

K. Gowda & Co.: Assigned

Facility	Amount (Rs Crore)	Ratings/Outlook
Cash Credit*	5.00	SMERA BB/Stable (Assigned)
Term Loan	0.60	SMERA BB/Stable (Assigned)
Bank Guarantee	2.50	SMERA A4+ (Assigned)

* Open cash credit/overdraft against book debts.

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA double B**) and short-term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the above mentioned bank facilities of K. Gowda & Co. (KGC).

The ratings are supported by the firm's experienced management, comfortable profitability and healthy order book position. However, the ratings are constrained by the moderate scale of business and tender based nature of operations. The ratings also factor in the working capital intensive operations, high dependence on government orders and inherent risk of capital withdrawal due to the partnership constitution of the firm.

KGC, a Bangalore-based proprietorship firm established in 1979 by Mr. H R K Gowda was converted into a partnership firm in 2010. The partners were Mr. H R K Gowda, Mrs. Bhagyamma, Mr. Rakshith and Mr. Vijaysurya. The firm primarily undertakes civil construction activities. The promoters possess over three decades of experience in civil construction.

The firm has comfortable operating profit margins of 9.33 per cent, 9.63 per cent and 9.22 per cent in FY2016, FY2015 and FY2014 respectively. Also, the firm has healthy order book position of around Rs. ~60.00 crore to be executed till FY2017-18, providing revenue visibility for the medium term.

The ratings are constrained by the moderate scale of operations despite being in the civil construction business for 37 years. The firm registered increase in revenues with operating income of Rs.41.46 crore in FY2016 as against Rs.10.69 crore in FY2015.

KGC's operations are working capital intensive reflected in the gross current assets (GCA) of 140 days in FY2016 and 255 days in FY2015. The moderate GCA emanates from the debtor days of 53 for FY2016. The ratings also take into account the high dependence on government orders as KGC caters only to government organisations such as Public Works Department in Bangalore (Karnataka).

Further, KGC's financial risk profile is moderate marked by gearing (debt-equity) of 1.44 times as on March 31, 2016 as against 2.35 times as on March 31, 2015. The interest coverage ratio (ICR) stood at 3.92 times for FY2015-16 while debt service coverage ratio (DSCR) stood at 2.98 times as on March 31, 2016. Also, the firm's financial profile is susceptible to inherent risk of capital withdrawal associated with the partnership constitution of the firm.

Rating Sensitivity Factors

- Improvement in the scale of operations, profit margins
- Changes in the financial risk profile
- Efficient working capital management

Outlook-Stable

SMERA believes that KGC will maintain a stable outlook and benefit from its experienced management in the medium term. The outlook may be revised to 'Positive' if the firm registers improvement in scale of operations while sustaining healthy profit margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial risk profile.

About the Firm

The Bangalore-based KGC, established in 1979 was promoted by Mr. H R K Gowda. The firm primarily undertakes civil contracts for government organisations in Bangalore (Karnataka).

For FY2015–16, the firm reported profit after tax (PAT) of Rs.1.63 crore on operating income of Rs.41.46 crore, as compared with net profit of Rs.0.59 crore on operating income of Rs.10.69 crore in FY2014–15. The net worth stood at Rs.5.05 crore as on March 31, 2016 as compared with Rs.2.56 crore a year earlier.

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ABOUT SMERA

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