

Press Release

Krishna Constructions

September 20, 2021



Rating Reaffirmed, Outlook revised to 'Negative'

Total Bank Facilities Rated*	Rs. 21.00 Cr.
Long Term Rating	ACUITE BB/Negative (Outlook revised from 'Stable' and rating reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

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

The revision in outlook is in view of significant deterioration in operating performance marked by sharp decline in revenues and elongation in working capital cycle due to high inventory levels.

The rating reaffirmation reflects its extensive experience of the promoters in the civil construction industry and its above-average financial risk profile. These strengths are partially constrained by small scale of operations in the civil construction industry with revenues of Rs. 18.3 Cr in FY2020, which declined by ~25 percent owing to the adverse impact of the pandemic on its operations and a slow-moving order book coupled with susceptibility to tender-based operations amid intense competition, high geographical concentration in orders and stretched working capital cycle.

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

Analytical Approach

Acuite 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 its key principals

KC is a partnership firm started by Mr. Chidipothu Krishna Murthy and his son in Mr. Chidipothu Karthik in 2008. Managing partner, Mr. Chidipothu Krishna Murthy has been in this line of business for over three decades through his association with other individual firms. The longstanding presence in the industry, continuous execution and timely deliverables have supported in regular orders, though modest. The firm has an unexecuted order book position of Rs. 19 Cr and L1 position order book of Rs.31 Cr, which provides revenue visibility over the next 24 months. Acuite believes that KC will continue to benefit from partners' extensive experience in the civil construction industry is expected to keep the business risk profile moderate over the medium term.

• Moderate financial profile

The firm's financial profile is moderate marked by moderate net worth, moderate gearing (debt-to-equity), and moderate total outside liabilities to total net worth (TOL/TNW) and debt protection metrics. KC's net worth is moderate at Rs.13.83 Cr as on March 31, 2021 (Provisional) as compared to Rs.13.35 as on March 31, 2020. Gearing is moderate at 1.15 times as on March 31, 2021 (Provisional) as against 1.53 times as on March 31, 2020. TOL/TNW is moderate at 1.53 times as on March 31, 2020 vis-à-vis 1.65 times as on March 31, 2019. Its

debt protection metrics are marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 1.84 times and 0.13 times in FY2021 (Provisional) vis-à-vis 1.98 times and 0.13 times in FY2020, respectively. Acuite believes that in absence of any major debt-funded capital expenditure; improving cash accruals will lead to moderate financial risk profile over the medium term.

Weaknesses

• Declining revenues coupled with modest 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. FY2018-FY2021 (Provisional). The revenues declined to Rs.18.31 Cr in FY2021 (Provisional) from Rs.24.30 Cr in FY2020, which was a further decline from Rs.29.17 Cr 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 and slow order book movement along with low strike rate in bidding for KC. As of July, 2021, KC has an unexecuted order book position of Rs.19 Cr and Rs.31 Cr is in the L1 position, which provides moderate revenue visibility 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.

• Working capital-intensive operations

KC's working capital cycle is high marked by high gross current assets (GCA) days in the range of 269-454 days over the last 3 years ended March 31, 2021 (Provisional). The GCA days are marked by low debtor days and high inventory days. The inventory days were in the range of 298-448 days and debtor days in the range of 0-4 days, respectively, over the past 3 years ended with March 31, 2021. Its creditor days ranged between 18-36 days over the past 3 years ended with March 31, 2021 (Provisional). High GCA cycle led to high utilization of 94 percent of bank lines of Rs.8.00 Cr over the past 6 months ending June, 2021. Acuite believes that the operations of the KC will remain high working capital intensive over the medium term.

• Partnership nature of business limits financial flexibility

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 the scale of operation while maintain profitability margins over the medium term.

Liquidity Position: Adequate

KC's liquidity is adequate marked by moderate cash accruals to its repayment obligations and albeit constraint by working capital intensive nature of its operations. KC generated cash accruals of Rs.2.00 to 3.00 Cr during the last 3 years through 2019-21 (Provisional), while its maturing debt obligations were in the range of Rs.0.50-1.00 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.2.00-2.50 Cr during 2022-24 while their repayment obligations are estimated to be around Rs.0.50-1.00 Cr during the same period. KC's operations are working capital intensive as marked by Gross Current Asset (GCA) days of 269-454 days over the last 3 years ending March 31, 2021 (Provisional). Its working capital credit limits were utilised at about 94 per cent during the last 6 months period ended June 2021. It has unencumbered cash and bank balance of Rs. 0.18 Cr as on March 31, 2021 and current ratio of 3.11 times as on March 31, 2021 (Provisional). Acuite believes that the liquidity of the KC is likely to remain adequate over the medium term on account of adequate cash accruals against its repayment obligations

Outlook: Negative

Acuite believes that KC's financial risk profile is likely to remain under pressure on account of continued deterioration in its working capital cycle particularly and consistent decline in its revenues. The rating may be 'downgraded' if there is higher-than-expected decline in its revenues or profitability or elongation in working capital cycle. The outlook may be revised to 'Stable' or if the partners infuse additional funds to support the incremental working capital requirements or if the firm registers higher than expected growth in its revenues while improving its profitability and capital structure.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20(Actual)
Operating Income	Rs. Cr.	18.31	24.30
PAT	Rs. Cr.	1.03	1.48
PAT Margin	(%)	5.63	6.08
Total Debt/Tangible Net Worth	Times	1.15	1.53
PBDIT/Interest	Times	1.84	1.98

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

None

Material covenants

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector Entities- <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/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
07-Jul-2020	Cash Credit	Long Term	8.00	ACUITE BB /Stable (Downgraded from ACUITE BB+/Stable)
	Bank guarantee	Short Term	13.00 0	ACUITE A4+ (Reaffirmed)
20-Feb-2019	Cash Credit	Long Term	550	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

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank of Maharashtra	Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB /Negative (Outlook revised from 'Stable' and rating Reaffirmed)
Bank of Maharashtra	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE A4+ (Reaffirmed)

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