

Press Release

GKR Infracon (India) Private Limited

September 02, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs. 80.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* 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.80.00 crore bank facilities of GKR Infracon (India) Private Limited (GKR). The outlook is '**Stable**'.

Hyderabad (Telangana) based, GKR was incorporated in 2012. The company promoted by Mr. Subba Reddy Lankireddy along with his sons Mr. Gopi Krishna Lankireddy and Mr. Srinivas Lankireddy is engaged in undertaking civil construction works majorly water grid projects related to laying of pipelines and other drinking water projects. In FY2020 company has diversified its business by venturing into coalfield excavation and overburden removals.

Analytical Approach

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

Key Rating Drivers

Strengths

• Professional management and established relationships with Telangana Government

GKR was incorporated in 2012 by Mr. Subba Reddy Lankireddy. Company's day to day operations is currently managed by promoter's sons Mr. Gopi Krishna Lankireddy and Mr. Srinivas Lankireddy who have more than a decade of experience in the civil construction industry. The directors are well supported by other professional teams. With the promoter's extensive industry experience and timely execution of projects, the company has been able to establish a long-standing relationship with various government as well as private clients. Revenue grew to Rs.122.17 crore in fiscal 2020 (provisional) as compared to Rs.65.32 crore in fiscal 2019 due to ramp-up in the coalfield excavation and overburden removals segment and steady execution in the civil business. As of March 31, 2020, GKR has an unexecuted order book position of Rs.764 crore and the same is estimated to be executed over the next 24-36 months providing adequate revenue visibility over the medium term.

Acuite believes that GKR will continue to benefit from the promoter's established presence in the industry; its improving business risk profile and strong counterparties will sustain and support the company over the medium term.

• Moderate financial profile

GKR's financial risk profile is moderate, marked by moderate net worth, gearing (debt-to-equity), and moderate debt protection metrics. GKR's has modest net worth at Rs. 28.89 crore as on March 31, 2020 (provisional) as against Rs.23.27 crore in FY2019 due to accretion of reserves. Moderate net worth and high debt resulted in high gearing (debt-to-equity) and total outside liabilities to tangible network (TOL/TNW) ratio of 2.11 times and 3.68 times respectively, as on March 31, 2020 (provisional) vis à vis 0.49 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 3.35 times and 0.20 times, respectively, in FY2020 (provisional) vis-à-vis 2.40 times and 0.38 times for FY2019. The leverage levels have deteriorated as on March 31, 2020 (provisional) due to the capex of Rs.63 crore over the last year for deployment of plant and machinery towards mining work for MCL tune of Rs.440 crore. The company, on the other hand, generated cash accruals Rs.12.17 crore in FY2020. The cash accruals of the company are estimated to remain around Rs.15-20 crore during 2021-23 while its repayment

obligation is estimated to be around Rs. 13-18 Crore during the same period.

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 capex plans.

Weaknesses

• Moderate scale of operations

Revenues of the company declined from Rs.122.17 crore in FY2018 to Rs.65.32 crore in FY2019 on account of slow work progress and delays in receivable from the government of Telangana Govt due to call early elections in Telangana. Though the revenues are declined, company is able to improve and sustain its operating margin within the range of 9.93 to 16.61 percent over the past three years through FY2020 (provisional). Further, the civil-construction industry is intensely competitive on account of fragmented nature with the presence of a large number of players. Also, the tender nature of business constrains the business risk profile. Acuite believes that the ability of the company to maintain the scale of operations along with profitability would be the key rating sensitivity factor over the medium term.

• Moderate working capital operations

The company operations are working capital intensive, reflected in estimated gross current assets of 166- 314 days during last three years ended through FY2020 (provisional), on account of receivables and sizeable security deposit, retention money, and margin money deposits. Its debtor days are 98-221 days during the last three years ended through FY2020 (provisional) and inventory levels of 36-82 days through FY2020 (provisional). Its working capital limits are utilised at 97 percent over the past 6 months ended June 2020.

Acuite believes that the operations of the GKR to remain working capital intensive over the medium term.

Liquidity Position: Adequate

The company has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The company has generated cash accruals Rs.12.17 crore in FY2020 (provisional). The cash accruals of the company are estimated to remain around Rs.15-20 crore during 2021-23 while its repayment obligation is estimated to be around Rs. 13-18 Crore during the same period. The average fund-based working capital utilisation stood at 97 percent for the past 6 months ended June 2020. The company maintained unencumbered cash and bank balances of Rs.0.30 crore as on 31 March 2020 (provisional). The current ratio stands at 1.26 times as on 31 March 2020 (provisional). Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accruals against its repayment obligations over the medium term.

Rating Sensitivities

- Timely execution of the orders and improving its order book
- Significant stretch in the working capital cycle
- Strengthening of the capital structure
- Steps taken towards geographical and sectoral diversification

Material covenants

None

Outlook: Stable

Acuite believes that GKR 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 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 a substantial increase in receivable collection period or in case of higher-than-expected leverage indicators.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	122.17	65.32
PAT	Rs. Cr.	5.62	2.63
PAT Margin	(%)	4.60	4.03
Total Debt/Tangible Net Worth	Times	2.11	0.49
PBDIT/Interest	Times	3.35	2.40

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>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-50.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. Cr.)	Ratings/Outlook
Overdraft	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB+/Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BB+/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A4+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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