Press Release

Krishna Construction Co.

July 26, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs. 23.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable
Short Term Rating	ACUITE A3

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** and the short term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs.20.00 crore bank facilities of Krishna Construction Co. The outlook is **'Stable'**.

The Gujarat based, Krishna Construction Co. (KCC) was established as a partnership firm in 1983 by Mr. Purshotam Patel and Mr. Sumabhai Patel. The firm was taken over by current Partners, Mr. Bharatbhai Patel, Mr. Jeetendra Patel and Mrs. Shantaben Patel in 1988. The firm is registered as class 'AA' contractor for Government of Gujarat and is engaged in civil construction for water supply schemes.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**
  KCC is engaged in civil construction for water supply schemes. The current Partners of the firm have experience of over three decades in the construction industry.

- **Moderate financial risk profile**
  KCC has moderate financial risk profile marked by tangible net worth of Rs.27.46 crore as on 31 March, 2018 (Provisional) as against Rs.21.14 crore as on 31 March, 2017. The gearing (debt- equity) stood at 0.05 times as on 31 March, 2018 (Provisional) as against 0.02 times as on 31 March, 2017. The debt of Rs.1.27 crore mainly consists of term loans as on 31 March, 2018 (Provisional). Interest Coverage Ratio (ICR) stood at 11.09 times for FY2018 (Provisional) as against 11.56 times in FY2017. Debt Service Coverage Ratio (DSCR) stood at 9.83 times for FY2018 (Provisional) as against 9.16 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.24 times as on 31 March, 2018 (Provisional) as against 0.98 times as on 31 March, 2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 6.82 times as on 31 March, 2018 (Provisional) as against 2.47 times as on 31 March, 2017. Going forward, Acuité expects the financial risk profile to improve marginally in the absence of major debt funded capex plans.

- **Improving revenue backed by healthy order book position**
  The revenues improved to Rs.138.94 crore in FY2018 (Provisional) from Rs.62.19 crore in FY2017. KCC has healthy order book position marked by current orders in hand of Rs.280.98 crore as on June 2018 which gives the revenue visibility to the firm in the near to medium term. Being a civil contractor, the revenue of KCC depends on the number of successful bids and the tenders being released in the financial year.

- **Comfortable working capital cycle**
  KCC has comfortable working capital operations marked by Gross Current Asset days (GCA) of 108 in FY2018 (Provisional) compared to 224 days in FY2017. The GCA days are mainly dominated by debtors of 4 days in FY2018 (Provisional) compared to 46 days in FY2017.

Weaknesses

- **Competitive and fragmented industry**
  The firm is engaged as a civil contractor. This particular sector is marked by the presence of several mid to big size players. The firm faces intense competition from other players in the sectors. Risk becomes more pronounced as tendering is based on minimum amount of biding of contracts. However, this risk is mitigated to an extent as the firm has been operating in this environment for last 30 years.

- **Dependence on Government for revenue booking**
  The project portfolio of KCC is concentrated in the state of Gujarat. Any change in geo-political environment would affect their projects at large. Furthermore, any changes in current policies of the state government with regard to change in budget allocation would impact KCC's revenue considerably. However, the firm has been dealing with government bodies for a long time and hence enjoys long term relations.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Krishna Construction Co. to arrive at the rating.

Outlook: Stable

Acuité believes KCC will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	138.94	62.19	75.19
EBITDA	Rs. Cr.	8.26	3.23	3.99
PAT	Rs. Cr.	8.31	3.78	3.94
EBITDA Margin	(%)	5.94	5.19	5.31
PAT Margin	(%)	5.98	6.08	5.23
ROCE	(%)	35.79	20.17	25.12
Total Debt/Tangible Net Worth	Times	0.05	0.08	0.05
PBDIT/Interest	Times	11.09	11.56	9.83
Total Debt/PBDIT	Times	0.13	0.37	0.20
Gross Current Assets (Days)	Days	108	224	132

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

None

Any other information

None

Applicable Criteria

- Default Recognition - https://www.acuite.in/criteria-default.htm
- Financial Ratios And Adjustments - https://www.acuite.in/criteria-fin-ratios.htm
- Infrastructure Entities- 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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB- / Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3

Contacts

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in Aditi Ashwin Shah Analyst - Rating Operations Tel: 022-67141106 aditi.shah@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@acuite.in

About Acuité Ratings & Research:
Acuité Ratings & Research Limited *(Erstwhile SMERA Ratings Limited)* is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.