

Kargwal Constructions Private Limited

April 17, 2025

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long Term Bank Facilities	13.00	CARE BB (RWD)	Placed on Rating Watch with Developing Implications
Short Term Bank Facilities	22.00	CARE A4 (RWD)	Placed on Rating Watch with Developing Implications

Details of instruments/facilities in Annexure-1

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has placed ratings assigned to the bank facilities of Kargwal Constructions Private Limited (Kargwal) on "Rating Watch with Developing Implications (RWD)" as per the board resolution received from Kargwal dated February 25, 2025, wherein respective company's board has approved the scheme of amalgamation between Kean Construction Private Limited (Kean) and Kargwal. Further, Kargwal has filed the application before NCLT dated March 26, 2025. The scheme is subject to requisite approvals from the National Company Law Tribunal (NCLT). The proposed merger would bring synergies in business, increase operation efficiency, integrate business functions and reduction in costs of the merged entity. The said merger is expected to strengthen its operational risk profile while the financial risk profile is expected to remain at a similar level. CARE Ratings will continue to closely monitor developments in this announcement and will take a view accordingly on Kargwal's ratings post-merger.

The reaffirmation of the rating assigned to the bank facilities of Kargwal Constructions Private Limited (Kargwal); and its subsidiaries, commonly referred to as 'Kargwal Group' or 'Group') is tempered by groups small scale of operations, limited order book position along with client concentration, working capital intensive nature of operations and stretched liquidity position. The rating is further tempered by the group's highly competitive and fragmented industry with tender driven nature of operations and geographical concentration risk.

The rating continues to derive strength from resourceful and highly experienced promoters, well-established track record in construction business, moderate profitability margin and comfortable financial risk profile of the group.

Rating sensitivities: Factors likely to lead to rating actions

Positive Factors

- Increase in the scale of operations with a total operating income exceeding Rs.120.00 crore on a sustained basis
- Improvement in the gross current assets period reaching below 160 days on a sustained basis
- Substantial improvement in the order book position exceeding ~3 times of the projected gross revenue thereby providing revenue visibility in the medium term

Negative Factors

- Deterioration in capital structure with overall gearing exceeding unity level on a sustained basis
- Deterioration in total debt to Gross Cash Accruals reaching over 6 times on a sustained basis
- Decline in profitability margin with PBILDT margin below 7% on a sustained basis

Analytical approach: Consolidated

The analytical approach has been changed from standalone to consolidated on account of strong operational and financial linkages amongst Kargwal and its subsidiaries involved in the similar line of business with common management. Further, Kargwal has control over the management and operations of its subsidiaries and Kargwal has demonstrated financial support to the subsidiaries in the past. List of entities considered for consolidation mentioned in Annexure- 6.

Outlook: Not applicable

Detailed description of the key rating drivers:

Key weaknesses

Small and fluctuating scale of operations: On a consolidated basis, TOI of Kargwal Group remained fluctuating in the range of Rs.80.23 crore to Rs.111.88 crore during FY22 to FY24. The TOI has reduced to Rs.102.84 crore in FY24 (vis-à-vis Rs.111.88 crore in FY23 and Rs.80.23 crore in FY22) primarily due to slower execution of newly received orders, as the initial

phase of these orders typically takes longer to obtain necessary approvals from various authorities. Further, during 7MFY25, the group reported TOI of Rs. 52.57 crores.

On a standalone basis TOI of Kargwal has significantly reduced to Rs.47.04 crore in FY24 from Rs.59.23 crore in FY23 due to lower execution of the order which remained concentrated across single customer.

Relatively lower and concentrated order book position: The group has a relatively lower unexecuted order book position amounting to 96.66 crore as on December 12, 2024 (0.96x of TOI in FY24) which is to be executed in the next 2 years. Out of total unexecuted orders, the order from Mumbai Port Trust for construction of new fish jetty consists of Rs. 86.90 crore which forms 90% of total unexecuted order book.

