

## K.K. Builders

January 03, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term / Short-term bank facilities	69.00 (Enhanced from 55.00)	CARE BB-; Stable / CARE A4	Rating removed from ISSUER NOT COOPERATING category and reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of K.K. Builders (KKB) are constrained by moderate scale of operations with geographical concentration in Kerala, exposure of the hospitality division to government regulatory changes. The ratings are also constrained by the elongated operating cycle, highly competitive tender-based construction division and partnership nature of firm with inherent risk of capital withdrawal. The ratings, however, draw strength from vast experience of the promoters, long track record of operations of the firm, moderate order book position, diversified revenue stream and moderate capital structure.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Increase in income above ₹120 crore with profit before interest, lease rentals, depreciation and taxation (PBILDT) above 13% on a sustained basis.
- Improvement in debt protection metrics with total debt/gross cash accruals (TD/GCA) below 3.5x.

#### Negative factors

- Any debt-funded capital expenditure or significant capital withdrawals leading to gearing levels greater than 2.0x.
- Any significant elongation in the working capital cycle leading to stretched liquidity position.

**Analytical approach:** Standalone

### Outlook: Stable

The 'Stable' outlook reflects that the company is likely to sustain its growth in the scale of operations with revenue visibility in the medium term from construction segment and continue to benefit from the experienced and resourceful promoters.

### Detailed description of the key rating drivers:

#### Key weaknesses

##### Moderate scale of operations and geographically concentrated in Kerala

The scale of operations of KKB has remained relatively moderate, however improved by 35% to ₹105.37 crore in FY23 (refers to the period April 1 to March 31) from ₹77.93 crore in FY22, supported by 86% growth in the hospitality division which was previously impacted due to COVID-19. However, the operations of the firm continue to be geographically concentrated in Kerala.

##### Highly competitive tender-based construction division

The contracts in the construction division are geographically concentrated in Kerala. The revenue is thus not only vulnerable to progress on these projects but also to local socio-economic-political factors. All its work orders are tender-based, and the revenues are dependent on the firm's ability to bid successfully for these tenders. The profitability margins come under pressure because of this competitive nature of the industry. There are numerous fragmented and unorganised players operating in the industry which makes the civil construction space highly competitive. However, the long presence of the company and established relationship with the Government entities has resulted in healthy order flow.

##### Partnership nature of firm with inherent risk of capital withdrawal

As a partnership firm, KKB faces the inherent risk of partners withdrawing capital during personal emergencies and the potential dissolution of the firm due to partners' death, retirement, or insolvency. These situations could significantly impact the firm's financial stability, especially if substantial capital withdrawals occur, affecting the overall net worth and financial standing. The partners withdrew capital of ₹7.60 crore and ₹4.61 crore from the firm in FY23 and FY22, respectively. The capital withdrawn

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

during FY23 was partly utilised for the purchase of Hotel Broad Bean, Chakkarakkal by the group concern, which was subsequently leased to KKB.

### **Key strengths**

#### **Vast experience of the promoters and long track record of operations of the firm**

The K.K. Group was established in 1968 by K.K.Kunhiraman, who was in business with few proprietary concerns and unregistered firms till 1994. KKB was established in the year 1994 as the flagship entity of the K.K. Group. Until FY21, K.K. Mohandas, K.K. Radhakrishnan, K.K. Premkumar, K.K. Rajan, and M.C. Shanmughan were the partners of the firm lead by K.K. Mohandas and K.K. Rajan as its managing partner. During FY22, the firm was reconstituted with K.K. Radhakrishnan and M.C. Shanmugan retiring from partnership. Currently, the firm has three partners with an equal share in profits. The day-to-day operations of KKB are managed by all the partners supported by a team of experienced professionals.

#### **Diversified revenue stream**

KKB has three main operating divisions namely, (i) construction, (ii) hospitality, and (iii) revenue from central bus terminal BOT project. In the construction division, the firm mainly engages in the construction of roads, bridges, buildings (including railways), primarily for government agencies. The firm is a registered contractor with the Kerala Public Works Department and Central Public Works Department (CPWD) and has been executing projects for more than 25 years. The construction division is the major contributor of revenue for KKB accounting for 53% of the total income during FY23 followed by 39% from hospitality. The hospitality arm of the firm owns and operates five properties spread across Kerala. The firm also operates a bus terminal on a 6.45-acre land at Kannur on a build operate transfer model.

