

**KLSR Infratech Limited**

December 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	45.00	CARE BBB+; Stable	Upgraded from CARE BBB; Stable
Long-term / Short-term bank facilities	350.00	CARE BBB+; Stable / CARE A2	Upgraded from CARE BBB; Stable / CARE A3+
Short-term bank facilities	5.00	CARE A2	Upgraded from CARE A3+

Details of instruments/facilities in Annexure-1.

**Rationale and key rating drivers**

Revision in ratings assigned to bank facilities of KLSR Infratech Limited (KLSR) derives strength from wide experience of the promoter, healthy orderbook position having moderate counterparty risk, increasing scale of operation in FY24 (FY refers to April 01 to March 31), satisfactory operating cycle, comfortable capital structure and debt coverage metrics.

However, ratings are constrained by the sectorial and geographical concentration risk, reliance on subcontracting for execution of orders due to lower asset base, stretched collection period and fragmented nature of the construction sector with tender-based nature of operations and execution challenges.

CARE Ratings Limited (CARE Ratings) has factored litigation against the company in National Company Law Tribunal (NCLT) and National Company Law Appellate Tribunal (NCLAT). CARE Ratings expects no major impact on the company, given that the litigation is of small amount that can be paid from cash balance. However, unfavourable outcome pertaining to the litigation may hamper KLSR's operations. Thus, it remains a key monitorable.

**Rating sensitivities: Factors likely to lead to rating actions**
**Positive factors**

- Significant increase in scale of operations, with improved geographical diversification and operating margin of 11.00% on sustainable basis.
- Sustenance of collection days to below 60 days with overall gearing less than 0.15x.

**Negative factors**

- Delay in sanctioning for additional working capital limits, leading to delaying of execution of works-in-hand, further leading to cost and time overrun.
- Elongation of operating cycle beyond 90 days.
- Unfavourable outcome of pending litigation.

**Analytical approach: Standalone**
**Outlook: Stable**

The stable outlook reflects satisfactory order book position, which is expected to aid growth of the company's scale of operations and support its profitability.

**Detailed description of key rating drivers:**
**Key strengths**
**Experienced promoter with established track record of operations**

KLSR is part of the KLSR group. The KLSR group was started under the leadership of Lakshmi Sreedhar Reddy Kolli (Managing Director), who has over two decades of experience in engineering, procurement & construction (EPC) and real estate business. Apart from the EPC business, the group is engaged in construction of real estate project in Bengaluru. KLSR has completed prominent water supply projects worth of over ₹5,000 crore under the government initiatives such as the AMRUT schemes in Andhra Pradesh and Mission Bhagiratha Schemes in Telangana. The company has completed individual projects worth over ₹600 crore each.

<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.

### Healthy orderbook position with moderate counterparty risk

As on September 30, 2024, KLSR has a total order book of ₹3123.49 crore in hand, which translates to 4.80x of gross billing of FY24. which further indicates medium-to-long term revenue visibility. Executable order book of ₹2979.94 crore translates to 4.58x of gross billing of FY24. Entire orderbook is funded by central or state government entity, which partly mitigates counterparty risk. The company has secured four new orders totalling ₹814.87 crore in FY25.

### Increasing scale of operation

KLSR's total operating income (TOI) increased by 29.07% to ₹650.52 crore in FY24 from ₹503.97 crore in FY23 considering execution of existing orders, and moderate contribution from steel strapping business. In FY24, operating profit increased to ₹67.70 crore against ₹46.37 crore in FY23 and profit after tax (PAT) increased to ₹60.70 crore from ₹40.43 crore in FY23. Operating margin has increased to 10.41% in FY24 from 9.20% in FY23 considering significant increase in turnover and decrease in price of raw materials by 45.26%. Going further, scale of operation is expected to improve, and profitability is expected to be in line with past performance.

### Comfortable capital structure and debt coverage metrics

KLSR's debt profile primarily comprises of working capital facility, COVID-19 loans and unsecured loans from promoters. Comfortable capital structure is marked by low overall gearing in FY24 of 0.08x. Other debt metrics also remained comfortable with total outside liabilities to total net worth (TOL/TNW) at 0.41x in FY 24 compared to 0.34x in FY23, total debt to gross cash accruals (TD/GCA) improved to 0.60x as on March 31, 2024 against 0.90x as on March 31, 2023 and PBILDT/interest coverage ratio improved to 9.24x in FY24 from 8.68x in FY23 considering increase in PBILDT on absolute terms. Debt coverage metrics are expected to slightly deteriorate going further considering increase in cash credit limits, which will remain comfortable.

