

Press Release

K. Gowda & Co.

January 05, 2023



Rating Assigned and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	44.90	ACUITE BB- Stable Assigned	-
Bank Loan Ratings	5.60	ACUITE BB- Stable Upgraded	-
Bank Loan Ratings	32.50	-	ACUITE A4+ Assigned
Bank Loan Ratings	2.50	-	ACUITE A4+ Upgraded
Total Outstanding Quantum (Rs. Cr)	85.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) from '**ACUITE B+**' (Read as **ACUITE B plus**) and short-term rating to '**ACUITE A4+**' (read as **ACUITE A four plus**) from '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.8.10 Cr bank facilities of K GOWDA & CO (KGC).

Further, Acuite has assigned its long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.77.40 Cr bank facilities of K GOWDA & CO. The outlook is '**Stable**'.

Rationale for the rating

The rating upgrade takes into account its improvement in scale of operations marked by increase in operating income of the firm. KGC has been able to improve and sustain its operations in FY2022 on the account of its moderate yet improving order book providing adequate revenue visibility over the next 12-24 months of time. Timely execution of the order book has led to growth of 11.14 percent in total operating income in FY2022 at Rs.100.17 Cr from Rs.89.91 Cr in FY2021. The firm had achieved Rs.59.84 Cr until October 31, 2022. Liquidity continues to remain adequate; enhancement in working capital limits will remain key monitorable.

The ratings assigned are based on the experienced management; established track record of operations and moderate order book position providing adequate medium term revenue visibility and improving scale of operations. The rating is constrained by its working capital intensive operations, below-average financial risk profile and Tender based nature of operations.

About the Firm

K Gowda and Co is a Bangalore-based proprietorship firm established in 1979 by Mr. H R K Gowda. It was converted into a partnership firm in 2010. Currently, Mr. H R K Gowda, Mr. Rakshith Kempeere Gowda, Mr. Vijaysurya Kempeere Gowda, Smt. Bhagyamma are partners in the firm. The firm is a Class-I Contractor engaged in civil construction of buildings, irrigation water supply systems and roads for several government organisations. The partners possess over three decades of experience in civil construction industry.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the KGC to arrive at this rating.

Key Rating Drivers

Strengths

Experienced management; established track record of operations and moderate order book position providing adequate medium term revenue visibility

The firm has been engaged in infrastructure development work for more than three decades with established track record in construction of buildings, irrigation water supply systems and roads for several government organisations. It has executed several government projects in the State of Karnataka. The firm is established by Mr. H R K Gowda as Bangalore-based proprietorship firm in 1979, and was converted into a partnership firm in 2010. The firm has an unexecuted order book position of Rs.384.84 Cr as on November 30, 2022, which is 3.84 times of FY2022 revenue. This provides adequate revenue visibility for the next 2-3 years of time. Acuité believes that the partner's extensive industry experience will aid the firm's business risk profile over the medium term.

Improving scale of operations

K Gowda & Co scale of operations has been improving over the period ending FY2022. The revenues stood at Rs.100.17 Cr in FY2022 against Rs.89.91 Cr in FY2021. The improvement in revenues is on account of continuous execution of its order book. Profitability margins have remained range bound i.e. EBITDA margin from 7.77 percent in FY2022 against 8.53 percent in FY2021. Whereas, Net Profit margin seen an increased trend from 2.44 percent in FY2022 to 2.37 percent in FY2021. Acuité believes that the revenue is expected to improve backed by its moderate order book position and profitability margins are expected to remain stable over the medium term.

Weaknesses

Working capital intensive operations

The working capital management of the firm remained intensive with high gross current assets (GCA) days at 167 days as on March 31, 2022 as against 165 days as on March 31, 2021. The GCA days are driven by moderate debtor's days. Debtors days stood at 47 days as on March 31, 2022 as against 44 days as on March 31, 2021. Subsequently, the payable period stood at 113 days as on March 31, 2022 as against 117 days as on March 31, 2021 respectively. The inventory days stood at 15 days as on March 31, 2022 as against 41 days as on March 31, 2021. The high GCA days also underpin the earnest money deposits/security deposits/withheld money. Further, the average bank limit utilization in the last twelve months ended November, 2022 remained at 93.50 percent for fund-based and 87.80 percent for non-fund based. Acuité believes that the working capital requirements will continue to remain intensive over the medium term on account of slightly high GCA days.

