

Press Release

R.K. ASSOCIATES

November 16, 2017

Rating Upgraded



Total Bank Facilities Rated*	Rs. 25.00 Cr. (Enhanced from Rs.20.00 Cr)
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has upgraded long-term rating of '**SMERA BB**' (read as **SMERA BB**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 25.00 crore bank facilities of R K ASSOCIATES. The outlook is '**Stable**'.

The Karnataka-based R K Associates, incorporated in 1987 is a Super Grade LEC (Licenced Electrical Contractor) and also a Class I contractor under KPDW (Karnataka Public Work Department). The firm is engaged in the construction of sub-stations and related electrical work in Karnataka.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

The firm established in 1987 is engaged in the installation of electrical projects, setting up of sub-stations and other electrical work. Mr. H.N Ramakrishna, the proprietor has three decades of experience in the execution of projects related to electrical installation- both L.T (Low tension) and H.T (High tension).

• Healthy financial riskprofile

The financial risk profile is healthy marked by low debt to equity ratio of 0.94 times as on 31 March, 2017 (Provisional) compared to 1.14 times as on 31 March, 2016. The interest coverage ratio of the firm stood at 5.49 times for FY2017 (Provisional) compared to 6.17 times for FY2016. Further, the firm has moderate network of Rs.10.70 crore as on 31 March, 2017 (Provisional) as against Rs.5.34 crore as on 31 March 2016.

• Healthy order book

The current order in hand stands at Rs.80.00 crore as on 24 October, 2017 to be executed within 18 months. The firm booked Rs.18.00 crore of revenue in the first two quarters of FY2018.

• Long term association with government agencies

RKA has executed projects for BESCOM (Bangalore Electricity Supply company) and also caters to KPWD (Karnataka Public Work Department), Karnataka State Warehousing Corporation and Karnataka Power Corporation Limited. Being government entities, the counter-party default risk is minimal. Apart from government agencies, the firm also caters to private companies. With the promoter's extensive industry experience and timely execution of projects, the firm has been able to establish long-standing relations with clients.

Weaknesses

• Tender based operations

The firm operates in a highly competitive and fragmented industry. Since the operations are tender based, business is dependent upon the quantum of revenue earned, contracts bagged and executed during the

year. Risk is more prevalent as tenders are based on the minimum amount of bidding of contracts which may affect the profitability of the firm.

• Small scale of operations

RKA operates on a small scale, with operating income of Rs.32.67 crore in FY2016. The revenue increased from Rs.13.20 crore in FY2014 to Rs.36.60 crore (Provisional) in FY2017. Government orders contribute around 80 percent to the total revenue.

• Working capital intensive business

The operations are working capital intensive marked by gross current asset days of 167 in FY2017 (Provisionals) and 175.72 days in FY2016. The cash credit facility (as informed by the banker) has been fully utilized.

Analytical Approach

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

Outlook: Stable

SMERA believes that RKA will maintain a stable outlook over the medium term owing to its established operations and long-standing relations with clients. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected cash accruals on the back of sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of steep decline in profitability or deterioration in the capital structure and liquidity position.

About the Rated Entity - Key Financials

For FY2016-17 (Provisional), RKA reported PAT (profit after tax) of Rs.3.29 crore on operating income of Rs.36.60 crore as against PAT of Rs.1.29 crore on operating income of Rs.32.67 crore in the previous year. The networth of the firm stood at Rs.10.70 crore as on 31 March, 2017 (Provisional) compared to Rs.5.34 crore in the previous year.

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>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.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
31-Aug-2016	Cash Credit	Long Term	INR 10	SMERA BB- / Stable
	Bank Guarantee	Short Term	INR 10	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	10.00	SMERA BB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00 (Enhanced from Rs.10.00 Cr)	SMERA A4+

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ABOUT SMERA

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