Working capital intensive operations: The operations of the group are working capital intensive in nature with funds being blocked in debtors and inventory. The group presents the bills to its clients on a percentage completion basis and being into construction activity given the service nature of operations where company purchases the inventory based on the orders received. Also, as the company completely deals with government projects due to which average inventory of the group's on consolidated basis continues to remain high at 68 days in FY24 (vis-à-vis 60 days in FY23). Furthermore, the company is required to maintain a security deposit as retention money of 2-5% of the contract value (depending upon the value and nature of contract) at the time of entering into the contract, thus, the collection period remained at 70 days in FY24 (vis-à-vis 63 days in FY23). Further, the groups received ~60 days of credit period from its suppliers. Thus, the operating cycle of the group remained moderate; albeit elongated at 87 days in FY24 (vis-à-vis 75 days in FY23).

On Kargwal's standalone basis, the working capital cycle stood at 131 days in FY24 (vis-à-vis 124 days in FY23) with collection period stood at 56 days and inventory days at 142 days in FY24 (vis-à-vis 61 days and 114 days respectively in FY23).

Susceptibility of profit margins due to volatile material prices: The raw material (mainly cement and steel) is the major cost driver and the prices of the same are volatile in nature, thus exposing its profitability to adverse price fluctuations in the prices of material. However, the same is being mitigated to an extent due to the existence of price escalation clause in the contract.

Highly competitive and fragmented industry with tender driven nature of operations: The civil construction industry is fragmented in nature with a large number of medium and small-scale players present at regional level. This coupled with the tender-driven nature of construction contracts creates huge competition and may put pressure on the profit margins of the players. Moreover, the tenders mainly depend on the budgetary fund allocations. Furthermore, the site & environment clearance risk is also associated with the project due to which the timely completion is a constraint.

Key strengths

Experienced promoters: Kargwal is a part of Kargwal Group founded by Mr. Murli H Varma which has been into construction business since 1975. The Kargwal Group has a presence in diverse construction activities ranging from industrial plants, ports, bridges, real estate activities viz. townships of residential and commercial complexes etc. Currently the overall management of the company is handled by Mr. Dharmesh Rajendra Varma and Ashish Bharatbhai Kansara both the promoters mutually handle the operations of the company who possess an average experience of more than two decades in same line of business through their association with the group entities.

Declined albeit moderate profit margins during FY24: The group's consolidated profitability margins continuously declined during the past three financial years ended FY24. The PBILDT margin declined from 9.29% in FY23 to 8.19% in FY24 due to slow-moving orders and delays in execution caused by changes in the scope of work from the client's side leading to lower realization. These changes led to increased project costs, and the company was unable to secure the expected escalation benefits, ultimately impacting on its profit margins. Furthermore, the PAT margin of the company declined from 2.81% in FY23 to 1.28% in FY24 due to an increase in depreciation as well as finance costs. On a consolidated basis, the PBILDT margin of the company is expected to remain at similar levels in the near term.

On standalone basis, Kargwal's PBILDT margin declined from 12.26% in FY23 to 5.95% in FY24 and PAT margin also declined from 5.33% in FY23 to 2.99% in FY24.

Comfortable capital structure and debt coverage Indicators: On consolidated basis, the capital structure of the group has improved and stood comfortable marked by overall gearing stood at 0.61x as on March 31, 2024 (vis-à-vis 0.75x as on March 31, 2023) on account reduction in total debt due to repayment of unsecured loans from others. The debt coverage indicators have deteriorated marginally and remained moderate with total debt to GCA stood at 4.98 times in FY24 (vis-à-vis 4.57x in 23) and interest coverage at 3.25x in FY24 (vis-à-vis 4.45x in FY23) due to lower profitability during FY24.

On a standalone basis, Kargwal's capital structure stood comfortable with overall gearing stood at 0.45x as on March 31, 2024 (vis-à-vis 0.57x as on March 31, 2023). Debt coverage indicators stood moderate with TD/GCA at 3.80x in FY24 (vis-à-vis 3.57x in FY23) and interest coverage at 1.10x in FY24 (vis-à-vis 3.12x in FY23).

