

Press Release
K H Subhod Hegde

July 04, 2018

Rating Assigned



| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs.6.00 Cr. |
| Long Term Rating | ACUITE B / Outlook: Stable |
| Short Term Rating | ACUITE A4 |

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B**' (read as **ACUITE B**) and short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.6.00 crore bank facilities of K H Subhod Hegde (SH). The outlook is 'Stable'.

K H SUBHOD HEGDE (SH) was established in 2000 as a proprietorship concern. SH is a class-I civil contractor and has its registered office located at Udupi (Karnataka). SH is engaged in civil construction of buildings and road works for clients in the state of Karnataka. The clientele of the entity includes various Government departments of Karnataka such as Udupi Public Works Department (PWD).

Key rating drivers

Strengths:

Extensive experience of the promoter and established relation with Karnataka Government

K H Subhod Hegde is a proprietorship concern started by Mr. Subhod Hegde in 2000. Mr. Subhod Hegde has more than two decades of experience in the civil construction Industry. Due to track record in the construction industry, the promoter has established relations with its customers which has benefitted in terms of new orders in competitive bidding. SH has unexecuted order book of Rs.11.35 crore in hand as on March 31, 2018 which is to be executed over the next 12 months which provides revenue visibility over the near to medium term.

Weaknesses:

Modest scale of operations along with stagnant total operating income

Despite the long track record, the scale of operations of the entity is modest marked by total operating income of Rs.6.44 crore in FY18 (Provisional). Furthermore, the total operating income of the firm is almost stagnant during 4 years period.

Below average financial profile

SH's financial risk profile is marked by modest net worth, moderate total outside liabilities to total net worth (TOL/TNW) though underpinned by moderate debt protection metrics and high gearing (debt-to-equity). The net worth is about Rs.1.60 crore (Provisional) as of March 31, 2018, which is low on account of modest accretion to reserves and low revenue profile in the past till FY2018 (Provisional). TOL/TNW is moderate at 2.50 times (Provisional) as of March 31, 2018. The gearing is high at 2.14 times as of March 31, 2018 (Provisional). The debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) are moderate at 2.67 times and 0.16 times respectively for FY2018 (Provisional). Acuité believes that the financial risk profile is expected to improve marginally over the medium term supported by expected increase in scale of operations and healthy operating margins of above 15 percent.

Geographic and customer concentration in revenue

The firm is exposed to high geographic concentration risk as all the projects are limited to majorly Udupi districts of Karnataka. However, the firm is looking to expand in other districts of Karnataka. Moreover,

SH is into fragmented and highly competitive nature of the industry, coupled with a tender based contract awarding system followed by Government departments, keeping margins under check.

SH participates in tenders for receiving work orders from departments of government of Karnataka such as Udupi Public Works Department (PWD) only leading to customer concentration risk. Entity also remains vulnerable to cyclicalities in the construction industry, but the risk is mitigated by its longstanding relationship with Karnataka Government.

Analytical Approach

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

Outlook: Stable

Acuite believes that SH will maintain a 'Stable' outlook from the extensive experience of the promoter and the moderate order-book position. The outlook may be revised to 'Positive' if substantial growth in revenues with timely execution of orders, and growth in revenue and profitability strengthens the financial risk profile. The outlook may be revised to 'Negative' if the cash accruals are lower than expected, impacted by low order inflow or lower execution, or if any major capital expenditure, or stretch in the working capital cycle weakens liquidity.

About the Rated Entity - Key Financials

| | Unit | FY18 (provisional) | FY17 (Actual) | FY16 (Actual) |
|-----------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 6.44 | 5.02 | 5.43 |
| EBITDA | Rs. Cr. | 0.98 | 1.00 | 0.98 |
| PAT | Rs. Cr. | 0.34 | 0.30 | 0.22 |
| EBITDA Margin | (%) | 15.19 | 19.90 | 18.09 |
| PAT Margin | (%) | 5.32 | 5.88 | 4.07 |
| ROCE | (%) | 18.46 | 22.41 | 23.38 |
| TOL/Tangible Net Worth | Times | 2.50 | 1.39 | 2.05 |
| PBDIT/Interest | Times | 2.67 | 3.17 | 3.37 |
| Gross Current Assets (Days) | Days | 213 | 143 | 144 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Sector - <https://www.acuite.in/view-rating-criteria-14.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.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. Crore) | Ratings/Outlook |
|------------------------|------------------|----------------|----------------|-------------------------------|------------------------------|
| OCC/ODBD | Not Applicable | Not Applicable | Not Applicable | 3.00 | ACUITE B / Stable (Assigned) |
| Term Loan | Not Applicable | Not Applicable | Not Applicable | 0.37 | ACUITE B / Stable (Assigned) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 0.63 | ACUITE B / Stable (Assigned) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 2.00 | ACUITE A4 (Assigned) |

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About Acuité Ratings & Research:

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