

Kunal Structure (India) Private Limited

March 24, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings	Rating Action
Long Term / Short Term Bank Facilities	-	-	Revised to CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two) from CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus) and Withdrawn
Long Term Bank Facilities	-	-	Revised to CARE BBB+; Stable (Triple B Plus; Outlook: Stable) from CARE A-; Stable (Single A Minus; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Revised to CARE A2 (A Two) from CARE A2+ (A Two Plus) and Withdrawn
Total Bank Facilities	-		

Details of instruments/facilities in Annexure-1

Detailed Rationale and Key Rating Drivers

CARE has revised the outstanding ratings to CARE BBB+; Stable / CARE A2 (Triple B Plus; Outlook: Stable / A Two) from CARE A-; Stable / CARE A2+ (Single A Minus; Outlook: Stable / A Two Plus) and withdrawn the ratings assigned to the bank facilities of Kunal Structure (India) Private Limited (KSIPL) with immediate effect. The above action has been taken at the request of KSIPL and 'No Objection Certificate' received from the banks that has extended the facilities rated by CARE along with receipt of 'No Due certificate' received from lenders for which KSIPL has surrendered the bank facilities.

The revision in the ratings assigned to the bank facilities of KSIPL is on account of dip in its total operating income (TOI) during FY20 (refers to the period April 1 to March 31) and H1FY21 (provisional; refers to the period April 1 to September 30), moderation in its order book position leading to low revenue visibility along with increase in its working capital intensity of its operations.

The ratings, however, continues to remain underpinned from its experienced promoters, established operational track record of over two decades with demonstrated execution capability along with segmentally and geographically diversified order book position. The ratings continue to derive strength from its stable profitability, comfortable capital structure with moderate debt coverage indicators along with increased thrust of government on infrastructure development.

The ratings, however, continue to remain constrained on account of high working capital intensity of KSIPL's operations, susceptibility of its profitability to volatile raw material prices considering fixed price contracts along with KSIPL's presence in intensely competitive and fragmented construction industry.

CARE also takes cognizance of the company availing the moratorium granted by its lenders as a COVID-19 relief measure (as permitted by the Reserve Bank of India) on its bank facilities.

Detailed description of the key rating drivers

Decline in its scale of operations along with moderation in its order book position: KSIPL's TOI during FY20 declined by 22% to Rs.881.54 crore from Rs.1133.40 crore in FY19 on account of comparatively lower project execution due to moderation in its order book along with lower EPC income during March 2020 due to nation-wide lockdown. Due to spread of COVID-19, operations were impacted during April to June and subsequently due to onset of monsoon. During H1FY21 (provisional), KSIPL reported a TOI of Rs.158.78 crore as against Rs.294.92 crore in H1FY20.

Furthermore, KSIPL had an order book position of Rs.1004 crore as on November 30, 2020 (Rs.1189 crore as on November 30, 2019) translating into low order book to TOI ratio of 1.14x. KSIPL was also declared a L1 for a project amounting to around Rs.445 crore.

Increase in working capital intensity: KSIPL's operations have high working capital intensity primarily due to funding requirement for security deposits, retention amount and margin money towards various contracts & non-fund-based facilities along with moderate receivable levels. KSIPL's gross current asset days increased from 215 days in FY19 to Rs.313 days during FY20 along with elongation of its operating cycle from 83 days during FY19 to 135 days in FY20 owing to increase in its inventory holding along with higher credit to its customers. The average utilisation of fund-based and non-fund-based working-capital limits also remained moderately high in the range of 85-90%.

Key Rating Strengths

Experienced and resourceful promoters along with established operational track record: Promoted by Mr. Arvind Domadia, KSIPL has a proven execution track record of over two decades in the execution of medium-size roads, buildings and irrigation projects. Mr. Arvind Domadia, a civil engineer has more than two decades of experience in the construction industry. He is supported by his son, Mr Kunal Domadia, who is also a civil engineer. The promoters are ably assisted by a team of professionals for managing daily business operations.

Diversified order-book position along with limited counterparty credit risk: KSIPL's outstanding order book, albeit low, is diversified in terms of geography and business segment. KSIPL a strong presence in building, roads and canal segment along with its orders spreading across seven states in India. KSIPL is favourably placed for its projects in Gujarat and Odisha as it has established in-house managerial resources and local knowledge generally required for the execution of projects by setting up a base in the state.

Furthermore, almost entire order book is from government entities (including urban local bodies, state governments and central government undertakings) and companies largely owned by Government of India, translating into low counterparty credit risk.

Stable profitability, comfortable capital structure and moderate debt coverage indicators: PBILDT margin during FY20 remained stable at 11.35% and improved marginally by 68 bps over FY19 along with PAT margin of 3.13% (FY19:4.12%). However, due to decline in its scale of operations, gross cash accruals (GCA) declined by around 35% to Rs.44.90 crore as against Rs.69.18 crore in FY19.

