

Press Release

Krishna Constructions

January 02, 2023



Rating Downgraded and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	8.00	ACUITE BB- Stable Downgraded	-
Bank Loan Ratings	13.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	21.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

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

Rationale for the rating

The rating downgrade and revision in outlook is in view of significant moderation in operating performance marked by sharp decline in revenues and elongation in working capital cycle. The revenue has been continuously declining over the last 3 years ending FY2022 to Rs.18.81 Cr from Rs.24.30 Cr in FY2020. Gross current asset (GCA) days stood at 607 days as on March 31, 2022 as against 486 days as on March 31, 2021. Partners has withdrawn capital from the capital account of Rs. 0.35 Cr in FY 2022.

The rating continues to factor in its extensive experience of the promoters in the civil construction industry. These strengths are partially constrained by small scale of operations in the civil construction industry with revenues of Rs.18.81 Cr in FY2022, a slow-moving order book coupled with susceptibility to tender-based operations amid intense competition, high geographical concentration in orders, below-average financial risk profile and stretched working capital cycle.

About the Firm

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 Andhra Pradesh and Telangana. The contracts awarded are related to and Cement Concrete (CC) roads and Bituminous Surface Treatment (BT), culverts and Bridges.

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 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. 38 Cr, which provides limited revenue visibility for the medium term. Acuité 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.

Weaknesses

- **Below-average financial risk profile**

The financial risk profile of the firm has remained below-average with moderate capital structure and debt protection metrics. The net worth of the company stood at Rs.14.79 Cr and Rs.13.91 Cr as on March 31, 2022 and 2021 respectively. The gearing of the firm stood at 1.31 times as on March 31, 2022 against 1.19 times as on March 31, 2021. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 1.83 times and 1.48 times as on March 31, 2022 respectively as against 1.87 times and 1.27 times as on March 31, 2021 respectively. The debt to EBITDA of the firm stood at 4.63 times as on March 31, 2022 as against 3.65 times as on March 31, 2021. Acuité believes that the financial risk profile of the company would improve supported by increase in accruals in the medium term

- **Intensive working capital operations**

KC's working capital cycle is intensive as reflected by its high gross current assets (GCA) days at 602 days as on March 31, 2022 as against 486 days as on March 31, 2021. The GCA days are high as a result of high inventory/work in progress(WIP) days. Inventory days stood at 575 days as on March 31, 2022 as against 418 days as on March 31, 2021. Subsequently, the payable period stood at 86 days as on March 31, 2022 as against 20 days as on March 31, 2021 respectively. The debtor days stood at 5 days as on March 31, 2022 as against 4 days as on March 31, 2021. Further, the average bank limit utilization in the last eight months ended November, 22 remained at ~93 percent for fund based and 63 percent for non-fund based limits. Acuité believes that the operations of the KC will remain working capital intensive over the medium term.

- **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**

Partners had withdrawn capital from the capital account of Rs. 0.35 Cr in FY 2022. KC is

exposed to risk of capital withdrawal considering its partnership constitution.

Rating Sensitivities

- Improvement in profitability parameters
- Deterioration in capital structure

Material covenants

None

Liquidity Position: Adequate

The firm has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.1.90 Cr in FY2022 as against the repayment of Rs.0.55 Cr for the same period and expected to generate cash accruals in the range of Rs.2.63- 3.28 Cr. against CPLTD of Rs.0.65- 0.85 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 29.52 Cr as on March 31, 2022. The current ratio of the company stood at 2.94 times as on March 31, 2022. Acuité believes that KC's liquidity will remain sufficient over the medium term backed by repayment of its debt obligations and improving accruals. The fund based bank limits utilization of KC is 93 percent for fund based respectively for the past 8 months ending November 2022. Acuité 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

Acuité 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 or withdrawal of capital by partners.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	18.81	19.34
PAT	Rs. Cr.	1.03	1.10
PAT Margin	(%)	5.47	5.68
Total Debt/Tangible Net Worth	Times	1.31	1.19
PBDIT/Interest	Times	1.83	1.87

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

KC's rating was downgraded and migrated to 'ISSUER NON COOPERATING' status with CARE through its rating rationale dated June 20, 2022. The reason provided by CARE is nonfurnishing of information by KC.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite' s categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Oct 2021	Proposed Bank Facility	Short Term	4.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	9.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BB Negative (Reaffirmed)
20 Sep 2021	Bank Guarantee	Short Term	13.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BB Negative (Reaffirmed)
07 Jul 2020	Bank Guarantee	Short Term	13.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BB Stable (Downgraded from ACUITE BB+ Stable)
20 Feb 2019	Proposed Bank Guarantee	Short Term	5.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	8.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	5.50	ACUITE BB+ Stable (Assigned)
	Proposed Cash Credit	Long Term	2.50	ACUITE BB+ Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Maharashtra	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE A4+ Reaffirmed
Bank of Maharashtra	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BB- Stable Downgraded
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE A4+ Reaffirmed

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About Acuité Ratings & Research

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