Kiri and Company Logistics Private Limited

November 21, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	55.58 (Enhanced from 12.69)	CARE BB+; Positive (Double B Plus; Outlook: Positive)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE B; Stable; (Single B; Outlook: Stable)
Long Term / Short Term Bank Facilities	0.61	CARE BB+; Positive / CARE A4+ (Double B Plus; Outlook: Positive/ A Four Plus)	Assigned
Short Term Bank Facilities	2.90 (Enhanced from 1.90)	CARE A4+ (A Four Plus)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE A4; (A Four)
Total Bank Facilities	**59.09 (₹ Fifty-Nine Crore and Nine Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Kiri and Company Logistics Private Limited (KCLPL) are primarily constrained on account of its growing albeit moderate in scale of operations, limited track record in drilling rigs business, project risk associated with its oil and gas exploration business, intense competition in the rigs service business which is also susceptible to volatile day rates due to its linkages with crude oil prices and stretched liquidity position.

The ratings, however, favorably consider experienced and resourceful promoters, diversified revenue profile with established track record in leasing and catering service industry, strong order book, healthy profitability, and comfortable capital structure. The ratings also factor in good business prospects for oil & gas service providers in light of revised hydrocarbon licensing and exploration policy.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations marked by TOI of Rs.150 crore with PBILDT margin of more than 18% on sustained basis
- Improvement in capital structure and debt coverage indicators marked by overall gearing below 0.50 times and TDGCA of less than 5 times on sustained basis

Negative factors – Factors that could lead to negative rating action/downgrade:

- De-growth in TOI by more than 15% with decline in PBILDT margin below 15% on sustained basis
- Deterioration in capital structure and debt coverage indicators marked by overall gearing of greater than 1.5 times or more and TDGCA of 8 years or more
- Elongation in working capital cycle by more than 90 days leading to stretched liquidity position
- Significantly lower than expected oil & gas discovery from Bhandut field
- Non deployment of the rigs in timely manner

Outlook: The 'Positive' outlook on the long-term rating of KCLPL reflects CARE's expectation of growth in its scale of operations with timely execution of order under its construction business as well as revenue from its new business segment viz. drilling rigs service income and oil and gas exploration at Bhandut field while maintaining its healthy profitability and same is expected to improve its liquidity position. The outlook may be revised to 'Stable' in case lower than envisaged growth in its scale of operations or deterioration in profitability.

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

Detailed description of the key rating drivers

Key rating weaknesses

Growing albeit moderate scale of operations

KCLPL's scale of operations marked by TOI increased by 39.80% to Rs.90.96 crore during FY22 as against Rs.65.07 crore during FY21 mainly on account of incremental revenue from construction of water supply pipes network under VPRPL-KCLPL HARRA JV's order and increased demand from leasing and catering services which was impacted due to Covid disruptions. In H1FY23, as per provisional results it had reported TOI of Rs.50 crore including Rs.18.56 crore of construction income. Going forward, same is expected to grow with increased revenue from construction activity as well as additional income from oil and gas exploration segment and drilling service income. However, despite multiple business segment overall scale is expected to remain moderate.

Project risk associated with its oil and gas exploration business

KCLPL has acquired 100% participating interest in Bhandut Field for exploration of oil and gas for 10 years starting from April 2021 with one-third of revenue sharing with government in form of royalty and cess. The acquired asset is a marginal field and earlier operator had reported accumulated losses. KCLPL had developed the field with drilling of three new wells with total cost of the project including the acquisition of around Rs.20 crore. It also plans to set setup new pipeline to facilitate the offtake of gas and oil. Till March 31, 2022, it had incurred around Rs.10 crore towards the project and In H1FY23, it reported sales of Rs.4.03 crore from this segment (mainly natural gas sales). The oil and gas exploration industry are a capital-intensive industry with risk associated with availability of oil and gas on the location and is liked to crude oil prices having bearing on viability of the project. Given that KCFPL has no prior experience in the industry, returns from this business segment by ramping-up of revenue from oil & gas segment and its bearing on overall financial risk profile is key credit monitorable.

Limited track record in drilling rigs business

KCFPL had ventured into drilling rig business with acquisition of three drilling rigs [2 with 1000 HP [i.e., Rig 806 (age: 14 years) and Rig 807 (age: 14 years)] and 1 with 750 HP power capacity (Rig 709, age: 32 years)] from Weatherford Drilling International (BVI) Ltd. on valuation of USD 3.35 million (approx. Rs.25 crore) in FY22. Out of the three rigs it had signed contract for deployment of two rigs at Cambay basin, Gujarat for a contract value of Rs.107 crore (approx.) and same is expected to become operations in Q4FY23 and third rig is yet to be leased out. KCFPL had carried out drilling operation in its acquired Bhandut field. Thus, it reflects its limited track record in drilling rigs service industry and deployment risk associated with third rig.

