

Klystron Electronics Private Limited

Instrument	Amount	Rating Action
Fund Based Limit – Cash Credit	Revised to Rs. 1.5 crore from Rs. 2.5 crore	[ICRA]BB (Stable) reaffirmed
Non Fund Based Limit – Bank Guarantee	Revised to Rs. 6.5 crore from Rs. 7.5 crore	[ICRA]BB (Stable) / [ICRA]A4 reaffirmed/assigned
Unallocated amount	Rs. 2 crore (nil earlier)	

ICRA has reaffirmed the [ICRA]BB (pronounced ICRA double B) rating for the Rs. 1.5 crore¹ (revised from Rs. 2.5 crore) cash credit facility of Klystron Electronics Private Limited (KEPL)². ICRA has also reaffirmed the [ICRA]BB and [ICRA]A4 (pronounced ICRA A four) ratings to the Rs. 6.5 crore (revised from Rs. 7.5 crore) non-fund based bank facility of KEPL. The [ICRA]BB and [ICRA]A4 ratings have also been assigned to the company's unallocated limit of Rs. 2 crore. The outlook on the long term rating is Stable.

The rating reaffirmation favourably factors in the strong technical background and experience of the promoters in the electrical engineering industry, and the company's established presence as an electrical contractor, particularly in eastern India. ICRA takes note of KEPL's satisfactory track record of contract execution for reputed clients in the Government and the private sector, and its long relationship with recognised vendors of electrical equipments, which mitigates supply risks to a large extent. The ratings also reflect the company's healthy return indicators, low gearing and comfortable debt coverage metrics. KEPL's moderate fund based working capital utilisation and absence of any fixed repayment obligation strengthen its financial flexibility, notwithstanding significant non-fund based exposure in the form of bank guarantee provided to the customers. Significant amount of fresh orders secured in the last two fiscals led to considerable top-line growth and a healthy current order book position (around two times the estimated turnover in FY2016), which renders revenue visibility in the near term.

Nevertheless, future revenues would remain exposed to the company's ability to mobilise resources and timely execution of contracts as per schedule. The momentum of order flow and progress of implementation of projects in the infrastructure and construction fields also remain exposed to various external factors, causing volatility in the company's revenue in the past. KEPL enjoys limited pricing flexibility, with the lowest bid (L-1)-based order awarding system, largely followed by its customers. Furthermore, the absence of a price variation clause in a majority of the contracts exposes KEPL to the fluctuation in input prices, keeping the profit margins under check. ICRA notes that, KEPL's scale of operation remains small with its presence in the small and medium sized electrical contract segment and concentration of operation in eastern India, compared to the diversified revenue stream of the large players in the industry. Given the reputed client profile, the company's counterparty risks remain low. However, the stretched receivable position exerts pressure on its liquidity. The same is eased to some extent by significant creditor funding, leading to high TOL/TNW.

Going forward, KEPL's ability to augment its scale of business while improving profitability and keeping receivables under control, would remain key rating sensitivities.

Company Profile

The entity was established in 1991 by Mr. Arghya Banerjee and Mr. Gautam Ghosh as a partnership firm called Klystron to venture into the business of electrical construction. Subsequently, in 1994, the firm was converted into a private limited company and renamed Klystron Electronics Pvt. Ltd. (KEPL). KEPL has been engaged in executing electrical contracts primarily in the low tension (LT) segment for internal and external electrification, cabling, erection of substation, including transformers, panels, diesel generator sets, switchyard, illumination systems, as well as distribution lines. A small portion of the company's revenue is also derived from electrical jobs in the high tension (HT) segment. The company also plans to act as a system integrator in the solar photovoltaic industry.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Recent Results

During the first nine months of FY2016, the company reported a net profit of Rs. 0.73 crore (provisional) on an operating income of Rs. 16.93 crore (provisional). In FY2015, the company posted a net profit of Rs. 0.57 crore on an operating income of Rs. 18.99 crore.

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