

Press Release

Krishna Construction Co.

December 03, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 45.00 Cr.
Long Term Rating	ACUITE BBB-/Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the 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.45.00 crore bank facilities of Krishna Construction Co. (KCC). The outlook is '**Stable**'.

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

Analytical Approach

Acuité 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**

Krishna Construction Co. (KCC) is engaged in civil construction for water supply schemes and bridges for Gujarat government. The firm has established 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. Acuité believes firm to benefit from

• **Moderate Financial risk profile and healthy order book position**

The financial risk profile of firm stood moderate marked by moderate gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW), and debt protection metrics. Gearing stood low at 0.09 times as on 31 March, 2020 as against 0.40 times as on 31 March, 2019. The Net worth of the firm is moderate at Rs. 36.57 crore as on 31 March, 2020 as against Rs.38.68 crore as on 31 March, 2019. The decline in net worth is on account of capital withdrawal by the partners during the year. The total debt of Rs. 3.23 crore as on 31 March, 2020 consist of unsecured loans which stood at Rs.1.90 crore, long term debt of Rs.1.19 crore and short term debt of Rs.0.14 crore. The interest coverage ratio stood comfortable at 4.47 times as on 31 March, 2020 as against 9.44 times as on 31 March, 2019. The net cash accruals to total debt stood comfortable at 1.94 times as on 31 March, 2020 as against 0.73 times respectively as on 31 March, 2019. The Debt Service Coverage Ratio (DSCR) stood at 2.93 times as on 31 March, 2020 as against 7.64 times as on 31 March, 2019.

KCC, has healthy order book position marked by current orders in hand of Rs. 163.50 crores as on October 2020, to be executed within 1 to 1.5 years providing revenue visibility over medium term. Going forward, Acuité expects the financial risk profile to improve marginally in the absence of major debt funded capex plans

Weaknesses

- **Decline in operating performance, Elongation in working capital cycle and risk of capital withdrawal**

For FY2020, the firm has reported revenues of Rs. 79.58 crore against Rs. 173.47 crore revenue in FY2019. The revenues have declined sharply due to stoppage of works in some of the projects, because of elections held in FY2020, leading to no fresh tenders and delayed clearance of bills leading to a decline in sales and higher receivables. Also, good monsoon which was visible till November 2020 in Gujarat leads to delay in execution of projects. However, the firm has reported revenue of Rs. 54.31 crore for 7M FY2021.

Further, Gross Current Asset (GCA) days stood high at 327 days as on March 31, 2020 as against 170 days as on March 31, 2019. The debtor's days increased to 87 days for FY2020 as against 20 days in FY2019. The receivables have increased significantly due to final bills pending realization at respective authorities due to pandemic. The inventory days stood at 18 days in FY2020 against 27 days in FY2019. The working capital limits are utilized low, however, bank guarantee is utilized at 70-75 percent during six months ending October 2020. Also, being a partnership firm, thereby risk of capital withdrawal risk persist, which is observed in last year.

- **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.

Rating Sensitivities

- Improvement in scale of operations while sustaining margins
- Moderate working capital cycle
- Tender base nature of business and risk of capital withdrawal

Liquidity Position: Adequate

Liquidity of the firm is adequate marked by comfortable cash accruals of Rs.6.25 to 11.43 crore against repayment obligations of Rs. 0.30-0.95 crores during FY2018-2020. The accruals are expected to be in range of 6.50 to 10.50 crores against repayment obligation of Rs.0.30 -0.95 crores during FY2021-23. The current ratio of the firm stood at 1.81 times as on 31 March, 2020. Firm maintains unencumbered cash and bank balances of Rs.1.33 crores as on 31 March, 2020. The working capital limits are utilized low, however, bank guarantee is utilized at 70-75 percent during six months ending October 2020.

Outlook: Stable

Acuité believes KCC will maintain a 'Stable' business risk profile over the medium term backed by experienced partners and improving the 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 a 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	79.58	173.47
PAT	Rs. Cr.	5.70	10.90
PAT Margin	(%)	7.17	6.28
Total Debt/Tangible Net Worth	Times	0.09	0.40
PBDIT/Interest	Times	4.47	9.44

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

ICRA, through its press release dated 20, January 2020 has flagged the credit rating of Krishna Construction Co. (KCC) as Issuer Not Cooperating*; Rating downgraded from [ICRA]BB+/A4+ (Stable).

Any other information

Not Any

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
04-DEC-2019	Cash Credit	Long Term	7.00*	ACUITE BBB-/Stable (Reaffirmed)
	Bank guarantee	Short Term	10.00	ACUITE A3 (Reaffirmed)
	Bank guarantee	Short Term	35.00*	ACUITE A3 (Reaffirmed)
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)

*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.

*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 (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00*	ACUITE BBB-/Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	28.00*	ACUITE A3 (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A3 (Reaffirmed)

Note: Maximum utilisation and total limits stands at Rs.45.00 Crores.

*Bank Guarantee of Rs.28.00 crores includes sub limits of cash credit of Rs. 7.00 crores and Rs. 9.00 crores of WCDL. Maximum limit utilization is Rs.28.00 crores for Yes Bank limited.

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About Acuité Ratings & Research:

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