

Press Release

R. Gangaiah & Co (RGC)

08 December, 2017



Rating Downgraded and Reaffirmed

Total Bank Facilities Rated*	Rs.18.75 Cr.
Long Term Rating	SMERA BB/Stable (Downgraded from SMERA BB+/Stable)
Short Term Rating	SMERA A4+ (Reaffirmed)

*Refer annexure for details

Rating Rationale

SMERA has downgraded the long term rating to '**SMERA BB**' (read as SMERA double B) from '**SMERA BB+**' (read as SMERA double B plus) and reaffirmed the short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs. 18.75 crore bank facilities of R.Gangaiah & Co (RGC). The outlook is '**Stable**'.

R. Gangaiah & Co. (RGC), a civil construction firm was established in 1992 by Mr. R Venkateswara Rao, Mr. Nageswara Rao and Mr. R. Lakshmi Kishori. The Hyderabad-based firm is engaged in the construction and maintenance of government approved buildings, railway bridges, roads among others. The firm is registered as a Special Class contractor with the Andhra Pradesh, Telangana governments and undertakes tender based contracts.

List of key rating drivers and their detailed description:

Strengths

Established track record of operations and experienced management: The firm was established in 1992 by Mr. R Venkateswara Rao, Mr. Nageswara Rao and Mr. R. Lakshmi Kishori. The management has experience of over three decades in civil construction and has developed healthy relations with customers and suppliers.

Long term association with government agencies: RGC has executed projects for East Coast railway and various other central government agencies. Being government entities, the counter-party default risk remains minimal. Although, risk associated with delayed payment exists, the extensive experience of the promoters in the industry has helped maintain long term relations with clients and timely execution of projects. The firm has been able to collect payments within 10-20 days from work certification.

Healthy financial risk profile: RGC has healthy financial risk profile. The gearing stood at a low of 0.54 times as on 31 March, 2016 as against 0.38 times as on 31 March, 2015. The total debt mainly consists of working capital borrowings. RGC has healthy coverage indicators with interest coverage ratio (ICR) of 3.12 times for FY2016 and 5.54 times for FY2015. Further, the networth of the firm stood at Rs.14.37 crore as on 31 March, 2016 compared to Rs.14.42 crore in the previous year.

Efficient working capital management and comfortable liquidity: RGC has exhibited efficient working capital management mainly on account of timely payments from customers. The firm has

cash and bank balance of Rs.1.53 crore as on 31 March, 2016. The net cash accruals stood at Rs. 1.50 crore in FY2015-16 as against CPLTD of Rs. 0.20 crore.

Weaknesses

Moderate scale of operations due to tender based business: The operations of RGC are at moderate level despite the firm being in the construction business from the last 26 years. The firm achieved operating income of Rs. 62.24 crore in FY2015-16 as against Rs. 74.43 crore in FY2014-15. Being a civil contractor, the revenue of RGC depends on the number of successful bids and the tenders being released in the financial year.

Competitive and fragmented industry: The civil construction sector is marked by the presence of several mid to big sized players exposing the firm to intense competition. Risk becomes more pronounced as tenders are based on the minimum amount of bidding of contracts. However, this risk is mitigated to an extent as the management has experience of around 26 years in the industry.

Analytical approach: SMERA has considered the standalone financial and business risk profile of R Gangaiah and Co. to arrive at the rating.

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>

Outlook: Stable

SMERA believes that RGC will maintain a stable outlook and benefit over the medium term from its promoter's extensive experience, established track record of operations and moderate order book position. The outlook may be revised to 'Positive' in case the firm is able to achieve growth in revenue along with improved profitability and management of its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case RGC fails to scale up on expected revenues and profitability or registers deterioration in its liquidity position.

About the Rated Entity: Key financials

In FY2015-16, the firm reported profit after tax (PAT) of Rs.1.32 crore on operating income of Rs.62.24 crore as against net profit of Rs.2.56 crore on operating income of Rs.74.43 crore in the previous year. The tangible net worth stood at Rs.14.37 crore as on 31 March, 2016 as against Rs. 14.42 crore a year earlier.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
04-May, 2016	Cash credit	Long term	6.00	SMERA BB+/ Stable (Assigned)
	Bank Guarantee	Short term	10.75	SMERA A4+ (Assigned)

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash credit	N.A	N.A	N.A	6.00	SMERA BB/Stable (Downgraded from SMERA BB+/Stable)
Bank Guarantee	N.A	N.A	N.A	12.75	SMERA A4+ (Reaffirmed)

*Includes sublimit as FDBPN/PC

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