

Press Release

K Anantha Rao and Co

February 15, 2021



Rating Upgraded

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

* Refer Annexure for details

Rating Rationale

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

The upgrade in the rating reflects the significant improvement in the revenues in FY2020. The rating also factors the comfortable financial risk profile with comfortable debt protection metrics, improvement in the working capital cycle, adequate liquidity position marked by judicious utilization of the working capital facilities and healthy revenue visibility over the medium term.

About the Firm

Andhra Pradesh – based, KARC was established as a partnership firm in 2014. The firm is managed by Mr. K Prasad Babu, second generation entrepreneur. The firm is engaged in civil construction of buildings and irrigation works and its clientele include PWD - Vishakhapatnam, and Srikakulam District of Andhra Pradesh (GoAP). The firm is a Special Class I civil contractor and has its registered office located at Amadalavalasa, Srikakulam district, Andhra Pradesh.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of KARC to arrive at the rating.

Key Rating Drivers

Strengths

- **Extensive experience of promoters**

KARC was established as a partnership firm in 2014 by Mr. K Prasad Babu and his family members Mr. K Lakshminarayna, Mrs. K Aruna and Mr. K Vasantha Rao. The promoters and their family members are in this line of business for over three decades. The extensive experience has enabled the firm to establish healthy relationships with customers and suppliers.

Acuité believes that the partner's extensive experience and healthy relationship with customers and suppliers is expected to support its business risk profile over the medium term.

- **Significant improvement in revenues**

The revenues of the firm stood at Rs.63.29 Cr in FY2020 against Rs.36.39 Cr in FY2019. Currently, the firm has an order book position of Rs.122.50 Cr as of January, 2021 to be executed by FY2022, giving adequate revenue visibility over near to medium term.

- **Comfortable financial risk profile**

KARC's financial risk profile is comfortable marked by improving gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW) and comfortable debt protection metrics. The gearing improved and stood at 0.65 times as on 31 March, 2020 against 0.97 times as on 31 March, 2019. TOL/TNW stood at 2.57 times as on 31 March, 2020 against 2.79 times as on 31 March, 2019. Tangible net worth of the firm stood modest at Rs.11.80 Cr as on 31 March, 2020 against Rs.8.65 Cr as on 31 March, 2019. The total debt of Rs.7.71 Cr as on 31 March, 2020 mainly consists of long-term debt of Rs.1.03 Cr, short-term debt of Rs.2.69 Cr and unsecured loans of Rs.3.99 Cr. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt

(NCA/TD) stood comfortable at 6.44 times and 0.52 times respectively in FY2020, while DSCR stood at 5.18 times in FY2020. The firm reported cash accruals of Rs.4.03 Cr in FY2020 against moderate repayment obligations of Rs.0.18 Cr. Further, annual cash accruals are expected to be in the range of about Rs.2.32 Cr-Rs.4.13 Cr in the medium term against moderate repayment obligations of Rs.0.18 Cr. Acuité believes that the financial risk profile of the firm is expected to remain comfortable on account of modest net worth backed by healthy cash accruals vis- à-vis moderate debt repayment obligations and comfortable debt protection metrics.

Weaknesses

- **Working capital intensive operations**

Despite improvement, KARC's working capital operations continues to be intensive marked by Gross Current Asset days (GCA) of 180 days in FY2020 against 241 days in FY2019. The debtors' days were recorded at 39 days in FY2020 against 74 days in FY2019. The inventory days were recorded at 35 days in FY2020 against 158 days in FY2019. Further, the inventory holding policy followed by the firm is 25-30 days to cater to spot orders. However, working capital bank lines remains utilized at ~75-80 percent for last ten months ended January, 2021.

Acuité believes that KARC's working capital intensive operations are expected to be mitigated by the availability of adequate liquidity over the medium term.

- **Highly competitive and fragmented industry**

The firm operates in a highly fragmented and competitive civil construction industry with large number of players executing small and mid-sized projects because of low entry barriers. Further, the contracts are awarded through competitive bidding or tender process leading to pressure on the volume of the work or winning number of projects, pricing and profitability of the firm.

- **Tender based business**

The nature of business is tender based and the firm faces intense competition in the industry. The firm's success ratio of winning the bids is to the tune of 10-20 percent. The firm generates its entire revenue from government projects.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

Material Covenants

None

Liquidity: Adequate

KARC has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The firm generated cash accruals of Rs.2.38 Cr-Rs.4.03 Cr during the last three years through 2018-20 against moderate repayment obligations in the range of Rs.0.02 Cr-Rs.0.18 Cr. It is expected to generate cash accruals in the range of Rs.2.32 Cr- Rs.4.13 Cr over the medium term, against moderate repayment obligations of Rs.0.18 Cr. Unencumbered cash and bank balances stood at Rs.15.61 Cr as on 31 March, 2020 with a current ratio of 1.22 times in the same period. The working capital limits remains utilized at ~75-80 percent for the last ten months ended January, 2021.

Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

Outlook: Stable

Acuité believes that KARC will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the firm demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its operating margins. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than expected growth in revenues and profitability or deterioration in the financial risk profile, working capital cycle and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	63.29	36.39
PAT	Rs. Cr.	3.77	2.13
PAT Margin	(%)	5.96	5.85
Total Debt/Tangible Net Worth	Times	0.65	0.97
PBDIT/Interest	Times	6.44	4.69

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>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities in Infrastructure Sector - <https://www.acuite.in/view-rating-criteria-51.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
23-Dec-2019	Cash Credit	Long Term	2.00	ACUITE B+/ Stable (Downgraded)
	Bank Guarantee	Short Term	12.00	ACUITE A4 (Downgraded)
14-Oct-2019	Proposed Cash Credit	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 Cash Credit	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 BB-/ Stable (Upgraded from ACUITE B+/ Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A4+ (Upgraded from ACUITE A4)

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About Acuité Ratings & Research:

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