

Press Release

Krishna Builder

October 30, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.41.45 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B**) on the Rs.41.45 crore bank facilities of KRISHNA BUILDERS .The outlook is revised to '**Stable**'.

Established in 1994, Krishna Builder (KB) is a Delhi-based proprietorship firm promoted by Mr. Praveen Mittal and is engaged in civil construction for government departments like National Buildings Construction Corporation Limited (NBCC), Public Works Departments (PWD) among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Krishna Builder to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of Operations and experienced management**

Mr. Praveen Mittal, proprietor has been engaged in civil construction industry since 1994 thereby having and experience of over two decades in the said industry. Further having more than two decades of operational track record has helped the firm to maintain strong relations with its customers as well as with its suppliers. The extensive experience of the promoter and long track record of operations is also reflected through firm's healthy and long association with government agencies like NBCC, PWD to name a few. Being associated with government entities limits a counter-party risk.

Acuité believes that the promoter's experience and healthy relations with its customers and suppliers will continue to benefit the firm over the medium term.

- **Healthy financial risk profile**

KB has healthy financial risk profile marked by moderate net worth, healthy debt protection metrics and low gearing. The net worth of the firm has sequentially improved to Rs.29.92 as on 31 March, 2019 (Provisional) as against Rs.18.68 crore as on 31 March, 2017 on account of healthy accretion to reserves, the latter is a result of healthy operating margins.

Firm has followed a conservative financial policy in the past; the same is also reflected through its gearing levels. The gearing level (debt-equity) stood at 0.43 times as on 31 March, 2019 (Provisional) as against 0.54 times as on 31 March, 2018. The gearing of the firm is expected to remain low over the medium term on account of absence of any debt funded capex plans and modest incremental working capital requirements, which is likely to be funded by the cash accrual of the firm. The total debt of Rs.12.98 crore as on 31 March, 2019 (Provisional) consists of long term debt of Rs.3.69 crore, unsecured loans of Rs.4.49 crore and working capital borrowing of Rs.4.80 crore. Operating income of the firm has improved by 85.33 per cent in FY2019 (Provisional) over FY2018 leading to improvement in coverage indicators. The interest coverage ratio (ICR) stood at 7.34 times in FY2019 (Provisional) as against 4.96 times in FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.82 times in FY2019 (Provisional) and 0.49 times in FY2018. TOL/TNW

Acuité believes that the financial risk profile of the firm is expected to remain healthy backed by healthy net cash accruals and in absence of any major debt funded capex in near to medium term.

• **Improved operating income and moderate order book position**

Operating income outnumbered Acuité estimation for FY2019 and grew at 85.33 per cent in FY2019 (Provisional) over FY2018. Operating income stood at Rs.168.80 crore in FY2019 (Provisional), Rs.91.08 crore in FY2018 and Rs.81.01 crore in FY2017. Operating margins reduced slightly in FY2019 and stood at 7.08 per cent as against 7.67 per cent in FY2018. Further the order book position of the firm stood moderate with total unexecuted orders of Rs.223.38 crore as on 31 August, 2019, which gives moderate revenue visibility over the medium term.

Weaknesses

• **Moderately working capital intensive nature of operations**

Operations of KB are moderately working capital intensive marked by Gross Current Assets (GCA) days of 180 days in FY2019 as against 268 days in FY2018. This is majorly on the account of security deposits of the firm with government organizations and debtors' collection period of 96 days in FY2019 (Provisional) as against 153 days in FY2018. However, current ratio of the firm stood moderate at 1.55 times in FY2019 (Provisional) as against 1.58 times in FY2018. BLU

Acuité believes that the working capital operations of KB will continue to remain moderately intensive on account of security deposits that firm keeps with its customers and above moderate debtors' collection period.

• **Competitive industry and tender based nature of business**

The firm is engaged as civil contractor. The particular sector is marked by the presence of several mid to big size players. The firm faces intense competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent as management operating in this environment for last two decades. Being a civil contractor, the revenue of KB depends on the number of successful bids and the tenders being released in the financial year. Going forward the firm's ability to bid for large orders and qualifying for the same remains to be seen. However, the promoters experience and relationship partially mitigates this risk.

Rating Sensitivity

- Significant growth in scalability coupled with improvement in profitability
- Diversification of the customer base
- Deterioration in working capital leading to higher reliance on external borrowings
- Improvement in the order book position

Material Covenants

None.

Liquidity Profile: Adequate

KB has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. KB generated cash accruals of Rs.10.66 crore in FY2019 (Provisional) against debt obligations of Rs.0.83 crore for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.9.04 crore to Rs.11.30 crore during FY2020-22 against repayment obligations of Rs.0.83 crore for the same period. KB's working capital operations are intensive marked by gross current asset (GCA) days of 180 days in FY2019 (Provisional). Firm maintains unencumbered cash and bank balances of Rs.0.92 crore as on 31 March 2019 (Provisional). The current ratio stands at 1.55 times as on 31 March 2019 (Provisional).

Acuite believes that the liquidity of the firm is likely to remain healthy over the medium term on account of healthy cash accruals against no major debt repayments over the medium term.

Outlook: Stable

Acuité believes that the outlook of KB will remain 'Stable' over the medium term on account of its promoters' extensive experience and healthy financial risk profile. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability largely facilitated through improvement in capacity utilization. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile, particularly its liquidity most likely as a result of higher than envisaged working capital requirements or higher than anticipated capex.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	168.80	91.08	81.01
EBITDA	Rs. Cr.	11.94	6.98	5.93
PAT	Rs. Cr.	10.03	5.30	5.12
EBITDA Margin	(%)	7.08	7.67	7.32
PAT Margin	(%)	5.94	5.82	6.32
ROCE	(%)	30.47	23.06	26.23
Total Debt/Tangible Net Worth	Times	0.43	0.54	0.32
PBDIT/Interest	Times	7.34	4.96	8.82
Total Debt/PBDIT	Times	1.05	1.64	0.98
Gross Current Assets (Days)	Days	180	268	190

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Application of Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Entities- <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
01-Jul-2019	Overdraft	Long term	3.95	ACUITE BBB- (Indicative)
	Term Loans	Long term	4.00	ACUITE BBB- (Indicative)
	Bank Guarantee	Short term	33.50	ACUITE A3 (Indicative)
09-Apr-2018	Overdraft	Long term	3.95	ACUITE BBB-/ Negative (Reaffirmed)
	Term Loans	Long term	4.00	ACUITE BBB-/ Negative (Assigned)
	Bank Guarantee	Short term	33.50 (Enhanced from Rs.23.00 crore)	ACUITE A3 (Reaffirmed)
15-Nov-2017	Overdraft	Long term	3.95	ACUITE BBB- (Indicative)
	Bank Guarantee	Short term	23.00	ACUITE A3 (Indicative)
09-Jul-2016	Overdraft	Long term	3.95	ACUITE BBB-/ Stable (Upgraded)
	Bank Guarantee	Short term	23.00 (Enhanced from Rs.20.00 crore)	ACUITE A3 (Upgraded)
26-Mar-2015	Overdraft	Long term	3.95	ACUITE BB+/ Stable (Assigned)

	Bank Guarantee	Short term	20.00	ACUITE A4+ (Assigned)
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***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.95	ACUITE BBB- / Stable (Reaffirmed)
Term Loans	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB- / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	33.50	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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