

Press Release

K Gauthaman

July 20, 2017



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	SMERA BB- / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BB-**' (read as **SMERA BB minus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 10.00 crore bank facilities of K Gauthaman. The outlook is '**Stable**'.

Established in 1980, K Gauthaman is a Tamil Nadu-based proprietorship firm that undertakes civil work for the government through tender based contracts. The firm executes orders for government bodies such as Southern Railways, Steel Authority of India (SAIL) and National Highways Authority of India (NHAI). Mr. K. Gauthaman, the Proprietor has more than three decades of experience in the aforementioned industry.

Key Rating Drivers

Strengths

- **Experienced management and established relations with customers**

Mr. K. Gauthaman, the Proprietor possesses more than three decades of experience in civil construction. The firm has long track record of operations and has been able to maintain long term relations with customers.

- **Improvement in profit margins**

The operating margin improved to 6.93 percent in FY2015-16 from 5.56 percent in FY2014-15. The net profit margin has remained comfortable at 3.65 percent in FY2015-16 as against 3.64 percent in FY2014-15. The Return on Capital Employed (RoCE) stood at 12.51 percent in FY2015-16, a marginal decline from 14.28 percent in FY2014-15.

- **Comfortable financial risk profile**

The financial risk profile continues to remain comfortable marked by gearing of 0.74 times as on 31 March, 2016 against 0.93 times as on 31 March, 2015. The networth stood at Rs.6.52 crore as on 31 March, 2016 compared to Rs.5.90 crore as on 31 March, 2015. While coverage indicators have declined, the debt protection metrics of KG is comfortable. The Interest Coverage Ratio (ICR) stood at 2.87 times in FY2015-16 as against 4.41 times in FY2014-15. The NCA/TD stood at 0.22 times for FY2015-16.

- **Moderate order book level**

KG has moderate order book position with unexecuted orders in hand of approximately Rs.7.59 crore as on March 2017, that provides revenue visibility for the next year.

Weaknesses

- **Proprietorship constitution**

The firm is exposed to risk of capital withdrawal due to the proprietorship constitution of the firm. However, SMERA has not observed the same during the period under study.

• **Highly competitive and tender based business**

The firm caters only to government organisations. Moreover, being a tender based business, the firm is exposed to intense competition from a large number of players.

• **Modest scale of operations**

The scale of operations of KG continues to remain modest with operating income of Rs.23.49 crore for FY2015-16. The revenue declined to Rs.23.49 crore in FY2015-16 from Rs.28.05 crore in FY2014-15. Further, KG booked revenue of ~Rs.20.00 crore from April 2016 to March 2017.

• **Moderate working capital operations**

The operations are working capital intensive reflected in the Gross current assets of around 125 days as on 31 March, 2016, an increase from 117 days as on 31 March, 2015. The working capital cycle stood comfortable at 24 days in 31 March, 2016. The current ratio is moderate at 2.30 times in FY2015-16.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the entity.

Outlook: Stable

SMERA believes that K Gauthaman will continue to maintain a stable outlook in the medium term on account of its reputed clientele and experienced management. The outlook may be revised to 'Positive' if the firm registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability, deterioration in the financial risk profile or higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

In FY2015-16, K Gauthaman reported net profit of Rs.0.86 crore on operating income of Rs.23.49 crore as against profit after tax (PAT) of Rs.1.02 crore on operating income of Rs.28.05 crore in the previous year. The net worth stood at Rs.6.52 crore as on 31 March, 2016 as against Rs.5.90 crore a year earlier.

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-Mar-2016	Cash Credit	Long Term	INR 5	SMERA BB- / Stable

17-Mar-2015	Term Loan	Long Term	INR 0.5	SMERA BB- / Stable
	Bank Guarantee	Short Term	INR 4.5	SMERA A4
	Cash Credit	Long Term	INR 5	SMERA BB- / Stable
	Term Loan	Long Term	INR 0.5	SMERA BB- / Stable
	Bank Guarantee	Short Term	INR 4.5	SMERA A4

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.50	SMERA A4

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ABOUT SMERA

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