

Press Release

K. Seshagiri Rao & Co

October 08, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.20.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.20.00 crore bank facilities of K. Seshagiri Rao & Co. (KSRC). The outlook is '**Stable**'.

K. Seshagiri Rao & Co. (KSRC) was established by late Mr. Koneru Seshagiri Rao in 1965. It undertakes projects in areas such as Excavations, Hot Slag handling, Scrap, Skull recovery in steel industry, Hiring of heavy machinery and in the erection and commissioning of heavy machinery and other infrastructure equipment.

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

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

Key Rating Drivers

Strengths

- **Experienced management and reputed clientele**

KSRC was established by late Mr. Koneru Seshagiri Rao in 1965 who had more than 5 decades of experience in slag and material handling. Currently, his son Mr. K. Venkateswara Rao is handling the business, who has more than 2 decades of experience in the industry. The firm is engaged in Excavations, Hot Slag handling, Scrap, Skull recovery in the steel industry, Hiring of heavy machinery and in the erection and commissioning of heavy machinery and other infrastructure equipment. It has executed projects for several reputed organizations like NTPC, ONGC, Singareni Collieries, Larsen & Toubro, Reliance Infra, Reliance Utility Engineers Private Limited, Jindal Steel Works Limited (JSWL), Jindal Steel and Power Limited (JSPL), Tata Projects Limited, Rastriya Ispat Nigam Ltd, Ferro Scrap Nigam Limited, Rosa Power Supply, to name a few. Repeated Orders over the years has helped KSRC in establishing a strong relationship with the key customers.

Acuité believes that the company will continue to benefit from promoter's experience in the industry and relations with reputed clients over the medium term.

- **Moderate financial risk profile**

KSRC has a moderate financial risk profile marked by modest net worth and comfortable debt protection metrics and gearing.

The net worth stood modest Rs.26.16 crore as on March 31, 2020 (Provisional) as against Rs.17.98 crore as on March 31, 2019 driven by improvement in earnings. The total debt stood at Rs.31.09 crore as on March 31, 2020 (Provisional) as against Rs.34.97 crore as on March 31, 2019 which includes Rs.23.00 crore of long term loans and Rs.8.10 crore working capital loans.

The firm has a comfortable gearing of 1.19 times as on March 31, 2020 (Provisional) against 1.94 times as on March 31, 2019. Its Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR) stood at 5.03 times in FY2020 (Provisional) and 3.90 times in FY2019 respectively. The net cash accruals to total debt

(NCA/TD) stood at 0.46 times as on March 31, 2020 as against 0.32 times as on March 31, 2020.

The improvement in coverage ratios can be attributed to improvement in operating earnings during the period.

The total outside liabilities to total net worth (TOL/TNW) stood at 1.65 times as on March 31, 2020 (Provisional) against 3.17 times as on March 31, 2019.

Acuité expects the financial risk profile of the company to remain moderate over the medium term on account of steady accretion of reserves.

Weaknesses

- **Asset heavy model of operations**

KSRC has an asset heavy business model which requires the firm to make continuous investments in its plants and machinery for upkeep and upgradation. At the same time the company has to pay retention money and earnest money deposits for the projects that constrain the firm's financial flexibility.

- **Modest scale of operations with intensive working capital requirements**

KSRC has modest scale of operations while being in this business for more than 5 decades with revenue of Rs.116.54 crore in FY2020 (Provisional). Moreover, the firm has intensive working capital requirements marked by near 100 percent utilization of multiple fund based working capital limits driven by high receivables and retention money withheld by the customers. The GCA days stood at 89 days as on March 31, 2020 as against 125 days as on March 31, 2019. The improvement in GCA Days can be attributed to improvement in Debtor days to 49 days as on March 31, 2020 as against 90 days as on March 31, 2020. The current ratio stood at 1.16 times as on March 31, 2020.

Acuité expects the scale of operations to increase while the working capital requirement to be at similar levels in the medium term.

Liquidity position: Adequate

KSRC has an adequate liquidity position, marked by adequate net cash accruals as compared to its maturing debt obligations. The firm generated net cash accruals (NCA) of Rs.14.46 crore in FY2020 (Provisional) while its maturing debt obligation as on March 31, 2020 stood at Rs.11.94 crore. The NCA is expected to be in the range of Rs.15.00 to Rs.20.00 crore during FY2021-23 period while its maturing debt obligations are expected to further reduce from current levels. The firm had cash and bank balance of Rs.0.68 crore as on March 31, 2020 (Provisional). However, the firm's financial flexibility can be constrained due to retention money held by customers which have resulted in near 100 percent utilization of working capital limits during the 11 month period ended July, 2020.

Acuité believes that liquidity position to remain adequate over the medium term on account of improvement in net cash accruals.

Rating Sensitivities

- Improvement, sustainability and healthy growth of revenues and profitability margins.
- Deterioration in the working capital cycle leading to stress on the liquidity position.
- Significant increase in repayment obligation and interest costs.

Material Covenants

None

Outlook: Stable

Acuité believes that KSRC will maintain a stable outlook in the medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' if the company registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or if the financial risk profile deteriorates due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	116.54	88.71
PAT	Rs. Cr.	6.47	4.11
PAT Margin	(%)	5.55	4.63
Total Debt/Tangible Net Worth	Times	1.19	1.94
PBDIT/Interest	Times	5.03	3.90

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

CRISIL vide its press release dated August 31, 2020 has classified the rating of K. Seshariri Rao & Co. to 'CRISIL BB+/Stable/A4+ Issuer not cooperating (Withdrawn)' based on the best-available information.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service 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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	10.00%	Not Applicable	10.00	ACUITE BBB- / Stable (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB- / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A3 (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate Ratings 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 8,400 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.