### Stable demand outlook for construction industry in India

The construction industry contributes ~8% to India's gross domestic product (GDP). Growth in infrastructure is critical for the development of the economy and hence, the construction sector assumes an important role. The sector was marred by varied challenges in the last few years considering economic slowdown, regulatory changes and policy paralysis, which had adversely impacted financial and liquidity profile of players in the industry. Government of India (GoI) has undertaken several steps for boosting infrastructure development and revive the country's investment cycle. This gradually resulted in increased order inflow and movement of passive orders in the existing order book of players. Thus, demand outlook for the construction industry remains stable; though shall also depend on movement in the order book, financial health of companies and effectiveness of government support.

### Key weaknesses

#### Sectorial and geographical concentration risk

KLSR's outstanding orderbook is concentrated to water supply and its related projects. Outstanding orders are from Karnataka (44.27%) followed by Andhra Pradesh (28.10%), Uttar Pradesh (8.85%) and Telangana (18.77%). The company is planning to further diversify its geographic presence by bidding for orders in other locations as well.

#### Reliance on subcontracting due to lower asset base

KLSR hires required equipment and gets orders executed from subcontractors. For execution of orders, raw materials such as pipes will be provided to the sub-contractors and the civil work be carried by sub-contractors.

#### Stretched collection period though satisfactory operating cycle

Operating cycle remained satisfactory and improved to eight days in FY24 compared to 97 days in FY23 considering improvement in average collection period. Average collection period improved to 50 days in FY24 from 141 days in FY23 considering decrease in total receivables from ₹108.48 crore in FY23 to ₹72.90 crore in FY24 and significant increase in TOI. Creditors days improved to 47 days as on March 31, 2024, from 49 days as on March 31, 2024, due to receipt of receivables. Going forward, collection cycle is expected to improve considering timely receipt of bills from the ongoing project.

#### Fragmented nature of the construction sector with tender-based operations and execution challenges

The infrastructure sector in India is highly fragmented with a large number of small and mid-sized players. This, and tendering process in order procurement results in intense competition within the industry, fluctuating revenues and restrictions in profitability. Continued increase in execution challenges, including delays in land acquisition, regulatory clearances, aggressive bidding, interest rate risk, and delays in projects due to environmental clearance are other external factors that affect the credit profiles of industry players. All these are tender-based and revenues depend on the company's ability to bid on them successfully. Profitability margins come under pressure because of the industry's competitive nature. There are numerous fragmented and unorganised players operating in the segment, which makes civil construction space highly competitive. However, the company's long industry experience mitigates this risk to some extent.

#### Liquidity: Strong

Strong liquidity is marked by generation of ₹51.50 crore gross cash accruals against repayment of ₹6.00 crore in FY25. Average fund based working capital utilisation remained lower at 27% for 12-months ended September 2024. The company has unencumbered cash and bank balance of ₹176.36 crore as on March 31, 2024.

**Assumptions/Covenants:** Not applicable

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

**Applicable criteria**

[Definition of Default](#)

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

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**About the company and industry**

**Industry classification**

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil construction

KLSR was incorporated as proprietorship firm under the name of 'K.L. Sreedhar Reddy'. The firm was converted into unlisted public limited company in January 2011 and received its current nomenclature. The company was started under the leadership of Lakshmi Sreedhar Reddy Kolli (Managing Director). KLSR undertakes projects related to water supply works, which includes construction of ground level service reservoir (GLSR), construction of pump house, laying underground pipes, construction and maintenance of water purifying plant, among others in Karnataka, AP, Uttar Pradesh and Telangana. The company has executed projects under Atal Mission for Rejuvenation and Urban Transformation (AMRUT) scheme, Mission Bhagiratha scheme and Jal Jeevan Mission among others. The company is also into manufacturing steel strapping in Hyderabad.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	503.97	650.52	253.73
PBILDT	46.37	67.70	28.76
PAT	40.43	60.70	24.17
Overall gearing (times)	0.16	0.14	NA
Interest coverage (times)	8.96	9.48	7.86

A: Audited UA: Unaudited; NA: Not Available Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Infomerics migrated the rating assigned to bank facilities of KLSR Infratech Limited into the Issuer Not Cooperating category vide press release dated September 06, 2024, considering its inability to review in the absence of the 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		-	-	-	45.00	CARE BBB+; Stable
Fund-based - ST-Working Capital Limits		-	-	-	5.00	CARE A2
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	350.00	CARE BBB+; Stable / CARE A2

**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 - LT-Cash Credit	LT	45.00	CARE BBB+; Stable	-	1)CARE BBB; Stable (22-Mar-24)	-	-
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	350.00	CARE BBB+; Stable / CARE A2	-	1)CARE BBB; Stable / CARE A3+ (22-Mar-24)	-	-
3	Fund-based - ST-Working Capital Limits	ST	5.00	CARE A2	-	1)CARE A3+ (22-Mar-24)	-	-

LT: Long term; ST: Short 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 - ST-Working Capital Limits	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple

**Annexure-5: Lender details**

To view 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.

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### About us:

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### Disclaimer:

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