

**Press Release**  
**Krishna Constructions**  
**March 30, 2024**  
**Rating Downgraded**



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	8.00	ACUITE B   Stable   Downgraded	-
Bank Loan Ratings	13.00	-	ACUITE A4   Downgraded
<b>Total Outstanding Quantum (Rs. Cr)</b>	21.00	-	-

**Rating Rationale**

Acuite has downgraded its long-term rating to '**ACUITE B**' (read as **ACUITE B**) from '**ACUITE BB-**' (read as **ACUITE Double B minus**) and downgraded its short-term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**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 downgrade :**

Rating downgrade considers steep decline in scale of operations in the current year (FY2024) and slower-than-anticipated build-up of order pipeline as reflected in the modest orderbook position of Rs.22.29 Cr. (unexecuted order value) as on Jan 31, 2024. KC's total operating income stood at Rs. 0.84 Cr. till November 2023 and it is expected to close the year at ~1 Cr, this sharp decline is on account of slow work progress and delay in the billing process even after the work is completed. The total operating income stood at Rs.37.16 Cr. in FY2023 as against Rs.18.81 Cr. in FY2022.

Further, ratings also factor in the below financial risk profile with intensive working capital management. The gearing of the company stood at 1.09 times in FY2023 as against 1.31 times in FY2022, albeit withdrawal of capital by partners to the tune of Rs. 1.20 Cr. in FY 2023. The interest coverage ratio stood at 2.95 times in FY2023 as against 1.83 times in FY2022. The rating, remains constrained on account of intensive working capital cycle and tender based nature of operation.

**About the Company**

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.

**Unsupported Rating**

Not applicable

**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. 22.90 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 below average capital structure and moderate debt protection metrics. The net worth of the firm stood at Rs.15.54 Cr. and Rs.14.79 Cr. as on March 31, 2023 and 2022 respectively. The gearing of the firm stood at 1.09 times as on March 31, 2023 against 1.31 times as on March 31, 2022. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 2.95 times and 2.01 times as on March 31, 2023 respectively as against 1.83 times and 1.48 times as on March 31, 2022 respectively. The debt to EBITDA of the firm stood at 4.13 times as on March 31, 2023 as against 4.63 times as on March 31, 2022. Acuité believes that the financial risk profile of the firm would remain below-average over the medium term.

- **Intensive working capital operations**

KC's working capital cycle is working capital intensive as reflected by its high GCA days at 292 days as on March 31, 2023 as against 600 days as on March 31, 2022. However improvement in the GCA days is seen in FY2023. The GCA days are high as a result of high inventory days. Inventory days stood at 308 days as on March 31, 2023 as against 575 days as on March, 2022. Subsequently, the payable period stood at 35 days as on March 31, 2023 as against 86 days as on March 31, 2022 respectively. The debtors day stood at 0 days as on March 31, 2023 as against 5 days as on March 31, 2022. Further, the average bank limit utilization in the last six months ended Feb, 24 remained at ~97 percent for fund based.

- **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. 1.20 Cr. in FY2023. KC is exposed to risk of capital withdrawal considering its partnership constitution

### Rating Sensitivities

- Improvement in scale operations
- Deterioration in capital structure

**Liquidity Position: Stretched**

The firm has generated adequate net cash accruals to service its debt obligation in FY2023. The net cash accruals stood at Rs.2.72 Cr. in FY2023 as against the repayment of Rs.0.65 Cr. for the same period. However, liquidity is expected to be stretched in FY2024 based upon the YTD figures and deteriorated scale of operations, expected to generate cash accruals in the range of Rs.(1.10)-0.04 Cr. against CPLTD of Rs.0.71-0.77 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 0.78 Cr. as on March 31, 2023. The current ratio of the company stood at 2.64 times as on March 31, 2023. Acuité believes that KC's liquidity will remain stretched over the medium term, although support from management for timely repayment of debt obligation is in place.

**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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	37.16	18.81
PAT	Rs. Cr.	1.97	1.03
PAT Margin	(%)	5.31	5.47
Total Debt/Tangible Net Worth	Times	1.09	1.31
PBDIT/Interest	Times	2.95	1.83

### 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>
- 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, Acuite 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](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Jan 2023	Bank Guarantee/Letter of Guarantee	Short Term	9.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BB-   Stable (Downgraded from ACUITE BB   Negative)
	Proposed Short Term Bank Facility	Short Term	4.00	ACUITE A4+ (Reaffirmed)
07 Oct 2021	Bank Guarantee/Letter of Guarantee	Short Term	9.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BB   Negative (Reaffirmed)
	Proposed Short Term Bank Facility	Short Term	4.00	ACUITE A4+ (Reaffirmed)
20 Sep 2021	Bank Guarantee/Letter of Guarantee	Short Term	13.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BB   Negative (Reaffirmed)

## 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 avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	7.00	ACUITE A4   Downgraded ( from ACUITE A4+ )
Bank of Maharashtra	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	8.00	ACUITE B   Stable   Downgraded ( from ACUITE BB- )
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	6.00	ACUITE A4   Downgraded ( from ACUITE A4+ )

## Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 <a href="mailto:mohit.jain@acuite.in">mohit.jain@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>
Moparthy Anuradha Devi Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:moparthy.anuradha@acuite.in">moparthy.anuradha@acuite.in</a>	

### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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