May 29, 2023

Karnataka Commercial And Industrial Corporation Pvt Ltd: Long-term rating downgraded; short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Short-term – Fund-based	18.30	18.30	[ICRA]A4; reaffirmed
Short-term – Fund-based – Proposed	-	2.00	[ICRA]A4; reaffirmed
Long-term – Term Loan	1.97	0.12	[ICRA]BB- (Stable); downgraded from [ICRA]BB (Stable)
Long-term – Term Loan – Proposed	-	2.88	[ICRA]BB- (Stable); downgraded from [ICRA]BB (Stable)
Long-term/Short-term – Non-fund based	19.70	19.70	[ICRA]BB- (Stable); downgraded from [ICRA]BB (Stable)/ [ICRA]A4; reaffirmed
Long-term/Short-term – Non-fund based – Proposed	-	2.00	[ICRA]BB- (Stable); downgraded from [ICRA]BB (Stable)/ [ICRA]A4; reaffirmed
Long-term – Unallocated	5.03	0.00	
Total	**45.00**	**45.00**	

**Instrument details are provided in Annexure-I*

Rationale

The rating downgrade factors in Karnataka Commercial and Industrial Corporation Pvt. Ltd.'s (KCIC) stretched liquidity position due to its elongated receivable cycle and considerable term loan repayment liability, amid modest internal accrual generation. This has resulted in almost full utilisation of its working capital limits, with slight overutilisation for a few days, in certain months. However, the company plans to enhance its working capital limits in the near term along with expected infusion of funds from promoters in the form of unsecured loans. The ratings also remain constrained by KCIC's moderate scale of operations, which is further accentuated by the intense competition in the facilities management industry. Further, its operations remain exposed to any unfavourable regulatory/ wage revision limits, which coupled with the fixed price nature of some contracts can impact its profit margins adversely.

The ratings, however, continue to draw comfort from the extensive experience of its promoters in integrated facility management and manpower outsourcing services, which has enabled it to develop established relationships with key customers, mainly in the public sector. Also, it continues to benefit from its operational track record with public sector entities, reflected by a healthy order book position providing revenue visibility over the near to medium term. Moreover, the revenues derived from the collection of licensing fee have led to improvements in its operating profit margins in recent years.

The Stable outlook on the KCIC's long-term rating reflects ICRA's expectation that the company will continue to benefit from its order book position, which provides revenue visibility and enables it to generate steady internal accruals, supporting its credit profile.

Key rating drivers and their description

Credit strengths

Established track record of operations and extensive experience of promoters – Incorporated in 2002, KCIC commenced operations for ground handling services at Indian airports under the leadership of Mr. I. A. Siddique. Since then, it has diversified its business into management and maintenance, cleaning, hospitality, housekeeping and security services across India. The company has developed an established track record in the industry, supported by its promoters who have an extensive experience of more than 35 years in the business.

Established and diversified client base – KCIC has an established client portfolio of several reputed Government as well as private corporates across states to whom it offers customised management services. The company has a major presence with customers in the city metro rails, state tourism and toll collection segments, which are geographically spread across the country. Its product profile and client base continue to remain well diversified, resulting in a healthy volume of repeat orders and revenue visibility over the medium term.

Order book in hand provides revenue visibility – Over the past year, the company has been able to renew some of its key contracts that were nearing expiry and also secure some fresh contracts from Chennai Metro Rail Limited and Bangalore International Airport Limited. Improvement in its order book position provides revenue visibility for the near term. KCIC is expected to report annual revenue of Rs. 90-100 crore and operating profit margins in the range of 10-11% over the medium term.

Credit challenges

Moderate scale of operations – KCIC has a moderate scale of operations with a top line of Rs. 60-70 crore in FY2022 and FY2023. Further, the low bargaining ability of the company and intense competition with other established large players in the industry limits its scope for revenue expansion . Also, its net worth base remains relatively low, restricting its financial flexibility to an extent. However, the operating income of the company is expected to improve, supported by its healthy order book position.

Stretched liquidity position due to high receivables cycle – KCISC's debtor cycle remains elongated, resulting in high working capital intensity, as reflected by Net Working Capital/Operating income (NWC/OI) of 35-39% in recent years. Elevated funding requirements of the business coupled with modest accrual generation has exerted pressure on the liquidity position.

