August 27, 2024

Karnataka Commercial and Industrial Corporation Pvt Ltd: Ratings 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	2.00	[ICRA]A4; reaffirmed
Long-term – Term Loan	0.12	0.12	[ICRA]BB- (Stable); reaffirmed
Long-term – Term Loan – Proposed	2.88	2.88	[ICRA]BB- (Stable); reaffirmed
Long-term/Short-term – Non-fund based	19.70	19.70	[ICRA]BB- (Stable)/ [ICRA]A4; reaffirmed
Long-term/Short-term – Non-fund based – Proposed	2.00	2.00	[ICRA]BB- (Stable)/ [ICRA]A4; reaffirmed
Total	**45.00**	**45.00**	

**Instrument details are provided in Annexure-I*

Rationale

The ratings reaffirmation for Karnataka Commercial and Industrial Corporation Pvt Ltd's (KCIC) factors in its steady growth in revenues in FY2024, which stood at Rs. 84.28 crore (Rs. 71.8 crore in FY2023), and expectations that the same would be sustained in the current fiscal, driven by execution of its healthy order book position. Additionally, the ratings continue to consider the extensive experience of KCIC's promoters in the integrated facility management and manpower outsourcing services business, along with its established relationships with a reputed clientele.

However, the ratings are constrained by KCIC's stretched liquidity position, marked by low cash and bank balances and fully utilised working capital limits in the past 12-month period ending in June 2024. This is primarily because of modest internal accrual generation as well as high working capital intensity due to high debtor levels. The ratings, also remain constrained by KCIC's moderate scale of operations and net worth, limiting its operational and financial flexibility. KCIC also remains exposed to intense competition in the facilities management industry, which along with any unfavourable regulatory changes or wage revisions, if not passed on to the customers, may impact its operations and margins.

The Stable outlook on the long-term rating reflects ICRA's opinion that KCIC will continue to benefit from its established operational track record and healthy order book position, supporting its future growth and accrual generation.

Key rating drivers and their description

Credit strengths

Established track record of operation and extensive experience of promoters – KCIC has a long experience of operating in the facility management services for about 24 years. It has diversified its business into management and maintenance, cleaning, hospitality, housekeeping, security services, parking and entry ticket management. The company has all-India presence with over 2,100 qualified professionals, skilled, and semi-skilled workers. The promoter has more than 35 years of experience in this business.

Long relationships with key clients – KCIC has an established client base with which it has long relationship. The client base includes reputed government as well as private sector companies across states and it offers varied services. The company is present in city metros, state tourism, toll collection and other sectors.

Order book in hand provides revenue visibility –The company has been able to sustain a healthy order book, supported by new orders in the recent quarters, translating into a tentative monthly billing of Rs. 7-9 crore, which provides revenue visibility.

Credit challenges

Moderate scale of operations – KCIC's scale of operations remains moderate with an operating income of Rs. 84.3 crore in FY2024 (Rs. 71.8 crore in FY 2023), resulting in limited economies of scale. Low internal accrual generation, given the moderate scale of operations, led to limited accretion to reserves and a modest net worth for the company.

Stretched liquidity position due to high receivables cycle – The working capital intensity of the business remains high owing to higher debtor levels. The company raises monthly invoices to its customers and the receivable period remained relatively higher due to delayed payment from some key customers, resulting in elevated funding requirements.

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 small unorganised players. This limits the company's pricing flexibility and bargaining power with customers, putting pressure on its revenues and profit margins.

Susceptibility of operations to unfavourable regulatory changes or wage revisions, if not passed on to the customers – The company is required to comply with several Central Government as well as state level laws pertaining to contract labour, which expose its operations to regulatory risks. As employee expenses remain its largest cost, any revision in the wage rates can impact KCIC's profitability. Generally, customers reimburse any revision in the wage rate, thereby mitigating the risk to an extent.

Liquidity position: Stretched

KCIC's liquidity position remains **stretched** as marked by low free cash balance and full utilisation of the working capital limits. However, the company plans to enhance its working capital limits over the near term, which will provide some comfort in the near-to-medium term. The company has relatively higher repayment obligations of Rs. 2-3 crore over FY2025, which are expected to be funded from internal accruals and funding support from the promoters, if required.

Rating sensitivities

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

Negative factors –Pressure on KCIC's ratings could arise if there is a decline in revenues and profitability on account of loss of contracts, and any considerable deterioration in the company's capital structure or liquidity position owing to any sizeable debt-funded capex or an elongation in the 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 provides housekeeping, staffing, cleaning, parking and entry ticket management services, under a customised integrated model to a diversified client base of several public and private sector entities. Headquartered in Bangalore, KCIC has an employee base of ~2,100 comprising qualified professionals, skilled, semi-skilled and unskilled workers across the country. Its offices are located in Karnataka, Tamil Nadu, Uttar Pradesh, and Delhi.

Key financial indicators

KCIC – Standalone	FY2022	FY2023
Operating income	65.5	71.8
PAT	1.6	1.3
OPBDITA/OI	11.6%	9.8%
PAT/OI	2.5%	1.8%
Total outside liabilities/Tangible net worth (times)	2.4	2.4
Total debt/OPBDITA (times)	3.7	3.7
Interest coverage (times)	1.7	1.8

Source: Company, ICRA research; Amounts in Rs. Crore; PAT: Profit after tax; OPBDITA: Operating profit before depreciation, interest, taxes and amortisation; All ratios as per ICRA calculations.

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Current (FY2025)			Chronology of rating history for the past 3 years		
	Type	Amount rated (Rs. Crore)	Date & Rating in FY 2025	Date & rating in FY 2024	Date & Rating in FY 2023	Date & rating in FY 2022
			Aug 27, 2024	May 29, 2023	-	Mar 31, 2022
Long term-term loan-fund based	Long Term	0.12	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	-	[ICRA]BB (Stable)
Short term-proposed-fund based	Short Term	2.00	[ICRA]A4	[ICRA]A4	-	-
Long term / short term-proposed-non fund based	Long Term/ Short Term	2.00	[ICRA]BB- (Stable)/ [ICRA]A4	[ICRA]BB- (Stable)/ [ICRA]A4	-	-
Long term-proposed-fund based	Long Term	2.88	[ICRA]BB- (Stable)	[ICRA]BB- (Stable)	-	-
Short term-others-fund based	Short Term	18.30	[ICRA]A4	[ICRA]A4	-	[ICRA]A4
Long term / short term-others-non fund based	Long Term /Short Term	19.70	[ICRA]BB- (Stable)/ [ICRA]A4	[ICRA]BB- (Stable)/ [ICRA]A4	-	[ICRA]BB (Stable)/ [ICRA]A4
Unallocated	Long Term	-	-	-	-	[ICRA]BB (Stable)

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	10.0-12.0%	FY2025	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

Deepak Jotwani
+91 124 4545826
ritu.goswami@icraindia.com

Shubham Gupta
+91 124 4545 399
shubham.gupta2@icraindia.com

Kinjal Shah
+91 022 61143400
kinjal.shah@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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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