

## Press Release

**Kences Constructions Private Limited**

**(KCPL) February 26, 2018**



### Rating Downgraded

<b>Total Bank Facilities Rated*</b>	Rs.37.00 Cr. (Enhanced from Rs.32.00 Cr)
<b>Long Term Rating</b>	SMERA BB/ Outlook: Stable (Downgraded from BB+/Stable)

*\* 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)** on the Rs. 37.00 cr. bank facilities of Kences Constructions Private Limited (KCPL). The outlook is **'Stable'**.

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.

### Key rating drivers

#### Strengths

##### **Experienced promoters**

KCPL is promoted by Mr. K. Narasa Reddy and family. The promoters have more than two decades of experience in the real estate sector and hospitality sector.

##### **Moderate scale of operations**

Scale of operations is moderate marked at Rs.20.91 crore for FY2016-17 (provisional) as against Rs.17.33 crore for FY2015-16.

#### Weaknesses

##### **Low advances and low booking**

KCPL has received low advances of Rs.21.00 crores of advances from the customers for its Kences Woods project as against total expected revenue (~8.00 percent) as on 31 August 2017. Further company has received booking for 8 flats out of 63 flats (12.69 percent) for Kences Woods as on January 2018.

##### **Intense competition**

The real estate industry is highly fragmented with most of the real estate developers, having a city-specific or region specific presence. The risks associated with this project are possible drop in prices and obtaining of completion certificate.

### **Inherent cyclicity in construction Sector**

The real estate industry is highly fragmented with most of the real estate developers, having a city-specific or region specific presence. The risks associated with real estate industry are cyclical nature of business (drop in property prices), interest rate risk etc that can affect operations.

#### **Analytical approach:**

SMERA has considered standalone financial and business risk profile of the company to arrive at the rating.

#### **Outlook – Stable**

SMERA believes that the company will maintain a stable outlook in the medium term owing to the experienced management. The outlook may be revised to 'Positive' if the company generates steady cash flows. Conversely, the outlook may be revised to 'Negative' in case of delay in completion the project or collections from bookings getting delayed, thereby creating pressure on liquidity.

#### **About the Rated Entity - Key Financials**

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	20.91	17.33	17.72
EBITDA	Rs. Cr.	6.27	4.14	2.89
PAT	Rs. Cr.	2.52	1.11	1.07
EBITDA Margin	(%)	30.00	23.90	16.33
PAT Margin	(%)	12.03	6.39	6.04
ROCE	(%)	6.05	4.65	4.01
Total Debt/Tangible Net Worth	Times	0.46	0.34	0.27
PBDIT/Interest	Times	2.18	1.72	2.21
Total Debt/PBDIT	Times	4.76	5.17	4.57
Gross Current Assets (Days)	Days	364	522	312

#### **Any other information:**

Not Applicable

#### **Applicable Criteria**

- Default Recognition - <https://www.smera.in/criteria-default.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>

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

Not available

**Rating History (Upto last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
September 18, 2017	Secured Overdraft	Long Term	25.00	SMERA BB+ (Indicative)
	Secured Overdraft	Long Term	7.00	SMERA BB+ (Indicative)
June 17, 2016	Secured Overdraft	Long Term	25.00	SMERA BB+/Stable (Assigned)
	Secured Overdraft	Long Term	7.00	SMERA BB+/Stable (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
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	30.00 (Enhanced from Rs.25.00 cr)	SMERA BB/ Stable (Downgraded)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	7.00	SMERA BB/ Stable (Downgraded)

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## ABOUT SMERA

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