

## Press Release

### K Venkata Raju Engineers And Contractors Private Limited

August 06, 2020

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 45.00 Cr.
<b>Long Term Rating</b>	ACUITE BB / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A4+ (Assigned)

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB**' (read as **ACUITE BB**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 45.00 crore bank facilities of K Venkata Raju Engineers And Contractors Private Limited. The outlook is '**Stable**'.

K. Venkata Raju Engineers and Contractors, a partnership firm, was established in 1990 carrying civil construction work mainly buildings for government bodies and private companies. The firm was later reconstituted as a private limited company named - K Venkata Raju Engineers & Contractors Private Limited (KVRECPL) in the year 2014. KVRECPL is now a special class civil Construction Company engaged in the construction of mainly railway infrastructure work, roads and bridges and national highways amongst others.

### Analytical Approach

Acuite has considered the consolidated business and financial risk profile of KVRECPL to arrive at the rating.

### Key Rating Drivers

#### Strengths

#### • Experienced management and healthy order book providing revenue visibility over the next 2-3 years

KVRECPL, a special class contractor, is promoted and managed by Mr. T. Kishan Kumar who has more than two decades of extensive experience in civil construction segment with its forte in railway infrastructure works, roads and bridges, national highways among others. Mr. T. Kishan Kumar, shortly after completion in B.Tech (Civil) in 1989, established 'Vijayawada Construction Company' (VCC). VCC was engaged in civil construction of buildings for private companies and government bodies. VCC after operating for approx. 20 years is non-operational and closed as on date. With intent to bid for high-value projects through the formation of Joint Ventures and enlarge its operations, KVRECPL was formed along with Mr. Murali Mohan (Executive Director) and others. Forming KVRECPL was a step towards diversification into railway, R&B and highway infrastructure work from the buildings work. With the promoter's extensive industry experience and timely execution of past projects, KVRECPL has been able to establish a long-standing relationship with various government bodies such as East Central railways (Bihar and Jharkhand), South Central railways (Telangana and Andhra Pradesh), RITES Limited, Maharashtra Rail Infrastructure Development Corporation Limited (MRIDCL), South Eastern railways, I&CAD (Andhra Pradesh), R&B department (Andhra Pradesh and Telangana) and many others. As of March 31, 2020, KVRECPL has an unexecuted order book position of approx. Rs.500 crores; estimated to be executed over the next 24-36 months providing adequate revenue visibility over the medium term. Acuite believes that the promoter's extensive industry experience and established relation with its principal contractors will aid KVRECPL's business risk profile over the medium term.

#### • Geographically well-diversified order book

KVRECPL executes orders across Telangana, Andhra Pradesh, Madhya Pradesh, Maharashtra, Bihar, Karnataka and Jharkhand. Out of the total outstanding orders of approx. Rs.500 crores as on March, 2020, 35 percent is from Maharashtra, 19 percent from Madhya Pradesh, 17 percent from Telangana,

16 percent from AP, and 12 per cent from Jharkhand. Nevertheless, no single region contributes more than 35-40 percent to total revenue, thereby leading to lower geographical concentration risk. Acuite believes that KVRECPL will remain well-diversified over the medium term.

• **Moderate scale of operations; dip in FY20 revenue a one-off instance due to change in political dispensation**

KVRECPL's scale of operations is moderate with consolidated revenue remaining constant at around Rs.138 crores in FY18 and FY19. The revenue dip in FY20 to Rs.89.05 crores (Provisional) was a one-off instance affected by the political dispensation in Andhra Pradesh. The change in government in April, 2019 led to the cancellation of state-funded orders due to internal policy changes for the majority of the civil contractors in Andhra Pradesh. KVRECPL had two AP orders in its portfolio worth Rs.171.15 crores awarded in FY19 - a state-funded order of Rs.102.05 crores and an Asian Bank development (ADB) funded order of Rs.69.10 crores. The former was cancelled while the later was first cancelled and reinstated in December, 2019. Over and above, lower billing due to Covid-19 pandemic led to total notional revenue loss of Rs.60-70 crores in FY20. KVRECPL's revenue is expected to bounce back to historical levels; the same is exhibited in the year-to-date (FY21) revenue of Rs.38 crores and operating profit of Rs.3.50 crores. Acuite believes that KVRECPL's scale of operations is likely improve in FY21 and remain moderate over the medium term given the timely execution and billing of its unexecuted order book in hand.

• **Improving EBITDA despite revenue fall; a consequence of lower sub-contracting of the tender work**

In FY20, KVRECPL has executed most of its orders by its own leading to lower sub-contract charges. This resulted into a higher raw material cost (as a percentage of total operating income) from 10 per cent in FY18 to 25 percent in FY20 (Provisional) and lower sub-contracting charges (as a percentage to total operating income) from 76 per cent in FY19 to 57 per cent in FY20 (Provisional). Accordingly, the EBITDA margin has improved to 9.06 percent in FY20 (Provisional). Acuite believes that the FY20 EBITDA margin is sustainable over the medium term provided KVRECPL continues to depend lower on sub-contracting of the tender work.

