

Press Release

Krishna Construction Co.

December 04, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 45.00 crore (Enhanced from Rs.23.00 crore)
Long Term Rating	ACUITE BBB-/ Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has Reaffirmed a 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**) to the above mentioned bank facilities of Rs.45.00 crores (enhanced from Rs.23.00 crores) of Krishna Construction Co. (KCC). The outlook is 'Stable'.

Krishna Construction Co. (KCC) based of Gujarat 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 a class 'AA' contractor for Government of Gujarat. The firm is engaged in civil construction for water supply schemes and bridges.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced Management and establish track record of operations**

KCC is engaged in civil construction for water supply schemes and bridges for Gujarat government. The firm has establish track record of over three decades in said line of business and has executed various project for different departments of Gujarat government. The current Partners of the firm have experience of over three decades in the construction industry. The extensive experience of partners have helped company in successful bidding of government tenders and assured regular flow of work orders. The firm is also well supported by second line of management.

- **Improving revenue backed by healthy order book position**

The revenues improved to Rs. 173.47 crore in FY2019 as against Rs.138.94 crore in FY2018 registered a growth of 24.85 percent YoY. The firm has registered revenue of Rs.33.97 crores as on October 2019. KCC has healthy order book position marked by current orders in hand of Rs.234.00 crore approx. as on October 2019 which gives the revenue visibility to the firm in the near to medium term. Further the firm has shown improvement in operating margins which has improved to 6.43 percent in FY2019 as against 5.94 percent in FY2018. Being a civil contractor, the revenue of KCC depends on the number of successful bids and the tenders being released in the financial year.

Weaknesses

• Moderate financial risk profile

The financial risk profile of the firm stood moderate marked by tangible net worth of Rs. 38.68 crore as on 31 March, 2019 as against Rs. 27.46 crore as on 31 March, 2018. The gearing (debt- equity) stood at 0.40 times as on 31 March, 2019 as against 0.05 times as on 31 March, 2018. The total debt of Rs. 15.61 crore mainly consists of working capital loan of Rs. 9.28 crore, term loans of Rs. 3.93 crore, and unsecured loans of Rs. 2.40 crores as on 31 March 2019. The Interest Coverage Ratio (ICR) stood at 9.44 times for FY2019 as against 11.09 times in FY2018. Debt Service Coverage Ratio (DSCR) stood at 7.64 times for FY2019 as against 9.83 times in FY2018. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.42 times as on 31 March, 2019 as against 1.24 times as on 31 March, 2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.73 times as on 31 March, 2019 as against 6.82 times as on 31 March, 2018. Going forward, Acuite expects the financial risk profile to improve marginally in the absence of major debt funded capex plans.

• Highly Competitive industry and dependence on government for revenue booking

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 bidding of contracts. However, this risk is mitigated to an extent as the firm has been operating in this environment for last 30 years. Further, 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.

Liquidity Position: Adequate

KCC has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.8.50 to Rs.11.50 crore during the last three years through 2017- 19, while its maturing debt obligations were in the range of Rs.0.30 –1.00 crore over the same period. The cash accruals of the company are estimated to remain around Rs.10.00–12.50 crore during 2020-22, while its repayment obligations are expected to be Rs.1.00-1.20 crore over the same period. The group's operations are moderate working capital as marked by gross current asset (GCA) days of 170 in FY2019. The cash credit limit of remains utilized at 55.00 percent for the last six months period ended October, 2019. The firm maintains unencumbered cash and bank balances of Rs. 2.70 crore as on March 31, 2019. The current ratio of the firm stood moderate at 1.81 times as on March 31, 2019. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of expected healthy order book position and improving operations over the medium term.

Rating Sensitivities

- Improving scale of operations and margins
- Moderate working capital cycle
- Tender base nature of business and risk of capital withdrawal

Outlook: Stable

Acuite believes KCC will maintain a 'Stable' business risk profile over the medium term backed by experienced partners and improving scale of operations. 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	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	173.47	138.94	62.19
EBITDA	Rs. Cr.	11.15	8.26	3.23
PAT	Rs. Cr.	10.90	8.31	3.78
EBITDA Margin	(%)	6.43	5.94	5.19
PAT Margin	(%)	6.28	5.98	6.08
ROCE	(%)	29.52	35.59	20.17
Total Debt/Tangible Net Worth	Times	0.40	0.05	0.08
PBDIT/Interest	Times	9.44	11.09	11.56
Total Debt/PBDIT	Times	1.22	0.13	0.37
Gross Current Assets (Days)	Days	170	108	224

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

Not Any

Any other information

None

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.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
04-OCT-2019	Cash Credit	Long Term	3.00	ACUITE BBB- (Indicative)
	Bank guarantee	Short Term	20.00	ACUITE A3 (Indicative)
26-JUL-2018	Cash Credit	Long Term	3.00	ACUITE BBB-/ Stable (Assigned)
	Bank Guarantee	Short Term	20.00	ACUITE A3 (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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00*	ACUITE BBB-/ Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	35.00*	ACUITE A3 (Reaffirmed)

*Bank Guarantee of Rs.35.00 crores with sub limit of Cash credit Rs. 7.00 crores and Rs. 9.00 crores of WCDL fully interchangeable.

Note: Maximum Utilisation and total limits at Rs.45.00 Crores.

Contacts

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About Acuité Ratings & Research:

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