

Press Release

Rajesh Karanth

June 13, 2018



Rating Reaffirmed, Upgraded and Assigned

Total Bank Facilities Rated*	Rs.23.37 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable (Upgraded, Reaffirmed & Assigned)
Short Term Rating	ACUITE A4 (Reaffirmed & Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.4.00 crore bank facilities, reaffirmed short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.5.00 crore bank facilities and assigned short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.14.37.00 crore bank facilities of Rajesh Karanth (RK). The outlook is '**Stable**'.

The upgrade in the rating mainly factors in the increase in revenue booking, stabilization of operations, healthy order book positions with execution visibility within a year and further, meeting the revenue estimates. The ratings are constrained by average financial risk profile, geographical concentration risk and tender based operations.

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 firm started its operations from 2005.

Key Rating Drivers

Strengths

- **Experienced management**

The proprietor, Mr. Rajesh Karanth is involved in the civil construction business for more than a decade.

- **Moderate scale of operations**

The modest scale of operations is marked by operating income of Rs.61.15 crore in FY2017 as compared to Rs.45.14 crore in FY2016. However, the same has grown at a CAGR of 22.01 percent from FY2016 to FY2018. Further, they have recognized revenue of around Rs.81.99 crore till March 2018 (Provisional). Moreover, the firm is having healthy order book position of Rs.80.00 crore which is expected to get completed by end of December 2018.

Weaknesses

- **Average financial risk profile**

The firm is having average financial risk profile marked low net worth, moderate gearing and comfortable debt protection measures. The net worth of the company stood low at Rs.11.54 crore as on 31 March, 2018 (Provisional) as against Rs.8.35 crore in the previous year. The gearing stood at 1.22 times as on 31 March, 2018 (Provisional) as against 1.27 times in the previous year. The total debt of Rs.14.05 crore consists of long term debt of Rs.3.78 crore, unsecured loans of Rs.5.67 crore and short term borrowings of Rs.4.60 crore. The Interest Coverage Ratio (ICR) stood comfortable at 4.87 times in FY2018 (Provisional) as against 3.92 times in the previous year. Further, the Debt Service Coverage Ratio (DSCR) stood at 4.87 times in FY2018 (Provisional) as against 2.12 times in the previous year. The NCA/TD ratio stood at 0.36 times in FY2018 (Provisional) as against 0.33 times in the previous year.

- **Geographical concentration risk and tender based nature of operations**

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. Further, 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

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

Outlook: Stable

Acuite 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 - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	81.99	61.55	45.14
EBITDA	Rs. Cr.	5.87	4.46	3.38
PAT	Rs. Cr.	4.51	3.07	2.57
EBITDA Margin	(%)	7.16	7.29	7.49
PAT Margin	(%)	5.50	5.02	5.68
ROCE	(%)	26.04	23.83	20.52
Total Debt/Tangible Net Worth	Times	1.22	1.27	1.60
PBDIT/Interest	Times	4.87	3.92	5.82
Total Debt/PBDIT	Times	2.23	2.27	2.89
Gross Current Assets (Days)	Days	71	83	92

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

None

Any other information

"Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups".

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/criteria-infrastructure.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)

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B / Stable
Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	3.07	ACUITE B / Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+/ Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	14.37	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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