

Shri Rajendra Kumar Kalal

April 05,2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term / Short Term Bank Facilities	15.00	CARE BB+; Stable / CARE A4+	Reaffirmed
Short Term Bank Facilities	15.00	CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings to the bank facilities of Shri Rajendra Kumar Kalal (SRKK) continue to remain constrained on account of its modest scale of operations, moderate profitability, high geographical and sectoral concentration of its orderbook, presence in a highly fragmented and competitive construction industry and vulnerability of profitability margins to volatile raw material prices and its constitution as a proprietorship concern.

The ratings, however, continue to derive strength from established track record of operations of the firm with demonstrated execution capability, moderate orderbook along with limited counterparty credit risk and comfortable financial risk profile.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Growth in its orderbook and timely execution thereof resulting in increase in significant growth in its scale of operations while maintaining its profitability on a sustained basis.

Negative factors

- Decline in PBILDT margin below 8.00%
- Deterioration of capital structure beyond 1.50 owing to high debt or withdrawal of capital by the proprietor.
- Deterioration of liquidity position owing to delay in payment from government departments.

Analytical approach: Standalone

Outlook: Stable

CARE Ratings believes that the SRKK will continue to derive benefit from experience of its proprietor having long-track record of operations in construction industry and its moderate orderbook.

Detailed description of the key rating drivers:

Key weaknesses

Modest scale of operations and moderate profitability

SRKK's Total Operating Income (TOI) has remained modest at Rs.82.90 crore during FY23 as against Rs.80.05 crore in FY22. Although improved, the profitability margins of the firm stood moderate with PBILDT and PAT margin of 10.67% (FY22:8.19%) and 2.5% (FY22:2.50%) for FY23. GCA of the firm also remained largely stable at Rs.5.65 crore in FY23 (FY22: Rs.4.70 crore). The improvement in PBILDT margin is on account of lower raw material cost was partially offset by higher sub-contracting expenses, which increased from Rs.9.19 crore in FY22 to Rs.19.10 crore in FY23. Till Feb 29, 2024, the firm has booked revenue of Rs.127 crore (Prov.) (Rs 85 crore: January 31,2023).

High geographical and sectoral concentration of its orderbook

The firm operates in a single segment i.e. road construction and all the projects are located in the state of Rajasthan, resulting in high geographical and sectoral concentration risk. Majority of the projects are from nodal government agency of Rajasthan hence any disruption in the region can negatively impact the revenue receipt of the firm.

Presence in a highly fragmented and competitive construction industry

SRKK is a small -sized player operating in an intensely competitive and fragmented construction industry with presence of large number of contractors. Furthermore, with low counterparty credit risk related to government bodies, these projects are lucrative for all the contractors and hence are highly competitive.

Susceptibility of margins to volatile raw material prices and its constitution as a proprietorship concern

The prices of basic raw materials (steel, cement, bitumen, asphalt) required by the firm are volatile in nature. Hence, in the absence of price escalation clause, SRKK's profitability remains susceptible to sharp variations in raw material prices. However, due to shorter tenure of the projects executed by SRKK, effects of price variation on profitability remains limited. Further, its

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

constitution as a proprietorship concern with modest net worth base restricts its overall financial flexibility in terms of access to external funds for any future expansion plans. Furthermore, there is an inherent risk of possibility of withdrawal of capital and dissolution of the firm in case of any mis happenings to the proprietor.

Deterioration in overall debt profile

The overall debt of the firm increased from Rs.24.54 crore as on March 31, 2022 to Rs. 45.55 crore as on March 31, 2023, leading to deterioration in overall gearing from 0.59x as on March 31, 2022 times to 1.01x times as on March 31, 2023. As on March 31, 2023, total debt of SRKK comprised of term loan of Rs. 15.60 crore (PY: Rs.9.19 crore) and Rs. 29.95 crore (PY: Rs. 15.35 crore) of working capital borrowings. The increase in working capital borrowing as on Balance sheet date was majorly done to fund the Work in Progress inventory which increased significantly from Rs. 5.60 crore as on March 31,2022 to Rs. 28.30 crore as on March 31,2023.

Key strengths

Established track record of operations and execution capability

Mr. Rajender Kumar Kalal, proprietor of SRKK, has an experience of more than 17 years and has an established track record of executing road construction projects awarded by PWD, Rajasthan. The firm owns major part of the equipment and machinery it requires for project execution, which facilitates efficient deployment of the resources and timely execute projects. As on March 31, 2023, SRKK's gross block stood at around Rs.60 crore.

Moderate orderbook with limited counterparty risk

As on March 26, 2024, SRKK's order book increased to Rs.216 crore with 14 orders in hand (Rs.183 crore as on January 31, 2023 -having 7 orders in hand) which forms around 2.60 times of its TOI for FY23, thereby reflecting healthy revenue visibility in the medium-term. Moreover, a majority of the orders are awarded by the nodal agencies of the Rajasthan State Government, translating into limited counterparty credit risk.

Liquidity: Stretched

The firm books the revenue after receipt of payment from government department and hence, debtors remain low however delays in receipts of payments from the government departments had led to increase in WIP as on March 31,2023. During FY23, inventory days increased from 30 days as on March 31,2022 to 86 days as on March 31,2023 owing to increase in Work in progress from Rs. 5.60 crore as on March 31,2022 to Rs. 28.30 crore as on March 31,2023. This led to negative cashflow from operations increase in operating from 24 days in FY22 to 74 days in FY23.

The current ratio and quick ratio of the firm stood moderate at 1.00 times (FY22:0.96) and 0.32 times (FY22:0.70) respectively as on March 31, 2023. The firm is envisaged to generate adequate cash accruals between Rs. 7-9 crore as against envisaged repayments of Rs. 5-5.5 crore. Further as on March 31,2023 the firm had low free cash and bank balance of Rs. 0.10 crore and utilization of cash credit of Rs. 15 crore remained at 63%. However liquidity cushion is available in the form of FD backed OD limits.

Assumptions/Covenants: Not applicable

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

Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Construction](#)

[Infrastructure Sector Ratings](#)

[Short Term Instruments](#)

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

Udaipur (Rajasthan) based SRKK was formed in 2009 by Mr. Rajender Kumar Kalal as a proprietorship concern. SRKK is engaged in the business of civil construction with major focus on construction of roads for government departments. The firm is registered as an 'AA' class (highest in the scale of AA to E) approved contractor with Public Works Department, Rajasthan (PWD).

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (A)
Total operating income	80.05	82.90
PBILDT	6.56	8.85
PAT	2.00	2.07
Overall gearing (times)	0.59	1.01
Interest coverage (times)	4.75	2.90

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'. Till Feb 29, 2024, the firm has booked revenue of Rs.127 crore (Prov.)

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 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	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit		-	-	-	15.00	CARE BB+; Stable / CARE A4+
Non-fund-based - ST-Bank Guarantee		-	-	-	15.00	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 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/ ST-Cash Credit	LT/ST	15.00	CARE BB+; Stable / CARE A4+	-	1)CARE BB+; Stable / CARE A4+ (30-Mar-23)	1)CARE BB+; Stable (22-Feb-22)	1)CARE BB+; Stable (08-Mar-21)
2	Non-fund-based - ST-Bank Guarantee	ST	15.00	CARE A4+	-	1)CARE A4+ (30-Mar-23)	1)CARE A4+ (22-Feb-22)	1)CARE A4+ (08-Mar-21)

LT: Long term; ST: Short term; LT/ST: 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-Cash Credit	Simple
2	Non-fund-based - 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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About us:

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