

Press Release

KSR Infracon Private Limited

August 10, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.55.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of **'ACUITE BB+' (read as ACUITE double B plus)** and the short term rating of **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs.55.00 Cr. bank facilities of KSR Infracon Private Limited (KSRIPL). The outlook is **'Stable'**.

KSR Infracon Private Limited (KSRIPL) was incorporated by Mr. K. Venkateswara Rao in 2004, it undertakes projects in areas like overburden removal and heavy earth excavation, infrastructure creation for Hydel Power Projects and other civil contracts.

The company is a part of KSR Group based in Hyderabad with interests in support services to infrastructure projects in general and power projects in particular, material handling contracts, equipment hiring for project implementation, and mining, excavation, processing of colour granites and monuments & memorials.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of KSRIPL to arrive at this rating.

Key Rating Drivers

Strengths

• Experienced management and reputed clientele

KSRIPL was incorporated by Mr. K. Venkateswara Rao in 2004 who has nearly two decades of experience in undertaking civil construction works. The company has executed projects for companies like Gammon India Limited, NTPC Limited, Himachal State Electricity Board, Italian-Thai Development Company, Baes Valley Power Corporation Limited, Hindustan Construction Company Limited, Madhucon Projects Limited to name a few.

Acuite believes that the company will continue to benefit from promoter's experience in the industry and its established market presence over the medium term.

• Moderate financial risk profile

KSRIPL has moderate financial risk profile marked by tangible net worth of Rs.35.53 crore as on March 31, 2020 (Provisional) against Rs.33.31 crore as on March 31, 2019. The total debt stood at Rs.26.91 crore as on March 31, 2020 (Provisional) includes Rs.7.32 crore of term loans, Rs.8.14 crore of working capital loans and Rs.11.46 crore of loans from directors and promoters. The gearing stood at 0.76 times as on March 31, 2020 (Provisional) against 0.80 times as on March 31, 2019. The Interest Coverage Ratio (ICR) stood at 5.19 times in FY2020 (Provisional) improving from 3.32 times in FY2019. The TOL/TNW stood at 1.06 times as on March 31, 2020 (Provisional) against 1.14 times as on March 31, 2019.

Acuite believes that the financial risk profile of the company can improve in the near term in the absence of any major debt-funded capex.

Weaknesses

• Working capital intensive nature of operations

KSRIPL's operations are working capital intensive in nature as reflected by its GCA Days 212 days as on March 31, 2020 (Provisional) which has increased from 191 days as on March 31, 2019. The GCA is mainly

dominated by debtor days of 86 days as on March 31, 2020 (Provisional) which has increased from 67 days as on March 31, 2019 due to increase in the backlog of projects, delays in repayment from the government. The company also has higher reliance on working capital limits which were utilized at an average of ~99 percent for the past 9 months ended May 2020.

Acuite believes that efficient working capital management will be crucial to the company in order to maintain a stable credit profile.

• **Modest scale of operations with a concentrated order book and customer profile**

KSRIPL has modest scale of operations with the revenue of Rs.79.77 crore in FY2020 (Provisional) as against Rs.81.18 crore in FY2019. This was mainly due to stagnancy in revenue and operating margins over the past few years, mainly on account of slower execution of orders. The company has an order book of Rs.746.16 crore but is concentrated with reliance on few orders for gross billing and a large-sized order of Rs.680.30 crore from Madhucon projects Ltd. of which Rs.637.89 crore is pending execution for the past few years. Acuite believes that clearing of a backlog of orders, improvement in geographic and customer profile diversification is key in achieving growth.

• **Exposure to intense competition**

The company experiences intense competition in the construction industry, which has several players with a considerable track record that restricts scalability and pricing flexibility.

Liquidity position: Stretched

Acuite believes that KSRIPL's liquidity is expected to be stretched in the near term marked by limited utilization of non-fund based limits, near 100 percent utilization of fund-based working capital limits, high retention money parked for the projects and cash flow mismatches that have led to increasing reliance on financial support from promoters and directors over the past few years. The net cash accruals are expected to be ~Rs.7.21 crore in FY2021 while maturing debt obligations are expected to be ~Rs.5.22 crore during the same period. This gives less financial flexibility to the company to invest in its operations. The current ratio stood at 2.00 times as on March 31, 2020 (Provisional).

Rating Sensitivities

- Timely completion of Projects.
- Improvement, sustainability and healthy growth of revenues & profitability margins.
- Deterioration in the working capital cycle leading to stress on the liquidity position.

Material Covenants

None

Outlook: Stable

Acuite believes that KSRIPL will maintain 'Stable' outlook over the medium owing to its established relations with its customers. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues via timely realization of receivables, and operating margins via efficient execution of the projects improving its financial risk profile. Conversely, the outlook may be revised to 'Negative', if the company's generates lower-than-anticipated cash accruals, as a result of delays in execution of projects, or sharp decline in operating margins, or further stretch in its working capital cycle, thereby impacting its financial risk profile, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	79.77	81.18
PAT	Rs. Cr.	2.22	1.78
PAT Margin	(%)	2.78	2.19
Total Debt/Tangible Net Worth	Times	0.76	0.80
PBDIT/Interest	Times	5.19	3.32

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

CRISIL vide its press release dated March 30, 2020 has classified the rating of KSR Infracon Private Limited to 'CRISIL BB/Stable/A4+ Issuer not cooperating (Withdrawn)' based on the best-available information. Also, CARE vide its press release dated August 16, 2019 has classified the rating of KSR Infracon Private Limited to 'CARE BB/Stable/A4 Issuer not cooperating' based on best-available information.

Any other information

None

Applicable Criteria

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

Not Applicable

*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	7.50	ACUITE BB+ / Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A4+
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A4+

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Aditya Sahu Analyst - Rating Operations Tel: 022-49294055 aditya.sahu@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,200 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.