

## Kaizen Infracon

November 13, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term / Short Term Bank Facilities	200.00	CARE BBB-; Stable / CARE A3	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

Ratings assigned to bank facilities of Kaizen Infracon (KI) favourably factor in the track record of KI's promoters in the civil construction business through their group concern, Iron Triangle Limited (ITL: rated 'CARE A; Stable / CARE A1'). Ratings further derive comfort from KI's growing scale of operations and moderate profitability, comfortable capital structure, and adequate liquidity.

However, above rating strengths are constrained by susceptibility of firm's profitability to volatile input prices and its presence in a highly fragmented and competitive construction industry. Ratings also factor the geographical, client, and segmental concentration of its order book.

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

#### Positive factors

- Growth in total operating income (TOI) with improvement in its profit before interest, lease rentals, depreciation and taxation (PBILDT) margin on a sustained basis, and buildup of order book at 2x or above of TOI.
- Maintaining gross current assets (GCA) days to below 100 days.

#### Negative factors

- Decline in TOI below ₹350 crore and decline in PBILDT margin below 5% on a sustained basis.
- Increase in working capital requirement leading to deterioration in its overall gearing above unity on a sustained basis.

### Analytical approach: Standalone

**Outlook:** Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectations that KI will continue to benefit from its promoters' long-standing experience in the construction industry and sustain the growth in its scale of operations, along with maintenance of its moderate financial risk profile.

### Detailed description of key rating drivers:

#### Key strengths

##### Experienced promoters

KI is co-promoted by Hardik Rangani, son of Bhovan Rangani, who is one of the co-promoters of ITL.

ITL has an established presence of over three decades in the construction sector, while KI has gradually scaled up its operations over the last seven years. KI has strong business linkages with ITL, wherein ITL awards contracts on back-to-back sub-contract basis to KI. As on March 31, 2024, KI's entire orderbook is from ITL.

##### Growth in scale of operations with moderate profitability

KI's TOI grew y-o-y by 209.75% to ₹541.81 crore in FY24 (PY: ₹174.92 crore). The growth in TOI was considering sustained order execution, including that of three hospital construction projects with major execution been done in FY24. In current year, KI has booked sales of ₹185.42 crore till October 05, 2024, and full year TOI is envisaged to be ~₹587 crore.

KI's operating margin remained rangebound of 6-7.5% in the last three years ended FY24 with execution of largely back-to-back contracts and KI's dependence on subcontracting. However, the margin is expected to improve going forward with scale up of operations and direct bid of projects.

##### Comfortable financial risk profile

The firm's capital structure remains comfortable marked by overall gearing of 0.10x as on March 31, 2024 (PY: 0.18x) owing to lower debt level against a moderate net worth of ₹54.11 crore. It is envisaged to deteriorate marginally in the projected period owing to availment of working capital limits in line with increase in execution of direct bid orders, though shall remain moderate. To support the incremental working capital requirements in absence of working capital limits sanctioned presently, partners have infused additional capital amounting to ₹39.15 crore till October 07, 2024.

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

The debt protection metrics marked by PBILDT interest coverage and TD/GCA continued to remain comfortable at 30.95x (PY: 10.06x) and 0.16x (PY: 0.32x), respectively, as of on FY24-end.

### Key weaknesses

#### Geographical, segmental, and client concentration of order book, and order concentration

KI has majorly executed projects for construction of buildings on back-to-back subcontracting from ITL. Moreover, presently entire orderbook of the firm also consists of building construction in Odisha resulting in high segmental, geographical, and client concentration. Also, KI's existing orderbook consists of four projects accounting for nearly 51% of the unexecuted orderbook. This depicts high dependence of firm's revenue on a few projects, and delays in execution of the high-value projects due to non-receipt of requisite approvals may impact its revenue generation significantly.

Also, concentration of the order book in one state exposes KI to adverse changes in political environment or policy matters that could affect the projects at large.

However, KI is favourably placed for execution of projects in Odisha where it has established in-house managerial resources and local knowledge generally required for the smooth execution of projects. Majority subcontracted workorders from ITL are from state and urban development authorities funded by reputed authorities such as Asian Development Bank, and Japan International Cooperation Agency (JICA), among others, translating into low counterparty credit risk.

The firm is planning for direct tender bidding and enter other segments of construction such as road. Overall, scaling up of the current orderbook and completion of the contracts within the specified timelines shall remain crucial from credit perspective.

