

Press Release

29 May, 2017

Rajesh Karanth

Rating Assigned

Total Bank Facilities Rated*	Rs.12.07 Cr
Long Term Rating	SMERA B/ Stable
Short Term Rating	SMERA A4

*Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA B**' (read as SMERA B) on the Rs.7.07 crore and assigned short term rating of '**SMERA A4**' (read as SMERA A four) Rs.5.00 crore of Rajesh Karanth (RK). The outlook is 'Stable'.

Rajesh Karanth is a civil contractor involved in construction of roads, bridges and canals for PWD departments in Karnataka. Promoted by Mr Rajesh Karanth, the company started its operations from the year 2005.

List of Key Rating Drivers and their detailed description

Strengths:

Experienced management: Rajesh Karanth is a civil contractor involved in construction of roads, bridges and canals for PWD departments in Karnataka. The proprietor, Mr. Rajesh Karanth is involved in the civil construction business for more than a decade.

Moderate financial risk profile: RK's moderate financial risk profile is marked by healthy debt protection metrics, moderate gearing and low net worth base. The interest coverage and debt service coverage ratios stood at 5.82 times and 2.68 times in FY2016. The gearing is modest at 1.60 times in FY2016 as compared to 1.95 times in FY2015. The external debt mainly consists of cash credit facility apart from a few car loans from bank. The net worth is low and stood at Rs.6.45 crore as on 31st March 2016.

Weaknesses:

Modest scale of operations: RK's modest scale of operations is marked by operating income of Rs.45.14 crore in FY2016 as compared to Rs.41.31 crore in FY2015. However, the same has grown at a CAGR of 33.50 percent during FY2014-16. Further, they have recognised revenue of around Rs.55 crore till mid March 2017 (provisional).

Geographical concentration risk: RK's activity is confined to construction of roads, bridges and canals only in Karnataka which marks a geographical concentration risk as the growth in revenue is dependent on the demographic changes and government policies for infrastructure growth in that area.

Tender based operations: With majority of revenues coming from government contracts, the operations are mainly dependent upon bidding tenders from the department, thereby making it fluctuating.

Analytical approach: SMERA has taken a standalone view of the business and financial risk profiles of the company.

Applicable Criteria

- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Manufacturing Entities- <https://www.smera.in/criteria-manufacturing.htm>
- Application of Financial Ratios and Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition - <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that RK will maintain a stable business profile in the medium term while benefitting from its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' if RK scales up operations while maintaining profitability and improving financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues or if the working capital cycle deteriorates.

About the Rated Entity

Rajesh Karanth is a civil contractor contactor involved in construction of roads, bridges and canals for PWD departments in Karnataka. Promoted by Mr Rajesh Karanth, the company started its operations in the year 2005 and has been executing contracts mainly in the state of Karnataka.

For FY2016, RK reported profit after tax (PAT) of Rs.2.57 crore on total operating income of Rs.45.14 crore, as compared with PAT of Rs.2.20 crore on total operating income of Rs.41.31 crore in FY2015. The tangible net worth stands at Rs.6.45 crore in FY2016 as compared to Rs.4.81 crore in FY2015.

Status of non-cooperation with previous CRA (if applicable): None

Any other information: None

Rating History for the last three years:

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Secured Overdraft (Hypothecation)	Long Term	4.00	SMERA B / Stable	-	-	-	-	-	-
Proposed Secured Overdraft (Hypothecation)	Long Term	3.07	SMERA B / Stable	-	-	-	-	-	-
Bank Guarantee	Short Term	5.00	SMERA A4	-	-	-	-	-	-

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ABOUT SMERA

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