• **Moderate financial profile**

KVRECPL's financial risk profile is moderate, marked by moderate net worth, comfortable gearing (debt-to-equity), and moderate debt protection metrics. KVRECPL has modest net worth at Rs. 30.05 crore as on March 31, 2020 (Provisional) as against Rs.24.47 crore in FY2019 due to higher accretion of reserves. Moderate net worth and moderate debt resulted in comfortable gearing (debt-to-equity) and total outside liabilities to tangible network (TOL/TNW) ratio of 0.56 times and 1.10 times respectively, as on March 31, 2020 (Provisional) vis-à-vis 0.61 times and 1.88 times March 31, 2019. Debt protection metrics were also moderate, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 2.94 times and 0.34 times, respectively, in FY2020 (provisional) vis-à-vis 2.42 times and 0.30 times for FY2019. Its accruals are expected in the range of Rs. 8-12 crore over the medium term, against repayment obligations of about Rs. 1-1.5 crore. Acuite believes that the financial risk profile of the company is expected to remain moderate over the medium term on account of moderate cash accruals and no significant debt-funded capex plans.

**Weaknesses**

• **Tender based nature of operations along with high segmental concentration risk**

KVRECPL executes only tender based projects from government bodies with no reliance on subcontract work. Once the tender is allotted, earnest money deposits (EMD) of ~0.5 per cent is deposited along with the performance guarantee of ~5 per cent. The company raises bills on a monthly basis. The retention money is usually 5 per cent of the contract value, which is released after a defect liability period of 6 month to 1 year or more. Since the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. KVECPL has a success rate of 70 to 80 percent in bidding. Furthermore, KVRECPL is exposed to high segment concentration risk with 61 percent of its unexecuted order book of Rs.500 crores being majorly from railway infrastructure work. Acuite believes that KVRECPL's revenue and profitability are susceptible to risks inherent in tender based operations which limit pricing flexibility in an intensely competitive industry.

• **Moderate working capital operations**

KVRECPL's working capital cycle is moderate with gross current assets (GCA) days in the range of 139-241 days over the last 3 years ending March, 2020. The moderate GCA days are marked by moderate

Inventory days and debtor days. The GCA days include the other current asset portion in form of security deposits and EMD which manifests GCA days at slightly elevated levels. Debtor and inventory days were moderate at 45 days and 38 days as on March, 2019. The inability of site visits by engineers due to Covid-19, resulted in non-issuance of quality and completion certification, which in return lead to lower bills raised and higher work-in-progress as on March, 2020. Consequently, the debtor and inventory days were high as on March, 2020 (provisional) at 70 days and 69 days, respectively. These were partially offset by high creditor days of 185 days as on March, 2020 (Provisional). KVRECPL pays its raw material creditors within 30-60 days; howbeit higher expenses payable to sub-contractors takes the total creditor days to an elevated level. High creditor days as on March, 2019 is a result of high sub-contract work which subsequently improved as on March, 2020 due to lower sub-contracting work. The moderate GCA cycle has led to high utilization of bank lines of Rs.12.00 crores over the past 12 months ending June, 2020. Acuite believes that the operations of the KVRECPL will remain moderately working capital intensive being its exposure to government projects wherein execution is more skewed towards the last quarter. Additional bank lines to meet working capital requirements requisite for the unexecuted order will remain the key rating sensitivity factor.

### Liquidity Position: Adequate

KVRECPL's liquidity is marked by adequate net cash accruals against its debt obligations, moderate current ratio; constrained highly utilized bank lines with few instances of overdrafts in the past due to interest application. KVRECPL generated cash accruals of Rs.5.63 crore in FY2020 (provisional) against debt obligations of Rs.1.00 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.8-12 crore during FY2021-23 against repayment obligations in the range of Rs.1-1.5 crore for the same period. The average fund-based working capital utilization stood at 99 percent for the past 12 months ended June 2020. The company maintained unencumbered cash and bank balances of Rs.1.06 crore as on 31 March 2020 (provisional). The current ratio stands at 2.07 times as on March, 2020 (Provisional). Acuite believes that KVRECPL's liquidity will remain constrained by highly utilized bank lines given its working capital intensive operations; howbeit Net cash accruals will remain adequate to fund its debt obligations over the medium term.

### Rating Sensitivities

- Substantial improvement in scale of operations (Rs.150-180 crores) while maintaining profitability margins over the medium term
- Stretch in working capital cycle leading to an increase in working capital borrowing and weakening of financial risk profile
- Continuous overdrafts in bank lines leading to stretched liquidity

### Outlook: Stable

Acuite believes that KVRECPL will continue to benefit over the medium term due to its experienced management and healthy order book providing revenue visibility. The outlook may be revised to 'Positive', in case of timely execution of its unexecuted order book leading to higher-than-expected revenues and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case KVRECPL registers lower-than-expected decline in revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to the deterioration of its financial risk profile and liquidity.

### About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	89.05	138.39
PAT	Rs. Cr.	5.63	4.11
PAT Margin	(%)	6.33	2.97
Total Debt/Tangible Net Worth	Times	0.56	0.61
PBDIT/Interest	Times	2.94	2.42

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

KVRECPL's rating was withdrawn with Issuer not cooperating status with ICRA, through its rating rationale dated March 13, 2020. The reason provided by ICRA is non-furnishing of information by KVRECPL.

### Any other information

None

### Any Material Covenants

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 Services Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Infrastructure Entities - <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)

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
Overdraft	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A4+
Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB / Stable

### Contacts

Analytical	Rating Desk
<p>Aditya Gupta – Corporate Ratings Vice President Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a></p> <p>Neha Agarwal Senior Analyst - Rating Operations Tel: 040-4004 2327 <a href="mailto:neha.agarwal@acuite.in">neha.agarwal@acuite.in</a></p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a></p>

### About Acuité Ratings & Research:

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