Below-average Financial risk profile

The financial risk profile of the firm has remained below-average with average capital structure and debt protection metrics. The net worth of the firm stood at Rs.10.13 Cr and Rs.8.53 Cr as on March 31, 2022 and March 31, 2021, respectively. The gearing ratio has been improving for the last three years; yet remained on a higher side. It stood at 2.76 times as on March 31, 2022 against 3.05 times in the March 31, 2021. The Debt/EBITDA has increased in the

FY2022 due to increase in the short-term debt and unsecured loans from directors. The Debt/EBITDA stands at 3.44 times and 3.24 times in the FY2022 and FY2021, respectively. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 3.30 times and 1.29 times as on March 31, 2022, respectively as against 2.68 times and 1.24 times as on March 31, 2021, respectively. Though, there is increase in net worth and decrease in the debt in the latest financial years, partners are withdrawing the capital from the firm's net worth. In FY2022, total amount of the capital withdrawn was Rs.1.35 Cr. TOL/TNW stood at 0.42 times and 0.59 times as on March 31, 2022 and March 31, 2021 respectively. Acuité expects the financial risk profile will be improving over the medium term backed by no major debt funded capital expenditure and improving profitability.

Tender based nature of operations

Tender based operations limit pricing flexibility in an intensely competitive industry. Revenue and profitability depend entirely on the ability to win tenders. Entities in this segment face intense competition, thus requiring them to bid aggressively to procure contracts; this restricts the operating margin to a moderate level. Also, given the cyclicity inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical. Acuité believes that the firm's business profile and financial profile can be adversely impacted on account of presence of stiff competition, and has inherent risk of susceptibility to tender based operations.

Rating Sensitivities

Positive

- Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term.
- Sustainable improvement in Profitability, Leverage and Solvency position of the firm

Negative

- Any deterioration in working capital cycle and liquidity profile of the firm.
- Any deterioration in Revenue profile and leverage position of the firm.
- Anyweakening of financial risk profile of the firm.

Material covenants

None

Liquidity: Adequate

The firm has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.4.32 Cr in FY2022 as against the repayment of Rs.3.12 Cr for the same period and expected to generate cash accruals in the range of Rs.5.13 -6.98 Cr. against Current portion of long term debt (CPLTD) of Rs.3.88 -2.05 Cr. over the medium term. The average bank limit utilization in the last twelve months ended November 2022 remained at 93.50 % for fund-based and 87.80% for non-fund based. Unencumbered cash and bank balances stood at Rs.0.04 Cr as on March 31, 2022. The current ratio of the firm stood at 1.30 times as on 31 March, 2022. Acuite believes that KGC's liquidity will remain sufficient over the medium term backed by adequate cushion between its repayment of its debt obligations and improving accruals.

Outlook: stable

Acuité believes that K Gowda & Co will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry and healthy unexecuted order book. The outlook may be revised to 'Positive', in case of in case of timely execution of its unexecuted order book leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case KGC registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	100.17	89.91
PAT	Rs. Cr.	2.44	2.13
PAT Margin	(%)	2.44	2.37
Total Debt/Tangible Net Worth	Times	2.76	3.05
PBDIT/Interest	Times	3.30	2.68

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

Brickworks Ratings vide its press release dated 8.2.2022, downgraded the company to BWR B+/A4; INC

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Oct 2021	Term Loan	Long Term	0.60	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	2.50	ACUITE A4 (Issuer not co-operating*)
	Cash Credit	Long Term	5.00	ACUITE B+ (Downgraded and Issuer not co-operating*)
22 Jul 2020	Term Loan	Long Term	0.60	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	5.00	ACUITE BB- (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	2.50	ACUITE A4 (Downgraded and Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	2.50	ACUITE A4+ Upgraded
Canara Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	17.50	ACUITE A4+ Assigned
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BB- Stable Upgraded
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	9.50	ACUITE BB- Stable Assigned
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A4+ Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	0.40	ACUITE BB- Stable Assigned
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE BB- Stable Assigned
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.60	ACUITE BB- Stable Upgraded
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.00	ACUITE BB- Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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