

## K.K. Builders

Instrument	Amount	Rating Action
	In Rs. Crore	September 2016
Long Term, Term Loans	7.35 (revised from 14.70)	[ICRA]B+ / Upgraded
Long Term, Fund Based Facilities	23.00 (enhanced from 15.00)	[ICRA]B+ / Upgraded
Long Term, Proposed Facilities	Nil (revised from 1.30)	-
Short Term, Non Fund Based Facility	14.65 (enhanced from 14.00)	[ICRA]A4 / Upgraded

ICRA has upgraded the long-term rating assigned to the Rs. 30.35 crore<sup>1^</sup> fund based facilities of K.K. Builders (KKB / 'the firm') from [ICRA]D (pronounced ICRA D) to [ICRA]B+ (pronounced ICRA B plus)<sup>2^</sup>. ICRA has also upgraded the short term rating assigned to the Rs 14.65 crore non-fund based limits of KKB from [ICRA]D to [ICRA]A4 (pronounced ICRA A four).

The ratings upgrade reflects the improvement in the credit culture of the firm demonstrated by the curing of past delays in debt servicing. The ratings also consider the steady revenue growth in contract division over the past three years as well as the order book position, which provides moderate revenue visibility over near to medium term. The ratings are further supported by the firm's stable revenues from Central Bus Stand Complex (BOT) project and textile business, which has turned profitable; and KKB's financial risk profile characterised by low gearing and adequate coverage indicators. The ratings continue to draw comfort from the longstanding experience of the partners spanning more than two decades in the construction business and 15 years in Hotels business.

The ratings are, however, constrained by the firm's moderate scale of operations, and the significant competitive pressures in the construction and hotel industry, with pricing pressures, exposing KKB's margins to adverse variation in the raw material, labour, and other input costs. The ratings also factor in KKB's sectoral concentration in its contracting segment with major share of revenues and order book from Government sector / Government funded projects, which, although carry low counter party risk, exposes the firm to potential delays in receivables. ICRA also takes into account of the project execution risks; while the timely completion of projects and cost overruns will be critical. The ratings also consider KKB's heavy dependence on IMFL sales in hotel division which has adversely impacted the KKB's revenues in FY 2016 owing to ban of IMFL license to below 5 star graded hotel properties following the revision in liquor policy by the Kerala Government. ICRA also notes the risks of capital continuity associated with being a partnership firm.

Going forward, the firm's ability to increase scale of operations in hotel division and securing fresh orders in contract division while improving its margins remain the key rating sensitivities.

### Firm Profile

K.K. Builders, a partnership firm formed in 1994, is a Kerala based civil construction contractor. The firm is involved in the execution of road, bridge and building construction projects for Government agencies. The firm is a contractor registered with the Kerala Public Works Department (PWD). The firm has obtained ISO 9001:2008 and ISO 14001:2004 certifications and has the requisite management, manpower and equipment resources to execute road and bridge projects.

The firm also operates four hotels, namely KK Residency, Hotel Broad Bean, KK Tourist Home (Kannur) and KK Tourist Home (Iritty) in Kannur district. The hotels have quality rooms, restaurants and beer & wine bar which serve the local population, whereas KK Tourist Home (Kannur) only has lodging facility. Apart from the contracting and hotels division, the firm is also involved in a Kannur bus stand BOT project, operates two stone crusher units and owns KK Fashion Retail which is involved in garments and textile retailing.

<sup>1^</sup> 1 crore = 100 lakh = 10 million

<sup>2^</sup> For a complete rating scale and definitions, please refer to ICRA's website ([www.icra.in](http://www.icra.in)) or other ICRA rating publications.

The businesses were set up by Mr. K.K. Kunhiraman, and are currently managed by his four sons and a son-in-law. The Partners of the firm are Mr. K.K Mohandas, Mr. K.K. Radhakrishnan, Mr. K.K. Rajan, Mr. K.K. Premkumar and Mr. M.C. Shanmugan.

As per provisional results of FY 2015-16, the firm reported a profit after tax of Rs. 5.8 crore on an operating income of Rs. 98.5 crore as against a net profit of Rs. 7.0 crore on an operating income of Rs. 112.1 crore in FY 2014-15. The firm has achieved an operating income of Rs. 14.5 crore, according to provisional result of FY 2016-17 (3M).

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