

Press Release

G. Koteswara Rao

July 04, 2018



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 9.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating to '**ACUITE BB-**' (**read as ACUITE double B minus**) from '**ACUITE BB-**' (**read as ACUITE double B minus**) on the Rs.9.00 crore bank loan facilities of G. Koteswara Rao. The outlook is '**Stable**'.

The rating reaffirmation reflects sustenance of the revenues and profitability while maintaining the capital structure and efficient working capital management. The ratings are constrained by modest scale and uneven trend in revenues while being competitive in tender based business.

Established in 1995, G. Koteswara Rao (GKR) is a proprietorship concern engaged in the construction of Road under Bridges (RUB's) for Railways, Canal crossings etc. The proprietor Mr. G Koteswara Rao has more than two decades of experience in the same line of business. The entity uses Box pushing technology for constructing the RUB's.

Key Rating Drivers

Strengths

- **Experienced management**

Proprietor, G. Koteswara Rao is in the civil construction business for almost two decades. The firm uses box pushing technology for construction of Road Under bridges and has a healthy client base with majority of orders received from the Railways alone. At present there are orders worth Rs. 70.10 crore in hand executable till December 31, 2019 and Acuite believes that it gives adequate revenue visibility over the medium term.

- **Comfortable financial risk profile**

The financial risk profile is marked by moderate gearing and comfortable debt protection metrics. Gearing is moderate at 1.20 times as of March 31, 2018 (provisional), marginal improvement from 1.24 times as of March 31, 2017. The net worth is moderate at Rs.6.05 crore as on 31 March, 2018 (Provisional) against Rs.4.87 crore in FY2017, mainly attributed to profit accretions. Its debt protection metrics are comfortable with interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) of 3.46 times and 0.27 times respectively for FY2018 (Provisional). The entity's TOL/TNW stood at 1.47 times in FY2018 (Provisional) as compared to 1.62 times in FY2017. Acuité believes that the financial risk profile is expected to be at similar levels over the medium term, as the firm is not envisaging any major debt-funded capex over the medium term.

Weaknesses

- **Moderate Working Capital Management**

The working capital management is marked by gross current asset (GCA) days of 132 comprised of inventory days of 34, debtor collection period of 16 days and creditors of 45 days as on March 31, 2018(Provisional); this is a partial deterioration from 90 days in FY2017. Moderate cash accruals of about Rs.2.0 crs and debt-equity of 1.2 times kept the working capital utilisation moderate at around 70 per cent over the past six months through April 2018. Acuite believes that the working capital operations continue to be at similar levels over the medium term as the firm is not expecting any

significant growth in the revenues.

- **Modest scale and Uneven revenues due to the tender based business**

The revenues are uneven due to the tender based nature of business. The firm registered operating income of Rs.30.91 crore in FY2017, an increase from Rs.15.61 crore in FY2016. However, the revenues declined in FY2018 to Rs.26.70 crore (provisional) as couple of works have been completed, but not certified. Acuité believes that the entity has revenue visibility over the medium term as reflected in executable order book position of Rs.70.50 till December 2019; however, they remain to be modest of about Rs.40.0 crs.

- **High competitive intensity in the bridges construction segment**

The entity's operations are exposed to high competition in the domestic civil construction space. Also, the inflow of orders could be dependent in release of orders from Indian Railways.

Analytical Approach

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

Outlook: Stable

Acuité believes that GKR will maintain a stable outlook over the medium term from its proprietor's industry experience. The outlook may be revised to 'Positive' in case of significant improvement in revenues, while maintaining its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management due to inordinate delay in receipt of payments from the Railways or decline in revenues due to clearances.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	30.91	15.61	18.91
EBITDA	Rs. Cr.	2.80	1.51	1.46
PAT	Rs. Cr.	2.08	1.01	1.11
EBITDA Margin	(%)	9.06	9.65	7.70
PAT Margin	(%)	6.74	6.47	5.86
ROCE	(%)	28.70	17.86	21.42
Total Debt/Tangible Net Worth	Times	1.24	1.42	1.48
PBDIT/Interest	Times	4.03	3.21	4.00
Total Debt/PBDIT	Times	1.96	2.99	2.95
Gross Current Assets (Days)	Days	90	127	105

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
10-Feb-2018	Cash Credit	Long Term	6.00	ACUITE BB- (Indicative)
	Bank Guarantee	Short Term	3.00	ACUITE A4+ (Indicative)
24-Nov-2016	Cash Credit	Long Term	6.00	ACUITE BB-/ Stable (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A4+ (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB-/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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