

## Press Release

07 March, 2017

**K Koteswara Reddy**

**Rating Assigned**

<b>Total Bank Facilities Rated *</b>	Rs.11.25 Cr.
<b>Long Term Rating</b>	SMERA BB- / Outlook: Stable
<b>Short Term Rating</b>	SMERA A4

# Refer Annexure for details

### Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB-** (read as SMERA BB minus ) and short term rating of '**SMERA A4**' (read as SMERA A four) on the Rs. 11.25 crore bank facilities of K Koteswara Reddy. The outlook is '**Stable**'.

K Koteswara Reddy (KKR), a proprietorship firm established in 1988 is engaged in civil construction. The firm executes projects for road construction in Telangana, Andhra Pradesh and Madhya Pradesh.

### Key Rating Drivers

#### Strengths

- Established operational track record and experienced management**

KKR was established in 1988. The proprietor, Mr. Utham Reddy possesses more than three decades of experience in the civil construction industry.

- Healthy financial risk profile**

KKR has a healthy financial risk profile marked by low gearing and healthy coverage indicators. The gearing (debt to equity ratio) stood at 0.55 times as on 31 March, 2016, an improvement from 1.08 times as on 31 March, 2015. The firm has moderate net worth of Rs.7.08 cr as on 31 March, 2016 . KKR's debt protection metrics are healthy as interest coverage ratio (ICR) stood at 3.77 times in FY2016 as against 3.04 times in FY2015. The NCA/TD stood comfortable at 0.48 times while TOL/TNW levels have been comfortable at 1.33 times in FY2016.

- Comfortable profitability**

KKR's operating margins declined to 7.30 percent in FY2016 as against 12.11 percent in FY2015 on account of increase in raw material prices. Further, the net margins have remained healthy marked by 4.32 percent in FY2016 as against 5.61 percent in FY2015. The RoCE stood comfortable at 19.64 percent in FY2016, an improvement from 14.07 percent in FY2015.

- Moderate order book level**

KKR has moderate order book position with unexecuted orders in hand of approximately Rs. 58.00 cr as on January 2017, providing revenue visibility for the medium term.

## Weaknesses

- **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.34.56 cr in FY2016, an increase from Rs.16.19 cr in FY2015. Further, the firm registered Rs. 19.22 cr from April 2016 to December 2016. The firm caters only to government bodies in Telangana, Andhra Pradesh and Madhya Pradesh.

- **Moderate working capital intensity**

KKR's moderate working capital operations are marked by Gross current assets of around 153 days as on 31st March, 2016 that improved from 322 days as on 31st March, 2015. The working capital cycle is comfortable marked by 18 days as on 31st March, 2016 that improved from 178 days as on 31st March, 2015. The Current ratio stood comfortable at 1.75 times for FY2016. The average cash credit utilisation stood at ~100 percent for the past six months ended December 2016.

- **Proprietorship constitution**

Being a proprietorship firm, KKR is exposed to the inherent risk of withdrawal of capital at will. However, SMERA has not observed the same during FY2016.

## Analytical Approach

SMERA has considered the standalone financial and business risk profiles of the firm.

### Outlook: Stable

SMERA believes that KKR will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the firm registers more than expected growth in revenue while achieving improvement in profitability with successful sourcing and execution of projects. Conversely, the outlook may be revised to Negative in case of delays in project execution leading to low profitability or lengthening of working capital cycle.

### About the Rated Entity - Key Financials

In FY2015-16, KKR reported net profit of Rs. 1.49 cr on operating income of Rs. 34.56 cr as against profit after tax (PAT) of Rs. 0.91 cr on operating income of Rs. 16.19 cr in the previous year. The net worth stood at Rs. 7.08 cr as on March 31, 2016 against Rs. 5.36 cr a year earlier.

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smerra.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

### Note on complexity levels of the rated instrument

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

**Rating History (Upto last three years)**

Not Applicable

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.50	SMERA BB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	7.75	SMERA A4

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**ABOUT SMERA**

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