

P.K. Krishna Raju:Assigned

Facilities	Amount (Rs. Crore)	Ratings/Outlook
Cash Credit	4.00	SMERA BB-/Stable (Assigned)
Bank Guarantee	2.00	SMERA A4+ (Assigned)

SMERA has assigned rating of '**SMERA BB-**' (read as **SMERA double B minus**) and '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.6.00 crore bank facilities of P. K. Krishna Raju (PKKR). The outlook is '**Stable**'.

The ratings draw comfort from the company's established track record of operations, experienced management and comfortable financial risk profile. The ratings also factor in the comfortable liquidity position of the company. However, the ratings are constrained by the modest scale and tender-based nature of operations in an intensively competitive civil construction industry. The ratings also note the low net worth base and proprietorship constitution of PKKR.

PKKR is a Mysore-based proprietorship concern established in 1998 by Mr. P. K. Krishnaraju, who possesses around two decades of experience in the civil construction industry. The company is engaged in civil construction and undertakes mainly road and bridge construction.

The company has comfortable financial risk profile marked by low gearing of 0.21 times and healthy interest coverage ratio of 8.15 times as on March 31, 2016 (provisional) as against gearing of 0.60 times and interest coverage ratio of 6.19 times as March 31, 2015. Further, the company has comfortable liquidity position evident from the average cash credit limit utilisation of around 60 percent for the last six months ended 30 September, 2016. The gross current asset days stood at 76 days for FY2015-16 (provisional) as against 168 days for FY2014-15.

However, the ratings are constrained by the modest scale of operations with operating income of Rs.18.03 crore for FY2015-16 (provisional) as against Rs.10.68 crore for FY2014-15. The operations of the company are also highly dependent on government tenders, which make it vulnerable to order cyclicity. Further, the tangible networth of the firm stood at Rs.2.64 crore as on March 31, 2016 (provisional) as against Rs.1.59 crore in the previous year. Also, the proprietorship constitution of PKKR renders the company vulnerable to risks associated with withdrawal of capital.

Rating Sensitivity Factors

- Scaling up operations amidst intense competition while maintaining adequate profitability
- Effective working capital management
- Movement in capital structure and coverage indicators

Outlook-Stable

SMERA believes that the outlook on PKKR's rated facilities will remain stable over the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the company registers higher than expected growth in revenue and profitability while maintaining a comfortable liquidity position and capital structure. Conversely, the outlook may be revised to 'Negative' in case the company registers significant decline in cash accruals or stretched working capital cycle resulting in deterioration of its financial risk profile.

About the Company

PKKR, established in 1998, is a Mysore-based proprietorship concern that undertakes civil construction projects mainly related to roads and bridges. Further, the firm is a Class I contractor registered with the State Government of Karnataka. The company is promoted by Mr. P. K. Krishnaraju who possesses around two decades of experience in the civil construction industry.

In FY2014-15, the company reported net profit of Rs.0.75 crore on operating income of Rs.10.68 crore, as compared to net profit of Rs.0.53 crore on operating income of Rs.6.14 crore in the previous year. Further, PKKR has reported net profit of Rs.1.55 crore on operating income of Rs.18.03 crore for FY2015-16.

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ABOUT SMERA

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