#### **Established clientele and moderate order book position**

The firm undertakes civil works under PWD national highways, CPWD, Southern Railway, Kerala PWD, Co-operative and private sectors. The firm has executed projects such as Chaliyar Bridge projects Mallapuram, Kavinmunambu-Colmotta Road project, Keezhmadam- Kallikandy road project, Central Bus Terminal Complex, Kannur, S.N. College of Engineering, Payyanur and Government Industrial Training Institute Kasaragod. The order book position as on November 30, 2023, stood at ₹99.67 crore which translates to 1.96x of the total revenue during FY23, thereby providing revenue visibility in the medium term.

#### **Comfortable capital structure**

The capital structure of KKB stood moderate with overall gearing of 0.97x as on March 31, 2023, as against 0.71x as on March 31, 2022. The interest coverage stood stable at 3.39x in FY23 (PY: 3.43x). However, debt coverage metric indicated by the TD/GCA slightly moderated to 5.91x as on March 31, 2023, as against 5.02x as on March 31, 2022, on account of increased working capital utilisation.

#### **Liquidity: Stretched**

The liquidity is stretched with tightly matched accruals of ₹7.99 crore in FY23 against the repayment obligations. Though operating cycle improved to 170 days as on March 31, 2023, from 203 days as on March 31, 2022, it continues to be relatively high on account of the higher inventory period. The receivable period increased over the last two years from 22 days in FY21 to 59 days in FY23 with stretched collection of bills in the engineering, procurement, and construction (EPC) segment. The firm has working capital limits of ₹44 crore and the average utilisation of the same stood high at 91% for the past 12 months ending November 2023.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

#### **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](#)

[Hotel](#)

[Service Sector Companies](#)

[Construction](#)

#### **About the company and industry**

### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil construction

K.K. Builders is a partnership firm formed in 1994 based out of Kannur. The firm was initially set up by Late K.K. Kunhiraman, founder of the KK Group. The firm is involved in the execution of roads, bridges and building construction project for government agencies. The firm is a registered contractor for Kerala Public Works Department and CPWD. The firm also operates five hotels namely KK Residency, Hotel Broad Bean (Kannur), KK Tourist home (Kannur), Hotel Broad Bean (Chakkarakkal) and KK Tourist home (Iritty). Apart from the contracting and hotel division, the firm is also involved in a Kannur bus stand BOT project with a timeline of 27 years which is operational since September 2007. The firm also has two stone crusher units which is primarily used for captive consumption. During FY23, the income from contracting division accounted for 53% of the total income followed by hotels (39%).

Brief Financials (₹ crore)	FY22 (A)	FY23 (A)	H1FY24 (P)
Total operating income	77.93	105.37	54.02
PBILDT	10.83	15.22	NA
PAT	3.74	4.36	NA
Overall gearing (times)	0.71	0.97	NA
Interest coverage (times)	3.43	3.39	NA

A: Audited P: Provisional NA: Not available; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** ICRA has conducted the review of K.K. Builders and classified the ratings into "Issuer Not Cooperating" category, based on the best available information vide PR dated April 27, 2023.

**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:** Annexure-4

**Lender details:** Annexure-5

### 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/ ST- Working capital limits		-	-	-	44.00	CARE BB-; Stable / CARE A4
Non-fund-based - LT/ ST-Bank guarantee		-	-	-	25.00	CARE BB-; Stable / 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 2023-2024	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
1	Fund-based - LT-Term loan	LT	-	-	-	-	1)Withdrawn (30-Apr-21)	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (16-Apr-20)
2	Non-fund-based - LT/ ST-Bank guarantee	LT/ST*	25.00	CARE BB-; Stable / CARE A4	-	1)CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING* (28-Mar-23) 2)CARE BB-; Stable / CARE A4 (05-Apr-22)	1)CARE BB-; Stable / CARE A4 (30-Apr-21)	1)CARE A4; ISSUER NOT COOPERATING* (16-Apr-20)
3	Fund-based - LT/ ST-Working capital limits	LT/ST*	44.00	CARE BB-; Stable / CARE A4	-	1)CARE BB-; Stable / CARE A4; ISSUER NOT COOPERATING* (28-Mar-23) 2)CARE BB-; Stable / CARE A4 (05-Apr-22)	1)CARE BB-; Stable / CARE A4 (30-Apr-21)	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (16-Apr-20)
4	Fund-based - LT-Proposed fund based limits	LT	-	-	-	-	1)Withdrawn (30-Apr-21)	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (16-Apr-20)

\*Long term/Short term.

**Annexure-3: Detailed explanation of covenants of the rated instruments/facilities:** Not applicable

**Annexure-4: Complexity level of the various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT/ ST-Working capital limits	Simple
2	Non-fund-based - LT/ ST-Bank guarantee	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on the complexity levels of the rated instruments:** CARE Ratings 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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