Intense competition in the rigs service business which is also susceptible to volatile day rates due to its linkages with crude oil prices and high competition in construction industry

Drilling rigs service orders are availed through tendering; hence it remains exposed to competition in the industry. The company also remains exposed to the risk of non-renewal of contracts on their expiry which is, however, inherent in the oil and gas industry as it is linked to the capex and growth plans of the major oil & gas E&P companies. Furthermore, the company also remains exposed to risks associated with volatility in day rates of rigs, which largely move in tandem with crude oil prices and hence are volatile in nature.

KCFPL is a small-sized player operating in intensely competitive and fragmented construction industry, wherein projects are awarded based on relevant experience of the bidder, financial capability, and most attractive bid price. The competitive intensity is on account of the presence of large number of contractors resulting in aggressive bidding which restricts the margins. Moreover, due to low counterparty credit risk and a relatively stable payment track record associated with projects funded by central and state government bodies, these projects are lucrative for all the contractors and hence remained highly competitive.

Key rating strengths

Experienced and resourceful promoters

Mr. Lalit Kumar Kiri, managing director of the company possess over two decades of experience years in the industry along with Mr. Ramchand Khatri with four decades of industry experience and Mr. Pawan Kumar Khatri with around 16 years of industry experience. KCLPL is further supported by experienced second tier management. Promoters are resourceful and had supported the operations though infusion of interest bearing subordinated unsecured loans which stood at Rs.23.59 crore as on March 31, 2022, as compared to Rs.12 crore as on March 31, 2021.

Diversified revenue profile with established track record in leasing and catering service industry

KCLPL has long track record of operations in providing various services to oil and gas industry viz. construction and supply of portable bunkhouse, construction equipment rental services, transportation vehicle, catering services and manpower services.

Over the years it had developed asset base as well and established relation with clients, however, majority of service income is from Barmer, Rajasthan and nearby areas. Income from service segment formed 39% of TOI in FY22. Apart from it also undertakes trading activity which formed 11% of TOI and construction income formed 46% in FY22. In October 2020, the company has entered joint venture with Vishnu Prakash R. Punglia Limited (VPRPL) under the name of "VPRPL-KCLPL HARRA JV" for construction and maintenance of pipe water supply project at Kadara, Newari and Harra group of villages in state of Uttar Pradesh. The project awarded is of Rs.237.90 crore, of which KCLPL has completed construction works of Rs.43.68 crore in FY22. Also, company had forayed into drilling rigs service industry and oil and gas exploration industry whose revenue is expected to start in FY23 which would lead to further diversification of its revenue profile. It had purchased the rigs for Rs.25 crore which has estimated value of Rs.155 crore as per bill of entry (custom duty). In H1FY23, income from service segment, construction segment, trading segment and oil & gas segment formed 53%, 38%, 0.5% and 8.5% of TOI respectively.

Strong order book

KCLPL has strong order book position with unexecuted work orders worth Rs.496.73 crore as on September 27, 2022, which includes orders of Rs.72.75 crore from service segment, Rs.157 crore from construction segment, Rs.107 crore from Drilling rigs service segment and Rs.160 crore from Oil & Gas segment translating into healthy revenue visibility as same needs to be executed in 1 – 3 years.

Healthy profitability and comfortable capital structure

KCLPL has healthy profitability owing to higher proportion of income from leasing and catering business segment marked by PBILDT margin of 18.85% during FY22 as compared with 20.06% during FY21. Marginal moderation in the PBILDT margin was due to increased proportion of the revenue from the construction business which have comparatively low margin as compared to its service business segment.

The capital structure of the company stood comfortable with an overall gearing of 0.88 times as on March 31, 2022, however, same had deteriorated from 0.32 times as on March 31, 2021, owing to debt taken to fund incremental capex for leasing/service business, purchase of drilling rigs and Bhandut field project in form of utilization of its overdraft limits and additional term loans. Also, net worth of the company augmented to Rs.56.90 crore as on March 31, 2022, which includes USLs from promoters worth Rs.23.59 crore as on March 31, 2022, as the same is subordinated to bank debt as per bank sanctioned letter terms. Debt coverage indicators of the company stood moderate marked by total debt to GCA of 4.56 times and interest coverage ratio of 3.37 times in FY22. Company had also taken term loan of Rs.19 crore for drilling rigs which was to be disbursed FY23 and utilized for duty payment and other capex requirement. Same is expected to result in increase in its debt levels and further moderation in debt coverage indicators.

Good business prospects for oil & gas service providers in light of revised hydrocarbon licensing and exploration policy

Government of India aims at reducing the country's dependence on oil imports from around 84% at present to 50% by 2030. Government has taken several steps to enhance exploration & production (E&P) of oil and gas in the country such as Policy for Relaxations, Extensions and Clarifications under Production Sharing Contract (PSC) regime for early monetization of hydrocarbon discoveries, Discovered Small Field (DSF) policy, formulation of revised licensing policy by replacing New Exploration and Licensing Policy (NELP) with Hydrocarbon Exploration and Licensing Policy (HELP), Open Acreage Licensing Policy (OALP), Policy for Extension of Production Sharing Contracts, Policy for early monetization of Coal Bed Methane, Setting up of National Data Repository, Policy to Promote and Incentivize Enhanced Recovery Methods for Oil and Gas, Policy framework for exploration and exploitation of Unconventional Hydrocarbons under existing Production Sharing Contracts etc. Furthermore, the government also launched (in 2016) the DSF policy to auction idle fields of ONGC and Oil India Ltd to expedite production from these small fields. This policy initiatives are likely to increase the pace of E&P activities and thus likely to bring additional business opportunities for players like KCLPL.

