

Press Release

Rajesh Karanth

September 09, 2019



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 30.00 Cr. (Enhanced from Rs.23.37 Cr.)
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 26.83 crore bank facilities of RAJESH KARANTH (RK). The outlook is '**Stable**'.

Further, Acuité has assigned long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) on the Rs.3.17 crore bank facilities of RK.

Established in 2005 as a Karnataka-based proprietorship firm, Rajesh Karanth is a civil contractor involved in the construction of roads, bridges and canals for PWD departments in Karnataka. The firm is promoted by Mr. Rajesh Karanth.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

The proprietor, Mr. Rajesh Karanth, is involved in the civil construction business for more than a decade. The firm undertakes construction of roads, bridges and canals for PWD departments in Karnataka. The revenues have seen a compound annual growth rate (CAGR) of about ~29 per cent over the past four years through Rs. 45.14 crore in FY2016 to Rs.96.99 crore in FY2019 (Provisional). The promoter's extensive experience is also reflected through the order book position at Rs.91.20 crore as on August, 2019, which provides revenue visibility for the firm over the medium term. Acuité believes that the firm will continue to benefit through the promoter's extensive industry experience over the medium term.

- **Moderate financial risk profile and efficient working capital**

RK's financial risk profile is moderate, marked by a moderate networth, low gearing and above average debt protection metrics. The net worth of the firm stood moderate at Rs.15.58 crore as on 31 March, 2019 (Provisional). The gearing (debt-equity) improved to 0.65 times as on March 31, 2019 (Provisional) against 1.17 times as on March 31, 2018. The total debt outstanding of Rs.10.16 crore as on 31 March, 2019 (Provisional) consists of term loan of Rs. 3.43 crore, working capital borrowing of Rs. 2.58 crore and unsecured loan from promoters of Rs. 4.15 crore. The leverage and coverage indicators continue to remain moderate marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR). ICR stood moderate at 5.88 times and DSCR stood at 3.15 times in FY2019 (Provisional). Total outside liabilities to tangible net worth has remained low at 1.00 times as on 31 March, 2019 (Provisional) as against 1.92 times as on 31 March, 2018. The company maintains healthy working capital cycle as the same stood at 77 days for FY2019 (Provisional) as against 97 days in the previous year. Average cash credit utilisation is fully utilised. Acuité believes that the growth in revenue, sustenance of its profitability margins and absence of any significant capex plans are expected to support the financial risk profile in near to medium term.

Weaknesses

- **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.

Liquidity position:

The firm has adequate liquidity marked by its moderate net cash accruals as compared to its maturing debt obligations. The group generated cash accruals of Rs. 3.4 crore - Rs. 6.2 crore during the last three years through 2017-19 (Provisional); while the maturing debt obligations were in the range of Rs. 1.1 crore - Rs. 1.2 crore over the same period. The cash accruals are estimated to be in the range of Rs. 6.0 crore - Rs. 7.9 crore during 2019-21, while its repayment obligations at Rs.1.2 crore over the same period. The firm maintains cash and bank balances of Rs. 3.69 crore as on March 31, 2019 (Provisional). The current ratio stood healthy at 2.43 times as on March 31, 2019 (Provisional). Acuité believes that the liquidity of the group is likely to remain adequate over the medium term on account of moderate cash accrual over the medium term.

Outlook: Stable

Acuité believes that RK will maintain 'Stable' outlook over the medium term from its promoters' experience in the industry and moderate financial risk profile and efficient working capital cycles. The outlook may be revised to 'Positive' in case the company is able to register healthy revenues and sustain its profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in the company's revenue, profit margins and working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	96.99	81.18	61.15
EBITDA	Rs. Cr.	7.32	6.46	4.46
PAT	Rs. Cr.	5.63	5.05	3.07
EBITDA Margin	(%)	7.55	7.95	7.29
PAT Margin	(%)	5.81	6.22	5.02
ROCE	(%)	26.76	28.08	23.83
Total Debt/Tangible Net Worth	Times	0.65	1.17	1.27
PBDIT/Interest	Times	5.88	5.39	3.92
Total Debt/PBDIT	Times	1.35	2.06	2.27
Gross Current Assets (Days)	Days	77	97	83

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

Not Applicable

Any other information

Acuité 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/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.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. Cr.)	Ratings/Outlook
13-June-2018	Secured Overdraft	Long Term	4.00	ACUITE B+/Stable (Upgraded)
	Bank Guarantee	Short Term	5.00	ACUITE A4 (Reaffirmed)
	Proposed Bank Guarantee	Short Term	14.37	ACUITE A4 (Assigned)
29-May-2017	Secured Overdraft	Long Term	4.00	ACUITE B/Stable (Assigned)
	Proposed Secured Overdraft	Long Term	3.07	ACUITE B/Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+/ Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.17	ACUITE B+/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A4 (Reaffirmed)
Proposed Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	2.83	ACUITE B+/Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:

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