

Kantharaj H M

December 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	9.00	CARE B+; Stable	Assigned
Long Term Bank Facilities	18.00 (Enhanced from 15.00)	CARE B+; Stable	Rating removed from ISSUER NOT COOPERATING category and Upgraded from CARE B-; Stable
Long Term / Short Term Bank Facilities	2.00	CARE B+; Stable / CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Ratings of Kantharaj H M (KHM) were earlier placed under the 'Issuer not cooperating (INC)' category as the company had not provided information for carrying out the surveillance exercise. KHM has now shared the requisite information with CARE Ratings Limited (CARE Ratings), and accordingly, the rating has been removed from 'INC'.

The revision in ratings assigned to the bank facilities of KHM factors in modest scale of operations, with decline in revenue of the company in FY24; albeit recovery witnessed in H1FY25.. The ratings continue to remain constrained by Constitution of entity as a proprietorship concern, modest net worth along with working capital-intensive nature of operations with high operating cycle marked by high gross current assets. PWD contractor and executing contracts in Karnataka state, exposes the company to high customer and geographical concentration risk. Due to tender based nature of operations, the revenues of the company are dependent on the company's ability to bid successfully for these tenders.

The ratings, however, continue to derive strength from its promoters who have two-decade long experience in the business and stable profit margins in last three years.

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

- Improvement in scale of operations above Rs. 80 Cr, net worth of more than Rs. 20 crores, while maintaining ROCE above 18% and TOL/TNW less than 1x.

Negative factors

- Significant decline in the scale of operation with decline in PBILDT margins below 10%

Analytical approach: Standalone

Outlook: Stable

The stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that the firm would benefit from promoter's long track record of getting steady flow of orders from government tenders and Execution of pending orders.

Detailed description of key rating drivers:
Key weaknesses
Tender based nature of operations in highly fragmented industry

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

KHM receives 100% work orders from government departments. All these are tender-based and the revenues are dependent on the partner's ability to bid successfully for these tenders. Profitability margins come under pressure because of competitive nature of the industry. However, the promoter's satisfactory industry experience of two decades mitigates this risk to some extent. Nevertheless, there are numerous fragmented & unorganized players operating in the segment which makes the civil construction space highly competitive.

Working capital intensive nature of operations

KHM operates in a working capital-intensive industry, as reflected by Gross Current Asset (GCA) days and working capital cycle of 210 days (PY: 188 days) and 121 days respectively during FY24 (PY: 77 days). The counterparty is mainly government backed entities wherein the payments are assured but stretched, firm generally receives the funds within 6 months after bill is raised. Consequently, similar terms are negotiated with the creditors. Firm does not get any mobilisation advance for the orders.

Constitution of entity as a proprietorship concern with inherent risk of withdrawal of capital

Being a Proprietorship firm, KHM is exposed to inherent risk of Proprietors' capital being withdrawn at a time of personal contingency. Moreover, proprietorship business has restricted avenues to raise capital which could prove hindrance to its growth.

Key strengths

Experienced promoter with a long track record of operations

The proprietor, Mr. Kantharaj H M, has been in the business of undertaking construction contracts for over two decades. The firm was established in year 1997 and since its inception, KHM has undertaken a number of construction contracts of roads, buildings, bridges. Due to its long-term presence in the market, the firm has established good relationship with government organizations and suppliers.

The orderbook position as on October 31, 2024 was at Rs.150 crore indicating a orderbook to sales of 3.75x, however, the execution of orders generally take 1.5 to 2 years, thus indicating short term revenue visibility in the near term.

Stable PBILDT margins

KHM's operating profitability exhibited a stable trend with a profit before interest, lease rentals, depreciation, and taxation (PBILDT) margin remained healthy within the range of 13-15% during last 5 years ended FY24, except exceptional increase in margins to 29.08% in FY22. It stood moderate at 14.72% during FY24. Profit after Tax (PAT) margin stood comfortable on account of low interest and depreciation costs. Return on capital employed (ROCE) stood comfortable at 15.40% during FY24 (PY: 25.58%).

Liquidity: Stretched

KHM's liquidity is constrained by its relatively small scale of operations which restricts its financial flexibility marked by highly utilized bank limits (90-95%) and modest cash balance of Rs.1.40 crore as on March 31, 2024. However, the firm reported lower accruals as against its repayment obligations with below unity current ratio of 0.87 times as on March 31, 2024.

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

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil Construction

Kantharaj H M (KHM) is a proprietorship firm established in 1997 by Mr. Kantharaj H M in Hassan, Karnataka. The firm is a class I contractor for Public Works Department (PWD), Karnataka for undertaking civil constructions of buildings, roads, bridges etc. Over the last few years, KHM has undertaken various contracts for construction of roads, buildings in Hassan, Shimoga, Mysore, Mandya and Bengaluru regions of Karnataka for the Public Works Department. Currently, the firm is executing contracts for Cauvery Neervari Nigama Limited (CNL) and Karnataka Public Works Department in South Karnataka.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	September 30, 2024 (UA)
Total operating income	63.24	40.61	33
PBILDT	8.58	5.98	NA
PAT	5.51	2.89	NA
Overall gearing (times)	1.73	2.17	NA
Interest coverage (times)	3.84	2.60	NA

A: Audited UA: Unaudited NA: Not Available; 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 - LT-Bank Overdraft		-	-	-	18.00	CARE B+; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	2.00	CARE B+; Stable / CARE A4
Term Loan-Long Term		-	-	NA	9.00	CARE B+; Stable

NA: Not Available

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-Bank Overdraft	LT	18.00	CARE B+; Stable	-	1)CARE B-; Stable; ISSUER NOT COOPERATING * (25-Jan-24)	1)CARE B-; Stable; ISSUER NOT COOPERATING * (04-Jan-23)	1)CARE B; Stable; ISSUER NOT COOPERATING * (26-Oct-21)
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST	2.00	CARE B+; Stable / CARE A4				
3	Term Loan-Long Term	LT	9.00	CARE B+; Stable				

*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-Bank Overdraft	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	Simple
3	Term Loan-Long Term	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

Media Contact Mradul Mishra Director CARE Ratings Limited Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Analytical Contacts Karthik Raj K Director CARE Ratings Limited Phone: +91 80 4662 5555 E-mail: karthik.raj@careedge.in
Relationship Contact Saikat Roy Senior Director CARE Ratings Limited Phone: 912267543404 E-mail: saikat.roy@careedge.in	Manohar S Annappanavar Associate Director CARE Ratings Limited Phone: +91 80 4662 5525 E-mail: manohar.annappanavar@careedge.in
	Saket Upadhyay Analyst CARE Ratings Limited E-mail: Saket.upadhyay@careedge.in

About us:

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