Capital structure of KSIPL as on March 31, 2020 continued to remain comfortable marked by an overall gearing of 0.80x. (0.86x as on March 31, 2019). Debt coverage indicators during FY20, albeit deteriorated, continued to remain moderately comfortable with an interest coverage of 2.28x (FY19: 3.32x) and total debt to GCA of 6.33x (FY19: 3.92x).

Thrust of the Government on infrastructure development: Thrust of the government for road construction through initiatives such as Pradhan Mantri Gram Sadak Yojna (PMGSY), broadening of state & national highways and providing connectivity to tribal areas has offered various opportunities for infrastructure companies. However, the sector has faced challenges owing to suspension of construction activities due to spread of COVID-19 pandemic along with reverse migration of labour. However, the situation has gradually improved and the execution pace has now picked up. Also, various measures have been taken by the government under the Atma Nirbhar scheme, which shall ease up the working capital requirement of the players. However, execution challenges like increasing cost of land acquisition, delay in receipt of regulatory clearances, high risk aversion of public sector banks to infrastructure projects and limited budgetary support beleaguer the industry.

Key Rating Weaknesses

Susceptibility of profitability to volatile raw material prices: Considering execution period of contracts awarded to RBL usually range from 12-36 months, KSIPL's profitability remains susceptible to fluctuations in the input prices. However, majority of KSIPL's order book as on November 30, 2020 have a built-in price escalation clause for inputs, which mitigates the risk to an extent.

Presence in a highly fragmented and competitive construction industry: KSIPL is a mid-sized player operating in an intensely competitive construction industry with presence of many mid and large sized players. Furthermore, with low counterparty credit risk, these projects are lucrative for all the contractors and hence are highly competitive. Nevertheless, aggressive bidding or delay in project progress due to unavailability of regulatory clearances may affect the credit profile of the contractor and exert pressure on the margins of the entities in the industry. However, KSIPL's established track record of executing projects in multiple states and in-house availability of resources gives it an edge to bid competitively and execute orders in a timely manner.

Analytical approach: Standalone

Applicable Criteria

[Policy on Withdrawal of ratings](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Rating Methodology – Construction Sector](#)

About the Company

Rajkot-based (Gujarat) KSIPL was incorporated as a partnership firm M/s. Kunal Construction Company by Mr Arvind Domadia during 1992. Subsequently, it was converted into a private limited company in April 2006. KSIPL is registered as a 'AA' class (highest in a scale starting from AA to E) and special category-1 contractor with the Government of Gujarat and has a presence in diverse segments of construction including roads, buildings, bridges, irrigation, pipeline etc.

Brief Financials (Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1133.40	881.54
PBILDT	120.88	100.09
PAT	46.74	27.56
Overall gearing (times)*	0.86	0.80
Interest coverage (times)	3.32	2.28

A: Audited; * considering mobilisation advances as debt. Also, unsecured loans from promoter group has been treated as quasi-equity as per the sanction terms of the bankers.

As per the provisional results for H1FY21, KSIPL reported a TOI of Rs.158.78 crore and PBT of Rs.4.35 crore.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for last three years: Please refer Annexure-2

Complexity level of various instruments rated for this Company: Please refer Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	0.00	Withdrawn
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	0.00	Withdrawn
Fund-based - LT/ ST-Cash Credit	-	-	-	0.00	Withdrawn
Fund-based - ST-Working Capital Demand loan	-	-	-	0.00	Withdrawn

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE A-; Stable (03-Jan-20)	1)CARE A; Stable (03-Jan-19) 2)CARE A; Stable (23-May-18) 3)CARE A; Stable (06-Apr-18)	1)CARE A; Stable (08-Jan-18)
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	-	-	-	1)CARE A-; Stable / CARE A2+ (03-Jan-20)	1)CARE A; Stable / CARE A1 (03-Jan-19) 2)CARE A; Stable / CARE A1 (23-May-18) 3)CARE A; Stable / CARE A1 (06-Apr-18)	1)CARE A; Stable / CARE A1 (08-Jan-18)
3.	Commercial Paper- Commercial Paper (Carved out)	ST	-	-	-	-	1)Withdrawn (03-Jan-19) 2)CARE A1 (06-Apr-18)	1)CARE A1 (08-Jan-18)
4.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	-	-	-	1)CARE A-; Stable / CARE A2+ (03-Jan-20)	1)CARE A; Stable / CARE A1 (03-Jan-19) 2)CARE A1 (23-May-18) 3)CARE A1 (06-Apr-18)	-
5.	Fund-based - LT/ ST- Cash Credit	LT/ST	-	-	-	1)CARE A-; Stable / CARE A2+ (03-Jan-20)	-	-
6.	Fund-based - ST- Working Capital Demand loan	ST	-	-	-	1)CARE A2+ (03-Jan-20)	-	-

Annexure 3: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Fund-based - LT/ ST-Cash Credit	Simple
3.	Fund-based - ST-Working Capital Demand loan	Simple
4.	Non-fund-based - LT/ ST-Bank Guarantees	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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