

## Press Release

### Krishna Constructions

July 07, 2020

#### Rating Downgraded & Reaffirmed



Total Bank Facilities Rated*	Rs.21.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable (Downgraded from ACUITE BB+ / Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

\* Refer Annexure for details

#### Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and reaffirmed the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.21.00 crore bank facilities of Krishna Constructions (KC). The outlook is 'Stable'.

The rating downgraded is in view of significant moderation in operating performance marked by sharp decline in revenues and elongation in working capital cycle.

KC was established in 2008 as a partnership firm. The partners are Mr. Chidipothu Krishna Murthy and his son, Mr. Chidipothu Karthik. The firm undertakes contracts issued by PWD and other Government departments of Andhra Pradesh and Telangana for the construction of C.C. roads and B.T. roads, culverts and Bridges. Its registered office is located at Vijayawada (Andhra Pradesh).

#### Analytical Approach

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

#### Key Rating Drivers

##### Strengths

##### • Experienced management and improving business risk profile

The operations of KC commenced in 2008. The partners, Mr. Chidipothu Krishna Murthy and Mr. Chidipothu Karthik, have an experience of more than a decade in civil construction. Due to established track record in the infrastructure industry, the firm has established relations with its customers and suppliers which had benefitted in terms of new orders in competitive bidding.

Acuité believes that KC will continue to benefit from partners' extensive experience in the industry over the medium term.

##### • Moderate financial risk profile

The financial risk profile is moderate marked by moderate capital structure and moderate debt protection metrics. The net worth stood at Rs.13.17 crores in March 31, 2020 (Provisional) as against Rs.12.39 crores in March 31, 2019 owing to accretion to partner's capital. The gearing stood at 1.57 times as on March 31, 2020 (Provisional) as against 1.65 times as on March 31, 2018. The total debt of the firm stood at Rs.20.61 crore as on March 31, 2020 (Provisional), consists of Rs.11.34 crore of unsecured loans from promoters, Rs.7.93 crore of working capital borrowings and Rs.1.34 crore of long term loan.

Moderate net cash accruals and debt has led to moderate NCA/TD and interest coverage ratio of 0.12 times and 1.92 times in FY2020 (Provisional) as against 0.15 times and 2.37 times in FY2019, respectively. The TOL/TNW stood moderate at 1.68 times as on March 31, 2020 (Provisional) compared to 1.81 times as on March 31, 2019. Acuité expects the financial risk profile to remain moderate over the medium term on account of moderate accretion to reserves and absence of significantly debt funded capex.

## Weaknesses

- **Declining revenues coupled with low order book position**

KC undertakes orders for the construction of C.C. road and B.T. road in the states of Telangana and Andhra Pradesh. The revenues of the firm recorded a declining trend during the period under study i.e. FY2017-FY2020 (Provisional). The revenues declined to Rs.22.42 crore in FY2020 (Provisional) from Rs.29.17 crore in FY2019, which was a further decline from Rs.96.18 crore in FY2018. The significant decline in revenues is on the account of limited number of fresh tenders in the states of Telangana and Andhra Pradesh in last two years. Due to which, firm is now diversifying into railway segment. Further, KC has low order book position of Rs.36.10 crore as on June, 2020 which is expected to be executed within FY2021, thereby providing low revenue visibility over the near to medium term.

- **Working capital intensive operations**

KC's working capital operations are intensive as evident from Gross Current Assets (GCA) of 414 days for FY2020 (Provisional) as against 269 days for FY2019. GCA days are mainly dominated by inventory management, as firm captures completed project work under inventory until bill gets approved from the government. Further, bills approval from government take longer than expected time, thereby affecting KC's working capital cycle. Creditor days stood at 14 days for FY2019 as against 36 days for FY2019. This results in high reliance on bank lines. Acuite believes that efficient management of working capital will be crucial to the firm.

- **Competitive and fragmented industry**

KC is into the business of civil construction. This particular sector is marked by the presence of several mid to big size players. KC faces intense competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts.

- **Capital withdrawal risk**

KC is exposed to risk of capital withdrawal considering its partnership constitution. However, there were no significant withdrawals observed during the period under study.

## Rating Sensitivity

- Withdrawal of partner's capital will lead to weakening of financial risk profile.
- Substantial improvement in scale of operation while maintaining profitability margins over the medium term.

## Material Covenants

None

## Liquidity position: Adequate

Liquidity profile of KC is adequate reflected by sufficient net cash accruals against its maturing debt obligations. KC has reported cash accruals of Rs.2.49 crore in FY2020 (Provisional) and expected to generate cash accruals in the range of Rs.2.00-3.00 crore over the medium term. The repayment obligations are expected to remain around Rs.0.45 crore for the period FY2021-2023. The utilisation of working capital limits more than 90 per cent. The current ratio stood at 2.74 times in FY2020 (Provisional). Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accrual against no major debt repayments and absence of any debt funded capex plans.

## Outlook: Stable

Acuite believes KC will maintain a 'Stable' outlook in the medium term on account of its experienced management and moderate financial risk profile. The outlook may be revised to 'Positive' in case of substantial growth in revenues with timely execution of orders. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected revenues.

## About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	22.42	29.17
PAT	Rs. Cr.	1.31	1.74
PAT Margin	(%)	5.84	5.95
Total Debt/Tangible Net Worth	Times	1.57	1.65

PBDIT/Interest	Times	1.92	2.37
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**Status of non-cooperation with previous CRA (if applicable)**

Not Applicable

**Any other information**

None

**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
20-Feb-2019	Cash Credit	Long Term	5.50	ACUITE BB+ / Stable (Assigned)
	Proposed Cash Credit	Long Term	2.50	ACUITE BB+ / Stable (Assigned)
	Bank Guarantee	Short Term	8.00	ACUITE A4+ (Assigned)
	Proposed Bank Guarantee	Short Term	5.00	ACUITE A4+ (Assigned)

**\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00 (Enhanced from Rs.5.50 crore)	ACUITE BB/Stable (Downgraded from ACUITE BB+ / Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	13.00 (Enhanced from Rs.8.00 crore)	ACUITE A4+ (Reaffirmed)

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**About Acuité Ratings & Research:**

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