Press Release

K Anantha Rao And Co

August 16, 2018

Rating Assigned

Total Bank Facilities Rated*	Rs.14.00 Cr.
Long Term Rating	ACUITE BB-/Outlook: Stable
Short Term Rating	ACUITE A4+

** Refer Annexure for details*

Rating Rationale

Acuité has assigned long term rating of '**ACUITE BB-**' **(read as ACUITE double B Minus)** and short-term rating of '**ACUITE A4+ (read as ACUITE A four plus)**' on the Rs. 14.00 crore bank facilities of K Anantha Rao and Co. (KAKC). The outlook is '**Stable**'.

KAKC was established in the year 2014 as a partnership firm. The firm is a Special Class I civil contractor and has its registered office located at Amudalavalasa, Srikakulam district, Andhra Pradesh. The firm is engaged in civil construction of buildings and irrigation works; majority of its works are in the State of Andhra Pradesh and the clientele include PWD - Vishakhapatnam, and Srikakulam Dist. of Andhra Pradesh (GoAP). The firm is managed by Mr Prasad Babu, 2nd generation entrepreneur. His father Late Mr Anantha Rao was engaged in the civil construction since year 1983 in the name of M/s K Anantha Rao.

Key Rating Drivers

Strengths:

- **Extensive experience of promoters and established relationships with Andhra Pradesh Govt**
KAKC is a partnership firm started by Mr. K Prasad Babu and his family members Mr. K Lakshminarayna, Mrs. K Aruna and Mr. K Vasantha Rao in the year 2014. The promoters and their family members are in this line of business for over three decades. The erstwhile firm has reported revenues of about Rs.100 crores for the years 2013 and 2014. Post demise of Mr Prasad Babu's father, the current firm is established. The longstanding presence in the industry, continued execution and timely deliverables has supported in healthy order book. The firm has total order book of Rs.183 crores as of March 31, 2018; the same is for execution over next 18 months which provides adequate revenue visibility over the medium term.

- **Healthy financial profile**
Firm's financial profile is marked by healthy capital structure and debt protection metrics. Debt equity ratio of the firm is strong remained below 0.24 for the last two years ended March 31, 2018 (Provisional); it is owing to moderate accretions to reserves, efficient working capital management and less reliance on debt. No debt-funded capex is envisaged over the medium term and gearing continues to be strong. Further, its total outside liabilities to total networth (TOLTNW) is healthy at 0.59 times (provisional) as of March 31, 2018. Its debt protection metrics of net cash accruals to total debt (NCA/TD) and interest coverage is strong of 2.20 times and 16.71 times in FY18(Prov). Acuite believes that the financial risk profile is expected to be healthy over the medium term supported in the absence of significant debt-funded capex plans and efficient working capital management.

- **Comfortable working capital cycle**
The firm's working capital operations are efficiently managed as reflected in inventory days of 10-15 days; realisations take about 30-45 days though year-end position is less than a week as the Department clears all the bills which are raised during the month of March. The firm enjoys credit from the suppliers of about 45-60 days. The efficient working capital management with gross current assets (GCA) days of about 22 days (Provisional) as of March 31, 2018 supports in the firm managing its operations without any working capital limits from

the banks. However, Acuite believes that with the increasing scale of operations, the working capital requirements are expected to increase and reliance on external debt is expected to increase over the medium term.

Weaknesses:

- **Average scale of operations along with improving trend in total operating income**
  The scale of operations of the firm is average marked by total operating income of Rs.58.68 crore (Provisional) in FY2018 grew by 57% from Rs.34.48 crore in FY17 within the civil construction industry. Further, civil-construction industry is intensely competitive on account of fragmented nature with presence of a large number of players. Also, tender nature of business constrains the business risk profile. However, with unexecuted order book position of about Rs. 183 crores, the revenue profile is expected to improve over the medium term.

- **Partnership nature of business limits financial flexibility**
  KAKC's constitution as a partnership firm is exposed to discrete risks including the possibility of withdrawal of capital by the partners. Moreover, the partnership nature partially limits the flexibility to raise the funds vis-à-vis a limited company.

- **Regional concentration all the projects being situated in Andhra Pradesh**
  The regional concentration of the firm remains high and high exposure to a single state exposes the firm to significant risk in the event of any adverse Government policies/change. Further, majority of its works are from (name the dept), leading to client concentration in revenues; any non-performance issues or adverse changes may impact the entire business risk profile of the firm. However, Acuité draws comfort from the fact that the pending order book provides for adequate revenue visibility besides longstanding presence of the promoter family in the industry for over three decades.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the KAKC's to arrive at the rating.

Outlook: Stable

Acuité believes that KAKC will maintain 'Stable' outlook and continue to benefit from the experience of its partners in the civil-construction business. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while maintaining the profitability and capital structure. The outlook may be revised to 'Negative' in case of any stretch in its working capital management or more-than-expected withdrawal of capital by the partners leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)
Operating Income	Rs. Cr.	58.68	34.48
EBITDA	Rs. Cr.	5.02	2.48
PAT	Rs. Cr.	4.54	2.15
EBITDA Margin	(%)	8.56	7.20
PAT Margin	(%)	7.73	6.22
ROCE	(%)	53.04	65.00
TOL/Tangible Net Worth	Times	0.59	0.66
PBDIT/Interest	Times	5.06	2.61
Gross Current Assets (Days)	Days	16.71	13.38

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. Cr.)	Ratings/Outlook
Proposed OCC	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB-/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:
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