#### Susceptibility of firm's profitability to volatile input prices

The execution period of contracts of KI usually ranges from 18 to 36 months. Thus, its profitability remains susceptible to fluctuations in input prices such as those of pipes, steel, cement, and sand, among others. Nevertheless, presence of price escalation clause (WPI linked) in the contracts of the orderbook, insulates the firm's profitability to a certain extent.

#### Presence in a highly fragmented and competitive construction industry

KI is a mid-sized player operating in the intensely competitive construction industry, where projects are awarded based on relevant experience of the bidder, financial capability, and most attractive bid price. The competitive intensity is considering the presence of large number of contractors resulting in aggressive bidding, which restricts margins. However, thrust of the government on infrastructure development is expected to positively impact mid-sized construction players such as KI in the medium term.

#### Liquidity: Adequate

KI's liquidity remains adequate marked by healthy gross cash accruals against small amount of debt repayment obligations.

The construction segment is inherently working capital intensive primarily due to funding requirement towards the security deposits, retention amount and margin money for the non-fund-based facilities, apart from the inventory and receivables. Presently, the firm does not have sanctioned bank limits as it operates on a lean cycle. However, going forward, the working capital requirement is envisaged to increase with growth in scale of operations and execution of own bid projects, and thus the firm has proposed fund and non-fund-based working capital limits of ₹200 crore, which is expected to aid its liquidity cushion.

The promoters have demonstrated track record of providing financial support in the form of USL / capital for funding the working capital requirements.

KI reported negative cash flow from operations (CFO) of ₹5.27 crore in FY24 (₹28.35 crore in FY23) owing to an increase in inventory and receivables with significant scale up of operations.

As on March 31, 2024, KI had a free cash and bank balance of ₹7.08 crore (PY: ₹11.69 crore), apart from lien marked FDs of ₹5.72 crore (PY: ₹3.04 crore).

**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](#)

[Short Term Instruments](#)

## About the company and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil construction

Gujarat-based KI started its operations as a partnership firm in 2017. The firm is promoted by Bhovan Rangani, Hardik Rangani, and Bhavna Rangani.

KI primarily operates as an EPC contractor /sub-contractor for construction of buildings in Odisha. The firm has constructed types of buildings, including commercial, residential, institutional, hospitals, medical colleges, government administrative buildings, and civil infrastructure work.

KI registered as a "AA" Class contractor with Executive Engineer District (Roads and Buildings Division), Government of Gujarat, and a "Super" Class contractor with Engineer-in-Chief (Civil) Odisha, Government of Odisha.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	5MFY25 (UA)
Total operating income	174.92	541.81	185.00
PBILDT	12.99	35.57	NA
PAT	10.54	32.73	NA
Overall gearing (times)	0.18	0.10	NA
Interest coverage (times)	10.06	30.95	NA

A: Audited UA: Unaudited; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of 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 and Rating Outlook
Fund-based/Non-fund-based-LT/ST		-	-	-	200.00	CARE BBB-; Stable / CARE A3

### Annexure-2: Rating history for 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 2024-2025	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
1	Fund-based/Non-fund-based-LT/ST	LT/ST	200.00	CARE BBB-; Stable / CARE A3				

LT/ST: Long term/Short term

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

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

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based/Non-fund-based-LT/ST	Simple

**Annexure-5: Lender details**

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

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for clarifications.

### Contact us

<b>Media Contact</b>  Mradul Mishra Director <b>CARE Ratings Limited</b> Phone: +91-22-6754 3596 E-mail: <a href="mailto:mradul.mishra@careedge.in">mradul.mishra@careedge.in</a>  <b>Relationship Contact</b>  Ankur Sachdeva Senior Director <b>CARE Ratings Limited</b> Phone: 912267543444 E-mail: <a href="mailto:Ankur.sachdeva@careedge.in">Ankur.sachdeva@careedge.in</a>	<b>Analytical Contacts</b>  Kalpesh Ramanbhai Patel Director <b>CARE Ratings Limited</b> Phone: 079-40265611 E-mail: <a href="mailto:kalpesh.patel@careedge.in">kalpesh.patel@careedge.in</a>  Nikita Goyal Associate Director <b>CARE Ratings Limited</b> Phone: 079-40265619 E-mail: <a href="mailto:nikita.goyal@careedge.in">nikita.goyal@careedge.in</a>  Devangi Shah Lead Analyst <b>CARE Ratings Limited</b> E-mail: <a href="mailto:Devangi.shah@careedge.in">Devangi.shah@careedge.in</a>
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### About us:

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