

Press Release

15 May, 2017

P Narasimha Rao & Co

Rating Assigned

Total Bank Facilities Rated *	Rs.8.00 Cr.
Long Term Rating	SMERA BB-/ Outlook: Stable (Assigned)
Short Term Rating	SMERA A4+ (Assigned)

Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB-**' (read as **SMERA double B minus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.8.00 crore bank facilities of P. Narasimha Rao & Co (PNRC). The outlook is '**Stable**'.

PNRC, a partnership firm was established in 2004 by Mr. P Narasimha Rao, his son, Mr. P Jaganmohan Rao and their family members. The firm undertakes tender based contracts to construct roads and bridges in Andhra Pradesh and Telangana. In addition, the firm is a nominated contractor of JSW Steel Limited for its Bellary unit in Karnataka since 1994 for any civil construction within the unit.

Key Rating Drivers

Strengths

- **Experienced management and long track record of operations**

The partners P Narasimha Rao and P Jaganmohan Rao are actively involved in the day to day operations of the entity and have experience of over a decade in the construction industry.

- **Healthy financial risk profile**

The healthy financial risk profile is marked by comfortable gearing and interest coverage ratio of 0.44 times and 3.87 times respectively as on 31st March'2016. The firm has moderate DSCR of 1.73 times as on 31st March'2016. The net cash accrual to total debt (NCA/TD) stands comfortable at 0.38 times in FY 2016. The net worth base stands moderate at Rs 8.78 crs as on 31st March'2016.

Healthy order book position

The entity currently has an order book of around Rs. 58 crs which lends comfort to the revenue visibility of the firm over the medium term.

Weaknesses

- **Modest scale of operations**

The firm scale of operations remains modest at around Rs.18.66 crs in FY2016 as against Rs 20.87 crs in FY 2015. The firm has registered revenues of around Rs. 23.00 crs in FY'17 (provisional).

• Working capital intensive operations

The firm's operations are working capital intensive in nature as reflected in gross current assets (GCA) of 180 days in 2016 as against 213 days in FY 2015. These high GCA days emanates from collection period and inventory holding period of 33 days and 100 days respectively in FY16. The firm's operations are expected to remain working capital intensive, as the firm is engaged into the road and bridges construction, where a certain level of inventory is held as work in progress which leads to an overall inventory holding period of around 100-105 days in the last 3 years.

• Intense competition from organised and unorganised players in the market

The firm faces intense competition from other organised and unorganised players in the local market.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profiles of PNRC.

Outlook: Stable

SMERA believes PNRC will maintain a stable business risk profile over the medium term backed by its experienced management. The outlook may be revised to "Positive" in case the firm registers strong growth in scale of operations while registering sustained improvement in profit margins and achieving efficient working capital management. The outlook may be revised to 'Negative' in case of deterioration in the firm's scale of operations and profitability or capital structure, or in case of further elongation in working capital cycle.

About the Rated Entity - Key Financials

For FY2016, PNRC reported Profit after Tax (PAT) of Rs.0.70 cr on total operating income of Rs.18.66 cr as compared with PAT of Rs.0.86 cr on total operating income of Rs.20.87 cr in FY2015.

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

None

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Rating History for the last three years:

Name of Facilities	2017				2016		2015		2014	
	Scale	Date	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	12 April 2017	2.50	SMERA BB- /Stable (Assigned)	-	-	-	-	-	-
Bank Guarantee	ST	12 April 2017	5.50	SMERA A4+ (Assigned)	-	-	-	-	-	-

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA BB- / Stable (Rating Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.50	SMERA A4+ (Rating Assigned)

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ABOUT SMERA

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