Liquidity: Stretched

Liquidity is marked by highly utilized bank limits and modest cash balance. The group has sufficient gross cash accruals against repayment obligations of Rs. 4.72 crores (including repayment of unsecured loan of ~Rs. 3 crore) for FY25 and Rs.1.46 crore for FY26. Further, on a consolidated basis the group has cash and bank balance of Rs. 2.07 crore as on March 31, 2024 (vis-à-vis Rs.0.74 crore as on March 31, 2023). The average utilization of the fund based working capital limits on a consolidated basis, almost fully utilized in past 12 months ended as on November 30, 2024. Further, net cash flow from operations stood positive at Rs. 16.68 crore in FY24 (vis-à-vis negative of Rs.3.50 crore in FY23). The current ratio and quick ratio stood at 1.29x and 0.73x respectively as on March 31, 2024 (vis-à-vis 1.35x and 0.91x respectively as on March 31, 2023).

Applicable criteria:

[Definition of Default](#)

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

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Construction Sector](#)

[Short Term Instruments](#)

[Consolidation & Combined Approach](#)

About the company and industry

Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil Construction

Kargwal Constructions Private Limited (Kargwal) is a part of Kargwal group promoted by Mr. Murli H Varma in the year 2007 and currently managed by Mr. Dharmesh Rajendra Varma and Mr. Ashish Bharatbhai Kansara as present directors of the company. Kargwal and the group are engaged in civil construction and engineering work of ports and jetties for central government infrastructure project and other public sector undertakings. Furthermore, the company also undertakes work orders for pilling and drilling for rotary rugs. Furthermore, 90% of the revenue is generated from Central government tendering and bidding process and 10% from pilling works. The group has completed over 200 jetties and port across PAN India. On the other hand, the company procures various materials viz. clovers, frames, nets, steel & TMT sheets, metals, bars, angles, pipes, sand, bricks, cement, etc. from the domestic suppliers where the project is going on.

Consolidated:

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	7MFY25 (UA)
Total operating income	111.88	102.84	52.57
PBILDT	10.39	8.42	7.01
PAT	3.14	1.32	2.64
Overall gearing (times)	0.75	0.61	NA
Interest coverage (times)	4.45	3.25	5.94

A: Audited; UA: Unaudited; NA- Not available Note: 'the above results are latest financial results available'

Standalone:

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	7MFY25 (UA)
Total operating income	59.23	47.04	37.67
PBILDT	7.26	2.80	4.89
PAT	3.15	1.41	1.27
Overall gearing (times)	0.71	0.53	NA
Interest coverage (times)	3.12	1.10	NA

A: Audited; UA: Unaudited; NA- Not available Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: CRISIL, vide its press release dated February 22, 2024, has reviewed the credit ratings assigned to the bank facilities of Kargwal under non-cooperation category due to non-availability of requisite information.

Any Other information: Not Applicable

Disclosure of Interest of Independent/Non-Executive Directors of CARE: Not Applicable

Disclosure of Interest of Managing Director & CEO: Not Applicable

Rating History for last three years: Please refer 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		-	-	-	13.00	CARE BB (RWD)
Non-fund-based - ST-Bank Guarantee		-	-	-	22.00	CARE A4 (RWD)

Annexure-2: Rating History of 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 2025-2026	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
1	Fund-based - LT-Cash Credit	LT	13.00	CARE BB (RWD)	-	1)CARE BB; Stable (26-Dec-24)	1)CARE BB; Stable (06-Oct-23)	1)CARE BB-; Stable (06-Dec-22)
2	Non-fund-based - ST-Bank Guarantee	ST	22.00	CARE A4 (RWD)	-	1)CARE A4 (26-Dec-24)	1)CARE A4 (06-Oct-23)	1)CARE A4 (06-Dec-22)

LT: Long term; ST: Short term; LT/ST: Long term/Short term

Annexure-3: Detailed explanation of covenants of the rated instrument / 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	Non-fund-based - ST-Bank Guarantee	Simple

Annexure 5: Bank Lender Details

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

Annexure 6: List of entities consolidated

Sr No	Name of the entity	Extent of consolidation	Rationale for consolidation
1.	Kargwal KM JV	Full	Subsidiary with 98% proportion of interest
2.	Anytime Harbour of Yachts Pvt Ltd	Full	Subsidiary
3.	Kargwal and Indiana Build (JV)	Full	Subsidiary
4.	Consolidated Remedies Pvt Ltd.	Full	Subsidiary
5.	Rachana Kargwal and creative Assoc.	Full	Subsidiary

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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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