

### Kences Constructions Private Limited: Assigned

Name of the Instruments	Amount (Rs. Crore)	Rating/Outlook
Secured Overdraft	25.00	SMERA BB+/Stable (Assigned)
Secured Overdraft (Drop down)	7.00	SMERA BB+/Stable (Assigned)

SMERA has assigned rating of '**SMERA BB+**' (read as SMERA double B plus) on the Rs.32.00 crore long-term bank facilities of Kences Constructions Private Limited (KCPL). The outlook is '**Stable**'. The rating derives comfort from the extensive experience of the promoters and long track record of operations in the real estate industry. The rating is further supported by consistent income from the hotel at Tirupati and advanced stage of construction of the residential project 'Kences Woods'. The rating also factors in the moderate financial risk profile marked by healthy capital structure, moderate leverage (debt-to-equity) supported by promoters' funds and debt coverage ratio. However, the rating is constrained by the company's small scale of operations, high dependence on a single project and low bookings. The rating also factors in the exposure of the company to slowdown in the real estate sector and geographical concentration risk.

KCPL, established in 2001, is a Chennai-based real estate company that runs Fortune Kences, a hotel in Tirupati. The company is also into developing residential projects and is constructing Kences Resort at Mahabalipuram, Chennai.

The company was promoted by Mr. K. Narasa Reddy, who possesses around 10 years of experience in the real estate industry. KCPL has moderate financial risk profile marked by healthy capital structure of Rs.73.50 crore as on 31 March, 2015 as compared to Rs.68.72 crore in FY2013-14. The leverage (debt-to-equity) is comfortable at 0.27 times as on 31 March, 2015. The total debt of Rs.19.57 crore as on 31 March, 2015 includes subordinated unsecured loans of Rs.14.93 crore from related parties. SMERA has treated such unsecured loan as quasi-equity. The interest coverage ratio was moderate at 2.21 times in FY2014-15 as compared to 6.36 times in FY2013-14.

KCPL's has small scale of operations with revenue of Rs.17.72 crore as on 31 March, 2015 as compared to Rs.20.00 crore in FY2013-14.

#### Outlook- Stable

SMERA believes KCPL will maintain a strong business risk profile in the medium term on the back of experience of the promoters. The outlook may be revised to 'Positive' if the company generates steady cash flows as per anticipated customer advances from bookings. Conversely, the outlook may be revised to 'Negative' in case of project delays or lower than anticipated collections from bookings resulting in pressure on liquidity.

#### Rating Sensitivity Factors

- Successful completion of its on-going projects without time and cost overrun
- Timely receipts of customer advance against bookings
- Saleability of unsold units

### About the Company

KCPL, part of the Kences Group was incorporated in 2001 by Mr. K. Narasa Reddy and family. The company is engaged in real estate development and runs 'Fortune Kences' a hotel in Tirupati.

KCPL began construction of Kences Resort at Mahabalipuram, Chennai in FY2015 at a total project cost of around Rs.15.00 crore. The company is also developing a residential project 'Kences Woods' at Kotturpuram, Chennai.

For FY2014-15, the company reported profit after tax (PAT) of Rs.1.07 crore on operating income of Rs.17.72 crore, as compared with profit after tax (PAT) of Rs.2.58 crore on operating income of Rs.20.00 crore in FY2013-14. The net worth stood at Rs.73.50 crore (including unsecure loan of Rs.14.93 crore) as on 31 March, 2015 against Rs.68.72 crore (including unsecure loan of Rs.11.20 crore) a year earlier.

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