

## JK Electric Engineers Private Limited

December 02, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	13.07 (Reduced from 13.60)	CARE BB; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	2.62 (Enhanced from 2.09)	CARE BB; Stable / CARE A4	Downgraded from CARE BB; Stable / CARE A4+
Long Term / Short Term Bank Facilities	37.00	CARE BB; Stable / CARE A4	LT rating assigned and ST rating downgraded from CARE A4+

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The downgrade in the short-term rating assigned to the bank facilities of JK Electric Engineers Private Limited (JKEEPL) factors in the company's stretched liquidity position as reflected by almost full utilization of the working capital limits, small scale of operations, leveraged capital structure marked by high overall gearing and weak debt coverage indicators. The ratings continue to remain constrained by highly fragmented and competitive industry, working capital-intensive operations, and business risk associated with the tender-based orders with absence of price escalation clause in majority of the work contracts. However, these rating weaknesses are partially offset by moderate profitability margins and healthy order book position providing medium term revenue visibility, and experienced promoters with long track record of operations.

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

#### Positive factors

- Improvement in scale of operations as marked by total operating income (TOI) of above Rs.115 crore on a sustained basis along with sustenance of unexecuted order book position to more than 2x of the previous years' turnover and profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin above 10%.

#### Negative factors

- Any incremental borrowings leading to a deterioration in capital structure as marked by overall gearing of above 3.5x on a sustained basis.
- Sustenance in elongation of average collection period beyond 100 days.
- Inherent risk associated with political instability in relatively vulnerable region of Jammu and Kashmir (J&K).

### Analytical approach: Standalone

#### Outlook: Stable

The 'Stable' outlook reflects the CARE Ratings Limited's (CARE Ratings') opinion that the company shall continue to benefit from the long standing experience of the promoters in the civil construction industry.

### Detailed description of the key rating drivers

#### Key weaknesses

##### Small scale of operations

TOI (total operating income) of the company decreased to Rs.40.34 crore in FY24 (refers to the period from April 01, 2023, to March 31, 2024) from Rs. 73.14 crore in FY23. on account of the delay in release of funds by government departments. Nevertheless, the scale of operations remains small, and it limits the financial flexibility of the company in times of stress and deprives it of scale benefit. In 7MFY25 (refers to the period from April 01, 2024, to October 31, 2024), the company booked a TOI of Rs.27.91 crore (PY: Rs.15.51 crore) and is expected to book a TOI of ~Rs.80 crore in FY25, backed by unexecuted order book of ~Rs.115 crore as on October 31, 2024. Further, profitability margins of the company continue to remain moderate in FY24 as reflected by the PBILDT and profit after tax (PAT) margin of 10.42% (PY: 9.56%) and 5.27% (PY: 5.41%) respectively.

##### Leveraged capital structure and weak debt coverage indicators

The capital structure of the company stood leveraged as marked by overall gearing of 2.06x as on March 31, 2024 (PY: 1.57x), largely on account of high utilization of working capital borrowings. Further, the debt coverage indicators stood weak as marked by interest coverage and total debt to gross cash accruals (TD/GCA) of 2.08x (PY: 3.17x) and 16.29x (PY: 6.43x) respectively in FY24, due to high debt levels and decline in gross cash accruals (GCA) in line with fall in total operating income.

**Highly fragmented and competitive nature of industry**

JKEEPL faces direct competition from various organized as well as unorganized players in the market. There are many small and regional players catering to the same market which limits the company's bargaining power and exerts pressure on its margins. Additionally, increase in execution challenges including regulatory clearances and longer gestation period of projects collectively put pressure on the credit profile of the players.

**Business risk associated with the tender-based orders and absence of price escalation clause in majority of work contracts**

JKEEPL's business is tender based which is characterized by intense competition. Thus, the growth of business depends upon its ability to successfully bid for tenders and emerge as the lowest bidder. Moreover, tenders are primarily dependent on budgetary funds allocation. Any change in government policy or spending on projects are likely to affect the revenues. Therefore, JKEEPL's ability to secure new orders and successful execution with existing competition remains critical from credit perspective. Further, in the absence of any backward integration, it procures its key raw materials such as steel, cement, sand, etc. from approved vendors/regional players specified by respective clients at market rates, which makes its margins susceptible to the volatility in input prices. Owing to absence of price escalation clause in majority of the work contracts, the adverse volatility may adversely impact the company's profitability margins. Thus, the ability of the company to maintain profitability margins is also critical from the credit perspective. Moreover, JKEEPL derives majority of its revenue from work orders in the state of J&K which exposes it to geographical concentration risk and also closely ties its fortune to the incremental development of civil and electrical projects in the state.