Fragmented industry structure with intense competition from organised and unorganised players – The facility management industry is highly fragmented with stiff competition from large organised as well as several small unorganised players. This limits the company's pricing flexibility and bargaining power with customers, thereby impacting its revenues and profitability.

Susceptibility of operations to unfavourable regulatory changes or wage revisions if not passed on to customers – KCIC is required to comply with several Central Government as well as State regulations pertaining to contract labour, which exposes its operations to regulatory risks. Given that employee expenses remain the largest cost for the company, any revisions in the wage rates can impact its profitability. However, the same is reimbursed by customers, which mitigates this risk to an extent.

Liquidity position: Stretched

KCIC's liquidity position remains **stretched**, marked by negative cash flow from operations, modest accrual generation and low cash and bank balances, amid relatively high debt repayment obligations of ~Rs. 2-3 crore over FY2024-FY2025. Its working capital limits also continue to remain fully utilised over the past 12-month period ending March 2023. Further, the company plans to incur a capex of Rs. 5 crore in FY2024, which is to be funded by term debt and proposed equity in the form of unsecured loans from promoters. However, the planned enhancements of its working capital limits and expected infusion of funds from promoters remains a monitorable for improvement in its liquidity profile in the near term.

Rating sensitivities

Positive factors – ICRA could upgrade KCIC's ratings if the company demonstrates healthy improvement in its scale of operations while sustaining its profitability metrics. The ratings can be upgraded if there is an improvement in its working capital cycle through reduction in receivables cycle leading to improvement in liquidity position. Specific credit metrics that might lead to an upgrade includes interest cover of more than 2.4 times on a sustained basis.

Negative factors – Negative pressure on KCIC's ratings could arise if there is significant decline in revenues and profitability on account of loss of contracts, and any considerable deterioration in the company's capital structure or liquidity position on a sustained basis, owing to any sizeable debt funded capex or elongation in working capital cycle.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Established in 2002, KCIC in engaged in providing housekeeping, staffing, cleaning, parking and entry ticket management services, typically under a customised integrated model to a diversified client base of several public sector and private sector entities. Headquartered in Bangalore, KCIC has an employee base of ~2,000 comprising qualified professionals, skilled, semi-skilled and unskilled workers across the country. Its offices are located at Karnataka, Tamil Nadu, Uttar Pradesh, and Delhi.

Key financial indicators (audited)

KCIC – Standalone	FY2021	FY2022
Operating income	68.9	65.5
PAT	1.9	1.6
OPBDITA/OI	9.1%	11.6%
PAT/OI	2.7%	2.5%
Total outside liabilities/Tangible net worth (times)	2.8	2.4
Total debt/OPBDITA (times)	4.6	3.7
Interest coverage (times)	1.7	1.7

PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as of Mar 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					May 29, 2023	-	Mar 31, 2022	Dec 31, 2020
1	Fund-based – CC	Long-term	-	-	-	-	-	[ICRA]BB (Stable)
2	Fund-based	Short-term	18.30	-	**[ICRA]A4**	-	[ICRA]A4	-
3	Term Loan	Long-term	0.12	0.12	**[ICRA]BB-(Stable)**	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)
4	Non-fund based	Long-term/ Short-term	19.70	-	**[ICRA]BB- (Stable)/ [ICRA]A4**	-	[ICRA]BB (Stable)/ [ICRA]A4	[ICRA]BB (Stable)/ [ICRA]A4
5	Unallocated	Long-term	0.00	-	-	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)
6	Fund-based – Proposed	Short-term	2.00	-	**[ICRA]A4**	-	-	-
7	Term Loan – Proposed	Long-term	2.88	-	**[ICRA]BB-(Stable)**	-	-	-
8	Non-fund based – Proposed	Long-term/ Short-term	2.00	-	**[ICRA]BB- (Stable)/ [ICRA]A4**	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Short-term – Fund-based	Simple
Long-term – Term Loan	Simple
Long-term/Short-term – Non-fund based	Very Simple
Short-term – Fund-based – Proposed	Simple
Long-term – Term Loan – Proposed	Simple
Long-term/Short-term – Non-fund based – Proposed	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Short-term – Fund-based	-	-	-	18.30	[ICRA]A4
NA	Long-term – Term Loan	FY2021-FY2022	7.0-8.0%	FY2023-FY2024	0.12	[ICRA]BB- (Stable)
NA	Long-term/Short-term – Non-fund based	-	-	-	19.70	[ICRA]BB- (Stable)/[ICRA]A4
NA	Short-term – Fund-based – Proposed	-	-	-	2.00	[ICRA]A4
NA	Long-term – Term Loan – Proposed	-	-	-	2.88	[ICRA]BB- (Stable)
NA	Long-term/Short-term – Non-fund based – Proposed	-	-	-	2.00	[ICRA]BB- (Stable)/[ICRA]A4

