Leverage capital structure: The capital structure of the firm stood leveraged marked by overall gearing of 3.28x as on March 31, 2021 Prov. TDGCA also deteriorated from 5.97x in FY20 (Prov) to 8.86x in FY21(Prov). PBILDT interest coverage decline from 64.54x in FY20 to 35.93x in FY21 (Prov).

Working capital intensive operations: The firm operates in the construction industry wherein the working capital requirements remained high. The inventory is obtained by the firm on the site of the project as per the specification and requirement of the project. Further, the firm makes payment to the suppliers of raw material either on cash basis or partially cash and credit basis. However, the operating cycle of the firm stood negative at -224 days due to higher creditor days.

Highly competitive and fragmented industry with tender driven nature of operations: The construction industry is fragmented in nature with a large number of medium scale players present at regional level. This coupled with the tender-driven nature of construction contracts poses huge competition and puts pressure on the profit margins of the players.

Customer concentration risk with dependence on real estate sector: The firm has been dealing only with four established clients contributing major revenue of the total unexecuted order book thereby imposing high level of customer concentration risk.

Partnership nature of constitution of the firm: Being a limited liability partnership firm, KC has inherent risk of withdrawal of capital at the time of personal contingency of partners. Furthermore, it has restricted access to external borrowings where net

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

worth as well as creditworthiness of the partners are the key factors affecting credit decision of the lenders. Hence, limited funding avenues along with limited financial flexibility have resulted in small scale of operations for the firm.

Key Rating Strengths

Experienced promoters and established group presence in civil construction industry: KC was promoted by Mr. Nandlal Varma with over two decades of experience in real estate and construction industry. Mr. Nandlal Varma started as a building contractor for small projects in Gujarat & within short time, expanded his area of operations in Mumbai & other adjoining regions. Further he is also well supported by another partner Mr. Dharmesh Varma who also possesses in-depth knowledge and experience over five years in real estate and construction industry. KC is a part of Kargwal Group which is into construction business since 1975. The Kargwal Group has presence in diverse construction activities ranging from industrial plants, ports, bridges, real estate activities viz. townships of residential and commercial complexes etc. Over the years of existence in the market, the group has established strong marketing connects with its customers, suppliers and stakeholders.

Moderate profit margins: Despite the tender driven nature of business leading to competitive work contract rates along with labour intensive operations, the PBDILT margin of the company has declined; however, remained moderate at 7.08% in FY21 (prov.) vis-à-vis 8.89% in FY20. Further PAT margin of the firm too has declined yet remained moderate at 4.10% in FY21 (prov.) vis-à-vis 5.61% in FY20.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)
[CARE's Policy on Default Recognition](#)
[Criteria on assigning Outlook to Credit Ratings](#)
[Rating Methodology – Construction Sector](#)
[Financial ratios – Non-Financial Sector](#)
[Criteria for Short Term Instruments](#)

About the Company

Established in July 2017 and commenced its operations from February 2019; Kean Construction LLP (KC) is engaged in the business of civil construction services. KC was established by Mr. Dharmesh Varma and Mr. Nandlal Verma. The firm undertakes construction contracts for civil, lift and finishing work, Mechanical, Electrical and Plumbing (MEP) and Lock- n- key contracts of residential building etc. KC gets orders through bidding and tendering process and its current projects are comprised of in the Mumbai region. The customer base of the firm includes real estate players across Mumbai. It also executes projects as sub-contractor which is obtained through private corporates. The firm procures all the raw materials domestically through local distributors and traders.

Brief Financials (Rs. crore)	FY20 (Prov*)	FY21 (Prov.)	H1FY22 (Prov.)
Total operating income	88.60	54.53	NA
PBILDT	7.88	3.86	NA
PAT	4.97	2.23	NA
Overall gearing (times)	6.09	3.28	NA
Interest coverage (times)	64.54	35.93	NA

Prov.: Provisional; NA: Not Available

* For FY20, CARE has received audited financials however the same has considered as provisional due to non-receipt of the entire tax audit report from the entity.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not Applicable

Disclosure of Interest of Managing Director & CEO: 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 company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISI N	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	30.00	CARE B+; Stable; ISSUER NOT COOPERATING*
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	20.00	CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING*

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	Fund-based - LT-Cash Credit	LT	30.00	CARE B+; Stable; ISSUER NOT COOPERATING *	-	1)CARE BB-; Stable (24-Dec-20)	-	-
2	Non-fund-based - LT/ST-Bank Guarantee	LT/ST *	20.00	CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING *	-	1)CARE BB-; Stable / CARE A4 (24-Dec-20)	-	-

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities : Not applicable since rated facilities are proposed in nature

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-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 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:

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