Press Release

KSR Infracon Private Limited

October 21, 2021

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 55.00 Cr.
Long Term Rating	ACUITE BB+/Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

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

Rationale for Ratings Reaffirmation

The ratings continues to draw comfort from the established track record of the company and promoter's industry experience of about two decades and establish long-standing relationship with its stakeholders for repeated business and its moderate financial risk profile. Albeit, the ratings are constrained by its stagnant operating income (OI) at Rs. 70-81 Cr. over the past five years. Further the operations are constrained by intense competition and elongation in working capital cycle.

About the Company

Hyderabad based, KSR Infracon Private Limited (KSRIPL) was incorporated in 2004, by Mr. K. Venkateswara Rao. KSRIPL engaged in 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, Hot slag handling & recovery of scrap from slag, material handling contracts, equipment hiring for project implementation, mining, excavation, processing of monuments & memorials.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and established relationships with its key principals**

Mr. Koneru Venkateswara Rao (Managing Director), Mr. Koneru Tirumala Rao, Koneru Srinivas Rao are the directors of the company and actively involved in the day to day operations .All the directors are having an experience of over a decades in executing civil construction works. With promoter's extensive industry experience supported by experienced management and timely execution of projects helped the company to establish long-standing relationship with its stakeholders repeated business. As of July 30, 2021, KSRIPL has an unexecuted order book position of Rs. 625 Cr; the same is estimated to be executed over the next 36-48 months which provides adequate revenue visibility over the medium term. Going ahead, similar growth trajectory is likely to continue over the medium term too.
Acuité believes that the company will continue to benefit from promoter's experience in the industry and its established market presence will support KSRIPL's business profile over the medium term.

- **Moderate financial risk profile**

KIPL's financial risk profile is moderate marked by moderate net worth, healthy gearing (debt-to-equity), and moderate total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. KSRIPLL's net worth is moderate at Rs.30.52 Cr as on March 31, 2021 (Provisional) as compared to Rs.26.35 as on March 31, 2020. Gearing is moderate at 0.80 times as on March 31, 2021 (Provisional) as against 0.74 times as on March 31, 2020. TOL/TNW is moderate at 1.91 times as on March 31, 2020 vis-à-vis 1.01 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 2.59 times and 0.20 times in FY2021 (Provisional) vis-à-vis 3.46 times and 0.24 times in FY2020, respectively. Acuité believes that the financial risk profile of the firm is expected to similar levels over the medium term on account of no significant capex plans over the medium term.

Weaknesses

- **Stagnant revenues coupled with a concentrated order book**
The company's revenues have remained stagnant with revenues in the range of Rs. 70-81 Cr over the past five years mainly on account of slower execution of orders. The company has an unexecuted order book of Rs.625 Cr as on July, 2021 but is concentrated with reliance on few orders form Madhucon projects Ltd. is Rs.200 Cr and its group company K. Seshagiri Rao & Co is Rs.270 Cr pending execution for the past few years. During August 2021 company secured order from Indian Railways Rs.84 Cr. Acuité believes that clearing of a backlog of orders, improvement in geographic and customer profile diversification is key in achieving growth. 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. Acuité believes that, going forward, ability of the entity to improve its operating income with timely execution of orders on hand and secure new orders, customer diversification and maintain its profitability would be the key rating sensitivities.

- **Working capital-intensive operations**
KSRIPL's working capital cycle is high marked by moderate gross current assets (GCA) days in the range of 124-341 over the last 3 years ending March 31, 2021(Provisional). The GCA days are marked by elevated debtor days and moderate inventory days. The inventory days (5-20) and debtor days (67-293) respectively, over the past 3 years ended with March 31, 2021 (Provisional). These are partially offset by creditor days at 48-243 days over the past 3 years ended with March 31, 2021 (Provisional). High GCA cycle led to high utilization 100 percent of bank lines of Rs.7.50 Cr over the past 6 months ending July, 2021. Acuité believes that the operations of the KSRIPL's will remain high working capital intensive over the medium term.

Rating Sensitivities

- Sustained increase in order inflow, providing adequate revenue visibility for the medium term
- Significant improvement in scale of operations while maintaining profitability margins
- Further stretch in the working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile and liquidity.
- Timely execution of its order book

Material covenants

None

Liquidity Position: Adequate

Liquidity of KSRIPL is adequate marked by moderate cash accruals to its repayment obligations albeit and albeit constraint by working capital intensive nature of its operations. KSRIPL generated cash accruals of Rs.6.00 to 6.50 Cr during the last 3 years through 2019-21 (Provisional), while its maturing debt obligations were Rs.1.00 to 2.50 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.5-7 Cr during 2022-24 while their repayment obligations are estimated to be around Rs.2.00-2.50 Cr during the same period. Its working capital credit limits were utilised high at about 100 per cent during the last 6 months period ended July 2021. It has free cash and bank balance of Rs. 0.72 Cr as on March 31, 2021 and current ratio of 1.50 times as on March 31, 2021(Provisional). Acuité believes that the liquidity of the KSRIPL is likely to remain adequate over the medium term on account of adequate cash accruals against its repayment obligations

Outlook: Stable

Acuité believes that KSRIPL will continue to benefit over the medium term due to its experienced management, moderate revenue visibility. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues from the current levels while improving its profitability and capital structure. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in its revenues or significant volatility in its profitability or any significant stretch in its working capital management leading to deterioration in the financial risk profile or further stretch in its liquidity position or substantial increase in receivable collection period.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20(Actual)
Operating Income	Rs. Cr.	80.89	79.89
PAT	Rs. Cr.	2.70	2.23
PAT Margin	(%)	3.33	2.79
Total Debt/Tangible Net Worth	Times	0.80	0.74
PBDIT/Interest	Times	2.59	3.46

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

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
10-Aug-2020	Cash Credit	Long Term	7.50	ACUITE BB+/ Stable (Assigned)
	Bank Guarantee	Short Term	40.00	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Short Term	7.50	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
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE BB+/ Stable (Reaffirmed)
State Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A4+ (Reaffirmed)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Corporate Ratings Tel: 022-49294041 aditya.gupta@acuite.in Bhavani Sankar Oruganti Senior Analyst - Rating Operations Tel: 040-4004 2327 bhavanisankar.oruganti@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 8,850 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 Kanjurmarg, Mumbai.