

## Press Release

Krishna Constructions

D-U-N-S® Number: 86-368-2552

February 20, 2019

### Rating Assigned



Total Bank Facilities Rated*	Rs. 21.00 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 plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 21.00 crore bank facilities of Krishna Constructions (KC). The outlook is '**Stable**'.

KC was established in 2008 as a partnership firm. The firm is a Special Class I civil contractor for executing Government Works of R&B, Panchayat Raj, NH Road works of Andhra Pradesh and Telangana states. Its registered office is located at Vijayawada (Andhra Pradesh). The firm participates in tenders issued by PWD and other Government departments of AP and Telangana. The contracts awarded are related to CC roads and B.T. Roads, culverts and Bridges. The firm is promoted by Mr. Chidipothu Krishna Murthy along with his son, Mr. Chidipothu Karthik.

### Analytical Approach

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

### Key Rating Drivers

#### Strengths

- Experienced management and established relationships with Andhra Pradesh and Telangana Govt**

KC is a partnership firm started by Mr. Chidipothu Krishna Murthy and his son in 2008. Promoter, Mr. Chidipothu Krishna Murthy has been in this line of business for over three decades through associated with other individual firms. The longstanding presence in the industry, continued execution and timely deliverables have supported in regular orders, though modest. The firm has an unexecuted order book position of Rs.47.00 crore as of December 31, 2018, and orders in pipeline of about Rs.15.00 crore. Long vintage of operations and timely execution of the works are expected to keep the business risk profile moderate over the medium term.

- Healthy financial profile**

The firm's financial profile is marked by healthy capital structure and debt protection metrics. Its gearing (debt-to-equity) is strong at 0.39 times as of March 31, 2018; 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. Further, its total outside liabilities to total net worth (TOL/TNW) is healthy at 0.52 times as of March 31, 2018. The debt protection metrics of net cash accruals to total debt (NCA/TD) and interest coverage ratio (ICR) are healthy at 1.41 times and 5.67 times in FY18. 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.

- Efficient working capital management**

KC's working capital is efficiently managed by Gross Current Asset (GCA) days of about 24 in FY2018, majorly attributed to raising the bill at regular intervals and realisations within a short period of two weeks. The firm enjoys credit from the suppliers of about 60 days. Modest net worth base and efficient working capital management have led to high utilisation of its bank lines at about 92 percent over six months through October 31, 2018. However, 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.

## Weaknesses

### • Moderate scale of operations

The scale of operations of the firm is moderate within the civil construction industry marked by moderate revenues of Rs.96.18 crore in FY2018, a sharp increase from Rs.41.84 crore in FY17 due to large work order. Historically, its revenues are modest at around Rs.40.00 crore, and with modest order book of about Rs.47.00 crore, the revenues are expected to be around Rs.50-60 crore over the medium term. 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 and participated tenders under consideration of about Rs. 62.00 crore, the revenue profile is expected to improve over the medium term though continues to be modest levels.

### • Partnership nature of business limits financial flexibility

KC'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.

### • Geographical concentration in revenue

The order book is primarily concentrated in and around Khammam District of Telangana and Krishna District of Andhra Pradesh. Geographical concentration and competitive bidding nature of works constrain the growth in the revenue profile, though to some extent, the same is mitigated by longstanding presence in the industry over three decades.

## Liquidity Position:

KC has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. KC generated cash accruals of Rs.7.00 crore during the last year 2017-18, while its maturing debt obligations were in the range of Rs.1.00 crore in the same period. The cash accrual of KC is estimated to remain around Rs.3.00 to 5.00 crore during 2019-21, while its repayment obligations are estimated to be around Rs.1.00 crore. Modest net worth base and efficient working capital management has led to high utilisation of its bank lines at about 92 percent over six months through October 31, 2018. The current ratio of the group stood healthy at 2.26 times as on March 31, 2018. Acuite believes that the liquidity of the group is likely to remain adequate over the medium term on account of healthy cash accruals as against moderate repayments over the medium term.

## Outlook: Stable

Acuite believes that KC 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 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	96.18	41.84	41.23
EBITDA	Rs. Cr.	8.51	5.13	3.93
PAT	Rs. Cr.	5.77	2.52	2.47
EBITDA Margin	(%)	8.85	12.25	9.53
PAT Margin	(%)	6.00	6.02	6.00
ROCE	(%)	40.59	24.87	46.93
Total Debt/Tangible Net Worth	Times	0.39	0.99	1.16
PBDIT/Interest	Times	5.67	3.29	4.11
Total Debt/PBDIT	Times	0.58	1.76	2.00
Gross Current Assets (Days)	Days	24	80	84

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

None

## Any other information

None

## 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	5.50	ACUITE BB+ / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB+ / Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE A4+
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+

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## About Acuité Ratings & Research:

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