**Working capital-intensive operations**

The operations of the company are working-capital intensive as marked by gross current asset which stood at 473 days in FY24 (PY: 183 days). When there is an indication of funds with government departments, the company raises invoice on a milestone basis i.e., on completion of certain percentage of work contract, which gets acknowledged by the department post inspection of work done by it. Post inspection, the department clears the payment to the company. In FY24, the average collection period of the company stood elongated at 150 days (PY: 87 days), on account of delay in release of funds by departments. The company receives supplier's credit of 3-4 months and maintains inventory level of 2-3 months. Furthermore, it also does sub-contracting of work orders and payment to sub-contractors is made once it receives the payment from government departments.

**Key strengths****Experienced promoters and long track record of operations**

JKEEPL was incorporated as a proprietorship firm in 2004. Later, in August 2017, it got converted into Private Limited company. It is managed by Mr. Arun Kumar and his spouse, Mrs. Neeru Sharma. They both are graduates and have an extensive industry experience of over two decades in setting up an electrical substations and transmission lines. The promoters' prior experience in the industry has helped them to gain a better understanding of market dynamics and enabled them to establish long standing relationships with suppliers and customers.

**Moderate order book position**

As on October 31, 2024, the unexecuted order book of the company stood moderate at Rs.115.42 crore, which is to be executed by it in the next 12-18 months, thereby providing revenue visibility over the near term. Most of the orders being executed are fixed price, fixed time in nature and hence effective and timely execution of work orders has direct bearing on the margins attained.

**Liquidity: Stretched**

The liquidity position of the company is stretched, marked by high utilization of working capital borrowings, which stood ~90%-100% utilized in the trailing 12 months ending October 31, 2024. Further, it had low free cash and bank balance of Rs.0.08 crore as on October 31, 2024. However, the repayment obligations for FY25 is estimated at ~Rs.0.50 crore as against expected gross cash accruals of around Rs.2.50 crore. The firm is not planning to incur any major capex in the near to medium term.

**Applicable criteria**

[Definition of Default](#)

[Financial Ratios – Non financial Sector](#)

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

[Rating Outlook and Rating Watch](#)

[Short Term Instruments](#)

[Service Sector Companies](#)

[Construction](#)

## About the company and industry

### Industry classification

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

Based in Jammu, the company is engaged in providing services of electrical and civil infrastructure in J&K and Madhya Pradesh regions. It supplies cables and provides service relating to designing, engineering, testing and commissioning of the electric sub stations, grid stations etc. to government departments as well as private organisations such as Power Grid Corporation of India Limited (*rated CARE AAA; Stable/CARE A1+*), Konkan Railway Corporation Limited (*rated CARE AA+; Stable*), REC Transmission Projects Company Ltd., among others.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	October 31, 2024 (UA)*
Total operating income	73.14	40.34	27.91
PBILDT	6.99	4.20	2.38
PAT	3.96	2.13	1.66
Overall gearing (times)	1.57	2.06	1.13
Interest coverage (times)	3.17	2.08	3.72

A: Audited, UA: Unaudited, Note: 'the above results are latest financial results available'.

\*Refers to the period from April 01, 2024 to October 31, 2024.

**Status of non-cooperation with previous CRA:** CRISIL has retained the ratings assigned to the bank facilities of JKEEPL under Issuer Not Cooperating (INC) category vide its press release dated October 08, 2024, on account of its inability to carry out review of ratings in the absence of requisite information from the company.

**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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	12.00	CARE BB; Stable
Fund-based - LT-Term Loan		-	-	31-03-2027	1.07	CARE BB; Stable
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	2.62	CARE BB; Stable / CARE A4
Non-fund-based - LT/ ST - Bank Guarantee		-	-	-	37.00	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 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	Non-fund-based - LT/ST-Bank Guarantee	LT/ST	37.00	CARE BB; Stable / CARE A4	-	1)CARE A4+ (05-Sep-23)	1)CARE A4+ (30-Jun-22)  2)CARE A4; ISSUER NOT COOPERATING* (05-Apr-22)	1)CARE A4 (20-Jul-21)
2	Fund-based - LT - Cash Credit	LT	12.00	CARE BB; Stable	-	1)CARE BB; Stable (05-Sep-23)	1)CARE BB; Stable (30-Jun-22)  2)CARE BB-; Stable; ISSUER NOT COOPERATING* (05-Apr-22)	1)CARE BB-; Stable (20-Jul-21)
3	Fund-based - LT - Term Loan	LT	1.07	CARE BB; Stable	-	1)CARE BB; Stable (05-Sep-23)	1)CARE BB; Stable (30-Jun-22)  2)CARE BB-; Stable; ISSUER NOT COOPERATING* (05-Apr-22)	1)CARE BB-; Stable (20-Jul-21)
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST	2.62	CARE BB; Stable / CARE A4	-	1)CARE BB; Stable / CARE A4+ (05-Sep-23)	1)CARE BB; Stable / CARE A4+ (30-Jun-22)	-

\*Issuer did not cooperate; based on best available information.

LT: Long term; 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 - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	Simple
4	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 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 for clarifications.

**Contact us**

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