Source: Company

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis – Not Applicable

ANALYST CONTACTS

Shamsher Dewan
+91 124 4545328
shamsherd@icraindia.com

Kinjal Shah
+91 022 6114 3442
kinjal.shah@icraindia.com

Deepak Jotwani
+91 124 4545 870
deepak.jotwani@icraindia.com

Charvi Sagar
+91 124 4545 373
charvi.sagar@icraindia.com

RELATIONSHIP CONTACT

L Shivakumar
+91 22 6114 3406
shivakumar@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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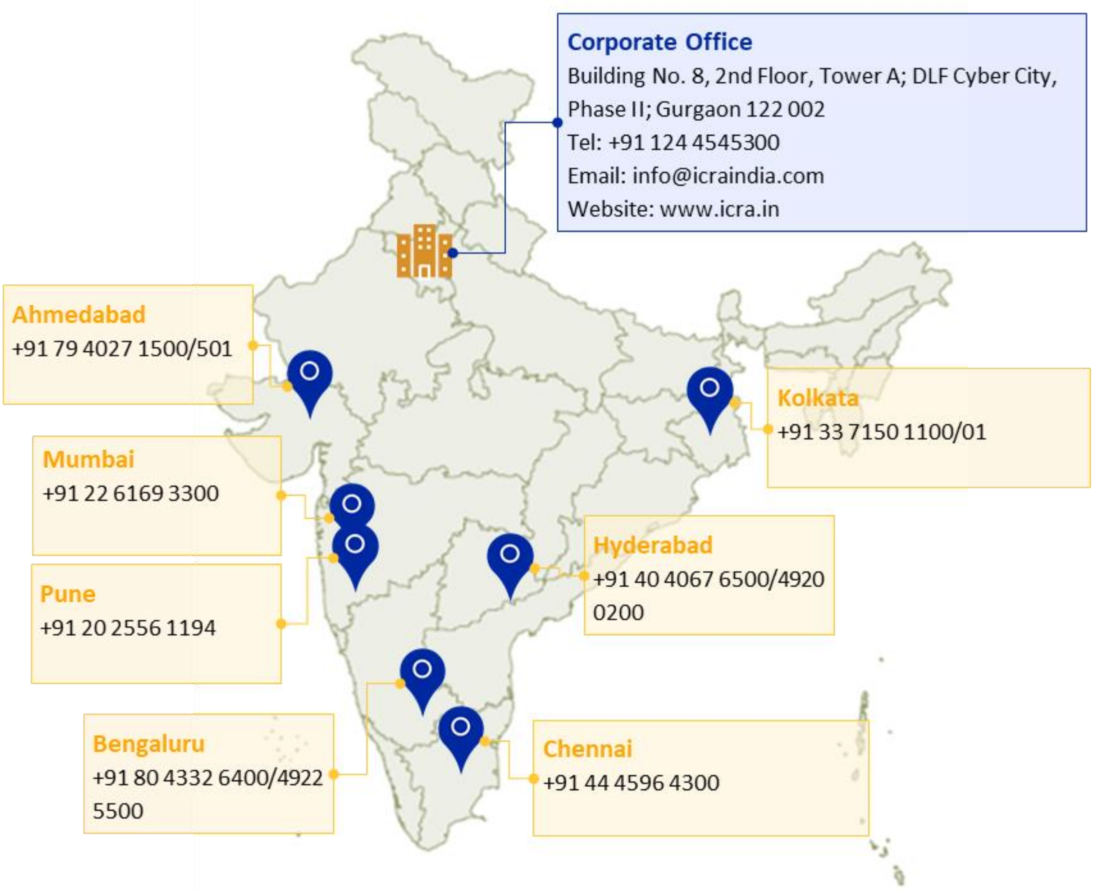
For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches



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