

Press Release

K Anantha Rao and Co

December 23, 2019



Rating Downgraded

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

* Refer Annexure for details

Rating Rationale

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

The rating downgrade was mainly on account of deterioration in the business risk profile of the company marked by revenue decline to Rs.36.41 crores in FY2019 from Rs.57.46 crores in FY2018 owing to slowdown in order execution, stretched working capital management on account of delays in approvals from government.

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 and its clientele include PWD - Vishakhapatnam, and Srikakulam Dist. of Andhra Pradesh (GoAP). The firm is managed by Mr. Prasad Babu, second generation entrepreneur.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of Dharwad Mishra to arrive at the rating.

Key Rating Drivers

Strengths

- **Extensive experience of promoters**

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. Post demise of Mr. Prasad Babu's father, the current firm was established. The longstanding presence in the industry, continued execution and timely deliverables has supported in moderate order book. The firm has total order book of Rs.209 crores as of March 31, 2019; the same is for execution over next 18-24 months which provides adequate revenue visibility over the medium term. Acuité believes that experienced management and timely execution of the works are expected to keep the business risk profile improve over the medium term.

Weaknesses

- **Moderate financial risk profile**

KAKC's financial risk profile is moderate, marked by a moderate net worth, moderate capital structure and debt protection metrics. KAKC's net worth is moderate stood at Rs.8.65 crore as on March 31, 2019 as against Rs.8.93 crore as on March 31, 2018. Its capital structure is moderate marked by gearing (debt- equity) and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.97 times and 2.79 times as on March 31, 2019 Vis-à-vis 0.14 times and 1.41 times as on March 31, 2018. The debt protection metrics have deteriorated marked by interest coverage ratio (ICR) of 4.69

times in FY2019 vis-à-vis 18.70 times in FY2018.

Acuité believes that in the absence of significant debt-funded capex plans, the financial risk profile continues to be at similar levels over the medium term.

• **Working capital-intensive operations**

KAKC's operations are working capital intensive, as marked. Its bank limits are utilized at about 90 per cent over six months through November 2019. Acuité 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. Operations remain working capital intensive, as reflected in high gross current assets (GCAs) of 241 days for FY2019 driven by sizeable inventory and receivables. There is a sharp increase receivable days of about 74 days in FY2019 from 18 days in 2018, and inventory days stood high at 158 days in FY2019. Inventory comprises work-in-progress stock, stretched over the past few fiscals on account of delays in approvals for some of the projects, due to non-allocation of funds from the government. Receivables are also stretched and there is about Rs.7.00 crore retention money held with various departments for the last two years. Delay in project completion and political issues in state have led to a stretch in the working capital cycle. Improvement in working capital cycle will remain a key rating sensitivity factor.

Rating Sensitivities

- Improvement in its order book, which would in turn improve the scale and profitability levels
- Any steep decline in profitability margins, or deterioration in working capital

Material Covenants

None

Liquidity Position: Stretched

KAKC is having stretched liquidity position marked by high working capital cycle of 241 days for FY2019. This has led to high utilization of working capital limits, which stood at 90 percent for past six months ended November 2019. The current ratio of the company stands at 1.14 times as on March 31, 2019. Acuité believes that ability of the company to improve its working capital management will be critical to improve its liquidity position.

Outlook: Stable

Acuité believes that the outlook on KAKC will remain 'Stable' over the medium term on account of its experienced promoters and long track record of operations. The outlook may be revised to 'Positive' in case of significant improvement in its revenues, while maintaining the profitability and improving its capital structure. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or delays in project execution or steep decline in profitability margins or any significant unplanned debt-funded capital expenditure or significant withdrawal of capital leading to deterioration of its capital structure and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	36.41	57.46
PAT	Rs. Cr.	2.13	3.57
PAT Margin	(%)	5.84	6.21
Total Debt/Tangible Net Worth	Times	0.97	0.14
PBDIT/Interest	Times	4.69	18.70

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector - <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/criteria-complexity-levels.htm>
Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
14-Oct-2019	Proposed OCC	Long Term	2.00	ACUITE BB- (Indicative)
	Bank guarantee	Short Term	6.00	ACUITE A4+ (Indicative)
	Proposed Bank Guarantee	Short Term	6.00	ACUITE A4+ (Indicative)
16-Aug-2018	Proposed OCC	Long Term	2.00	ACUITE BB- / Stable (Assigned)
	Bank guarantee	Short Term	6.00	ACUITE A4+ (Assigned)
	Proposed Bank Guarantee	Short Term	6.00	ACUITE A4+ (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	2.00	ACUITE B+ / Stable (Downgraded from ACUITE BB- / Stable)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	12.00 (Enhanced from Rs.6.00 crore)	ACUITE A4 (Downgraded from ACUITE A4+)

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About Acuité Ratings & Research:

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