Liquidity: Stretched

KCLPL has stretched liquidity marked by high working capital limit utilization, below unity liquidity ratios, utilization of short-term funds for long term purpose and high incremental capex requirements. The utilization of its overdraft limits remained over 90% in past twelve months ended August 2022 and company had also availed need based adhoc limits (Ad hoc limits of Rs.5.00 crore from October 2021 to June 2022 and Rs.0.75 crore from July 2022 to August 2022). The current ratio had declined from 1.2x as on March 31, 2021, to 0.8x as on March 31, 2022, as company had utilized short term limits to partly funds its capex of Rs.47 crore in FY22. Also, its capital requirement is expected to increase impacting its liquidity due to its capex requirement in oil and gas segment as well as working capital requirement for construction business. Company had increased its overdraft limit to Rs.20 crore which is linked for drilling rig business segment. However, KCLPL has positive cash flow from operations (CFO) and healthy cash accruals against moderate debt repayment as it is expected to generate GCA of Rs.18-25 crore against repayment obligation of Rs.7-8 crore in near term providing cushion to its liquidity to an extent. Operating cycle stood at 57 days in FY22 which improved from 81 days in FY21.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Service Sector Companies
Short Term Instruments

About the company

Kiri and Company Logistics Private Limited (KCLPL; CIN - U74130MH2011PTC2213468) was initially formed by Mr. Lalit Kumar Kiri in 2002 as a proprietorship company. Further, in 2011, Mr. Lalit Kumar Kiri, Mr. Pawan Kumar Khatri and Mr. Ram Chand Khatri reconstituted the firm as a company. The company provides various services to oil and gas exploration as well as refining sector. Services includes construction and supply of Portable Bunkhouse, Construction Equipment Rental Services, Transportation Vehicle Rental Services, Civil Construction Services, Catering Services, Bunk Labor Accommodation and Manpower Services. The company is also engaged in trading of Fast-Moving Consumer Goods and agriculture commodities. In October 2020, the company has entered joint venture with Vishnu Prakash R. Punglia Limited (VPRPL) under the name of "VPRPL-KCLPL HARRA JV" for construction and maintenance of pipe water supply project at Kadara, Newari and Harra group of villages in state of Uttar Pradesh. KCLPL has also acquired 100% participating interest in Bhandut Field for exploration of oil and gas for 10 years starting from April 2021. The company has also acquired three drilling rigs with an intent to foray into oil & gas drilling operations.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	65.07	90.96	50.00
PBILDT	14.25	17.14	NA
PAT	4.54	4.89	NA
Overall gearing (times)	0.32	0.88	NA
Interest coverage (times)	4.89	3.37	NA

A: Audited; UA: Unaudited

Status of non-cooperation with previous CRA: CRISIL had reviewed the ratings of KCLPL under Issuer not cooperating category vide press release dated May 26, 2022.

Any other information: Not Applicable
Rating history for the last three years: Please refer Annexure-2
Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

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 along with Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	20.00	CARE BB+; Positive
Fund-based - LT-Term Loan		-	-	31/12/2031	35.58	CARE BB+; Positive
LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG		-	-	-	0.61	CARE BB+; Positive / CARE A4+
Non-fund-based - ST-Bank Guarantee		-	-	-	2.90	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 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Term Loan	LT	35.58	CARE BB+; Positive	1)CARE B; Stable; ISSUER NOT COOPERATING* (17-Jun-22)	1)CARE B; Stable; ISSUER NOT COOPERATING* (08-Apr-21)	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (16-Jan-20)
2	Fund-based - LT-Bank Overdraft	LT	20.00	CARE BB+; Positive	1)CARE B; Stable; ISSUER NOT COOPERATING* (17-Jun-22)	1)CARE B; Stable; ISSUER NOT COOPERATING* (08-Apr-21)	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (16-Jan-20)
3	Non-fund-based - ST-Bank Guarantee	ST	2.90	CARE A4+	1)CARE A4; ISSUER NOT COOPERATING* (17-Jun-22)	1)CARE A4; ISSUER NOT COOPERATING* (08-Apr-21)	-	1)CARE A4; ISSUER NOT COOPERATING* (16-Jan-20)
4	LT/ST Fund-based/Non-fund-based-CC/WCDL/OD/LC/BG	LT/ST*	0.61	CARE BB+; Positive / CARE A4+				

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Bank Overdraft	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 - ST-Bank Guarantee	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please click here

Note on complexity levels of the rated instruments: CARE Ratings 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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Akhil Goyal
Phone: 8511190015
E-mail: akhil.goyal@careedge.in

Relationship contact
Name: Deepak Purshottambhai Prajapati
Phone: +91-79-4026 5656
E-mail: deepak.prajapati@careedge.in

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