



Press Release
K. Gowda & Co.
August 24, 2023
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	50.50	ACUITE BB- Stable Upgraded	-
Bank Loan Ratings	35.00	-	ACUITE A4+ Upgraded
Total Outstanding Quantum (Rs. Cr)	85.50	-	-

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 85.50 Cr bank facilities of K GOWDA & CO (KGC). The outlook is '**Stable**'.

Rationale for the rating

The rating upgrade takes into account KGC's improvement in operating performance marked by increase in operating income of the firm and range bound operating margins. The operating income of the firm stood at Rs.114.86 Cr in FY2023 (Prov) as against Rs 100.17 Cr in FY22. The operating margins have recorded an upward trend over the last three years. The rating also derives comfort from the experienced management; established track record of operations and moderate order book position providing adequate medium term revenue visibility. However, the rating is constrained by its working capital intensive operations, below average financial risk profile and Tender based nature of operations.

About the Company

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

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

Key Rating Drivers

Strengths

Established track record and experienced management

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 approx. Rs 380 Cr as on July 31, 2023. This provides adequate revenue visibility for the next 10 – 12 months.

Acuité believes that the partner's extensive industry experience will aid the firm's business risk profile over the medium term.

Improving operating performance

KGC's operating income improved to Rs 114.86 crore in FY23 (Prov) as against Rs.100.17 Cr in FY2022 and Rs. 89.91 Cr in FY2021. The improvement in revenues is on account of govt tenders received in FY22 – FY23. Profitability margins have remained range bound i.e. EBITDA Margin for the FY23 (Prov) stood at 10.32% as against 7.77% in FY22 and 8.53% in FY2021. Net Profit margin rose to 6.74% in FY23 (Prov) from 2.68% in FY22 and 3.64% in FY21.

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 operations of the firm are working capital intensive in nature marked by GCA Days of 200 days in the FY23 (Prov) as against 56 days in FY22. Further the receivables days stood at 16 days in FY23 (Prov) & 47 days in FY22. The inventory holding days stood at 74 days in FY23 (Prov) & 15 days in FY22. The creditor days of the company stood at 256 days in FY23 (Prov) as against 113 days in FY22. Further, the average bank limit utilization in the last twelve months ended June, 2023 remained at 89.71 percent for fund-based and 91.46 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 remained below average marked by average net worth, average debt protection metrics and moderately high gearing ratio. The net worth of KGC stood at Rs 12.15 Cr as on FY23 (Prov) as against Rs 10.13 Cr as on FY22. The gearing level (debt-equity) stood at 2.42 times as on FY23 (Prov) as against 2.76 times as on FY22. Total outside liabilities to Tangible net worth (TOL/TNW) ratio stood high at 5.38 times in FY23 (Prov) as against 4.69 times in FY22. The coverage indicators are moderate marked by Interest Coverage Ratio (ICR) of 5.68 times for FY23 (Prov) as against 3.30 times for FY22. Debt service coverage ratio (DSCR) stood at 5.68 times in FY23 (Prov) as compared with 2.85 times in FY22. Acuite believes that financial risk profile of the firm may continue to remain moderate over the medium term in absence of any major debt funded capex plan.

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

Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term.

Further deterioration in working capital cycle and liquidity profile of the firm.

Any weakening of financial risk profile of the firm.

Material covenants

None

Liquidity Position

Stretched

Liquidity of KGC is stretched marked by elongated working capital cycle and high reliance on bank facilities to fund working capital requirements. The firm's gross current asset days stood at 200 days as on March 31, 2023 (Prov). Further for twelve months ended June, 2023 average bank limit utilization for fund based facilities stood at 89.71% and BG utilization stood at 91.46%. the firm also generate cash accruals of Rs. 10.07 Cr in FY23 (Prov) against NIL maturing debt obligation during the same period. The current ratio stood at 1.38 times in FY23 (Prov). The firm has unencumbered cash and bank balances of Rs 0.12 Cr as on 31 March 2023(Prov).

Acuite believes that liquidity may continue to remain stretch in near term with intensive working capital nature of operations.

Outlook: Stable

Acuite believes that KGC will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry and improving operating performance. 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 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	114.86	100.17
PAT	Rs. Cr.	7.74	2.68
PAT Margin	(%)	6.74	2.68
Total Debt/Tangible Net Worth	Times	2.42	2.76
PBDIT/Interest	Times	5.68	3.30

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

Brickworks vide its press release dated 1st February 2023, had downgraded the company to BWR B/Stable/A4; Issuer Not Cooperating.

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
07 Apr 2023	Bank Guarantee	Short Term	2.50	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Proposed Term Loan	Long Term	17.00	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Proposed Cash Credit	Long Term	15.00	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Proposed Bank Guarantee	Short Term	15.00	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	0.60	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	17.50	ACUITE A4 (Downgraded and Issuer not co-operating*)
	Proposed Long Term Loan	Long Term	0.40	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	9.50	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	5.00	ACUITE B+ (Downgraded and Issuer not co-operating*)
	Term Loan	Long Term	3.00	ACUITE B+ (Downgraded and Issuer not co-operating*)
05 Jan 2023	Bank Guarantee	Short Term	17.50	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BB- Stable (Upgraded from ACUITE B+)
	Term Loan	Long Term	3.00	ACUITE BB- Stable (Assigned)
	Bank Guarantee	Short Term	2.50	ACUITE A4+ (Upgraded from ACUITE A4)
	Proposed Cash Credit	Long Term	15.00	ACUITE BB- Stable (Assigned)
	Cash Credit	Long Term	9.50	ACUITE BB- Stable (Assigned)
	Proposed Term Loan	Long Term	17.00	ACUITE BB- Stable (Assigned)
	Proposed Bank Guarantee	Short Term	15.00	ACUITE A4+ (Assigned)
	Term Loan	Long Term	0.60	ACUITE BB- Stable (Upgraded from ACUITE B+)
	Proposed Long Term Loan	Long Term	0.40	ACUITE BB- Stable (Assigned)
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+ Upgraded
Canara Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	14.50	ACUITE BB- Stable Upgraded
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A4+ Upgraded
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BB- Stable Upgraded
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE BB- Stable Upgraded
Not Applicable	Not Applicable	Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	Simple	0.40	ACUITE BB- Stable Upgraded
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	3.00	ACUITE BB- Stable Upgraded
Canara Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	0.60	ACUITE BB- Stable Upgraded

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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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