

Press Release

K Ramalinga Raju

November 22, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 11.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs.11.00 crore bank facilities of K Ramalinga Raju (KRR). The outlook is '**Stable**'.

KRR is a Visakhapatnam based proprietorship firm established in 2004. It is engaged in executing civil contracts related to providing drinking water and sanitation facilities. The firm receives order on bidding tenders. It operates mainly in Andhra Pradesh.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of K Ramalinga Raju to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management

The promoter of the firm, Mr. K Ramaling Raju possess about three decades of experience in the civil and infrastructure industry. He is supported by well experienced technical team. From the past few years, the firm is mainly executing Rural Water Supply and sanitary works in Vizianagaram and Visakhapatnam. Acuité believes that the firm will benefit from experienced management over the medium term.

• Moderate financial risk profile

Financial risk profile of the firm is moderate marked by comfortable gearing (Debt to equity ratio), moderate total outside liabilities to total net worth (TOL/TNW), debt protection metrics and debt service coverage ratio. Gearing is comfortable at 0.94 times as on 31 March, 2018 (Provisional) against 0.59 times as on 31 March, 2017. The moderate deterioration is due to debt funded capital expenditure in FY2018 to purchase commercial space. TOL/TNW is moderate at 3.19 times as on 31 March, 2018 (Provisional) as against 2.77 times as on 31 March, 2017. Net worth is modest at Rs.5.21 crore as on 31 March, 2018 (Provisional), as against Rs.5.15 crore as on 31 March, 2017. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.86 times and 0.20 times respectively in FY2018 (Provisional). Debt service coverage ratio is moderate at 2.57 times in FY2018 (Provisional). KRR's cash accruals are expected in the range of Rs.0.90-1.00 crore over the medium term which are adequate to service its debt obligations of about Rs.0.35-0.40 crore. Acuité believes that the financial risk profile of the firm is expected to be at similar levels over the medium term supported by modest accretion to reserves and absence of major debt funded capital expenditure plans.

Weaknesses

• Modest scale of operations and fluctuations in profitability

Revenues of the firm remained modest and fluctuating for the last three years through FY2018. The firm reported revenues of Rs.22.30 crore in FY2018 (Provisional) as against Rs.42.35 crore in FY2017 and Rs.26.63 crore in FY2016. Further, for the six months period from April to September 2018, the firm reported revenues of Rs.8.00 crore. With the unexecuted orders of Rs.13.03 crore and expected

orders in the near future, the firm is expecting revenues of Rs.24-25 crore over the medium term. Operating margins of the firm is fluctuating in the range of 3 to 5 percent for the last three years through FY2018 due to sharp volatility in raw material, labour and vehicle hire charges. Ability of the firm to increase the scale of operations and improving the profitability would be the key rating sensitivity factor over the medium term.

• Moderate working capital cycle

Working capital cycle of the firm is moderate which is evident from Gross Current Assets (GCA) at 152 days in FY2018 (Provisional) as against 114 days in FY2017, through the efficient management in debtors and inventory in the last two years through FY2018. Debtors days stood at 35 days as against 22 days in FY2017 and inventory days stood at 10 days in FY2018 as against 12 days in FY2017. However, GCA days stood moderately high on account of short term loans and advances given to the related parties and advances to suppliers. The same has led to full utilisation of bank limits for the last six months through September 2018. Ability of the firm to manage the working capital cycle and limiting the related party advances would be the key rating sensitivity factors over the medium term.

• Highly competitive and fragmented industry

The firm is engaged as a civil works contractor related to water supply schemes in Visakhapatnam and Vizianagaram leading to geographic concentration risk. Further, particular sector is marked by the presence of several mid to big size players. The firm faces competition from other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent on account of extensive experience of the management.

Outlook: Stable

Acuite believes that K Ramlinga Raju will maintain a 'Stable' business risk profile over the medium term benefitting from its experienced management. The outlook may be revised to 'Positive' in case the firm registers healthy growth in its revenues while improving profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	22.30	42.35	26.63
EBITDA	Rs. Cr.	1.20	1.67	1.51
PAT	Rs. Cr.	0.93	1.56	1.27
EBITDA Margin	(%)	5.36	3.94	5.67
PAT Margin	(%)	4.18	3.68	4.76
ROCE	(%)	19.09	26.54	28.87
Total Debt/Tangible Net Worth	Times	0.94	0.59	0.71
PBDIT/Interest	Times	2.86	6.43	4.13
Total Debt/PBDIT	Times	2.70	1.54	1.50
Gross Current Assets (Days)	Days	152	114	131

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

NONE

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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)

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE B+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	8.50	ACUITE A4

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About Acuité Ratings & Research:

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