



Press Release
K SESHAGIRI RAO AND CO.
February 18, 2022
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	100.00	ACUITE BBB- Negative Assigned	-
Bank Loan Ratings	16.00	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Bank Loan Ratings	4.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	120.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.20 Cr on the bank facilities of K SESHAGIRI RAO AND CO (KSRC). The outlook revised to **Negative from Stable**'.

Acuite has also assigned its long-term rating of **ACUITE BBB-**' (read as **ACUITE 'triple B Minus**) on the Rs. 100.00 Cr bank facilities of K SESHAGIRI RAO AND CO (KSRC). The outlook is '**Negative**'.

The outlook is Negative in view of diversifying into real estate business followed by a recently launched residential real estate project, which is currently at nascent stage of development and exposed to high execution risk and funding risk. Further, w.r.t. the civil construction business, the liquidity is stretched marked by high fund based limit utilization which stood at an average of ~99 percent over the past six months ended with December 2021.

The ratings reaffirmed factors in its established presence in Hot Slag Handling & Scrap Recovery segment, over four decades experience of the promoters and establish strong relationships with its customers as well as suppliers led to consistent improvement of its revenue and profitability. The rating is, albeit, constrained by its working capital-intensive nature of operations, revenue & customer concentration risks.

About the Firm

K. Seshagiri Rao & Co. (KSRC) was established by late Mr. Koneru Seshagiri Rao in 1965. KSRC is engaged in excavations, slag handling, scrap, skull recovery in steel industries, hiring of heavy machinery and in the erection and commissioning of heavy machinery and other Infrastructure equipment. In January 2021, the firm has proposed a residential real estate project 'KSR Greens' at Madeenaguda, Hyderabad, Telangana. The Project comprising of total land area of ~ 12,748 sq. meters which has a total build up area of ~ 1,07,602 sq. meters. The proposed project consists of 476 Nos. of 3BHK apartments spread in two towers Blocks "A" & "B" and a club house and each tower is a stilt plus 30 floors. KSR Greens total project cost of Rs. 315.07 Cr and expected to be funded by promoter's contribution of about Rs.68.23

Cr (~22 percent of project cost), bank funding of about Rs.100 Cr (~32 percent of project cost) and customer advances of about Rs. 146.84 Cr (~ 47 percent).

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. It has an established relationship with reputed organizations like Jindal Steel Works Limited (JSWL), Jindal Steel and Power Limited (JSPL), Tata Projects Limited, Rastriya Ispat Nigam Ltd among others. Repeated Orders over the years has helped KSRC in establishing a strong relationship with the key customers. Acuité believes that the KSRC derives significant benefit from its promoter experience and established strong relationships with its customers as well as suppliers for repeated business.

Favourable project location

The project is located at Madeenaguda is a neighbourhood of Hyderabad, Telangana, just off NH65 Highway, which provides good connectivity to the main city. The project location has adequate social infrastructure and basic amenities in and around its surroundings, thereby enhancing the project's marketability. Above average financial risk profile KSRC's financial risk profile is above average marked by its moderate capital structure and comfortable debt protection metrics. KSRC's net worth is at Rs. 98.55 Cr as on March 31, 2021 as compared to Rs. 20.99 Cr as on March 31, 2020. Gearing is at 0.34 times as on March 31, 2021 as against 1.66 times as on March 31, 2020. Total outside liabilities to total net worth (TOL/TNW) is at 0.64 times as on March 31, 2021 vis-à-vis 2.65 times as on March 31, 2020. Its debt protection metrics are comfortable marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 5.51 times and 0.49 times in FY2021 vis-à-vis 4.54 times and 0.39 times in FY2020, respectively. Acuité believes the company will be able to maintain its financial risk profile in the absence of any major debt-funded capex plan over the medium term.

Weaknesses

Exposure to saleability and funding and project-related risk

The Firm has started a residential project in January 2021 with a total project cost of Rs.315.07 Cr for the total built up area of ~ 1,07,602 sq. meters. The project is expected to be funded by promoter's contribution of about Rs.68.23 Cr (~22 percent of project cost), bank funding of about Rs.100 Cr (~32 percent of project cost) and customer advances of about Rs.146.84 Cr (~ 47 percent). Since construction of the project is in the nascent stage and financial closure is yet to be achieved, the firm is exposed to high project execution and funding risk. Although the project has received all the major approvals and the firm is yet to tie up debt, it remains susceptible to time and cost overruns. Any delay in project construction, leading to delay in the operations and sale of the project, can impact cash flows. Hence, timely completion and selling will continue to be key rating sensitivity factors.

Working capital intensive nature of operations

KSRC's operations are high working capital intensive marked by fully utilized bank limits at an average of 99 percent over the last 6 months ending December 2021. KSRC's gross current assets (GCA) days in the range of 125-293 days over the last 3 years ending March 31, 2021. The GCA underpins majorly debtor days of 90-130 days over the last 3 years ending March 31, 2021. The creditors are low at 620-1213 days over the last 3 years ending March 31, 2021 supported for its working capital requirements. Acuité believes that the company's operations are expected to remain high working capital intensive, over the medium term and

going forward, the company's ability to alleviate its working capital intensity will be a key rating sensitivity.

ESG Factors Relevant for Rating

Not Applicable

Rating Sensitivities

- Consistent improvement in the scale of operations and improvement in profitability
- Better-than-expected sales performance or faster-than-anticipated construction progress, resulting in healthy cash flows
- Significant delay in project execution or any significant cost over-runs in on-going projects
- Sharp decline in cash flow due to slower customer advances or delays in project execution
- Significant fund withdrawals and deterioration in the working capital cycle leading to stress on the liquidity position

Material covenants

None

Liquidity Position: Stretched

KSRC has an stretched liquidity position, marked by fully utilized bank lines, though it has adequate net cash accruals as compared to its maturing debt obligations. The firm generated net cash accruals (NCA) of Rs.11-16 Cr over the past 3 years ended with FY2021 while its maturing debt obligation were at Rs.8-10 Cr during the same period. The NCA is expected to be in the range of Rs.13 to 16.00 Cr during FY2022-24 period while its maturing debt obligations are expected to be Rs.8-10 Cr over the same period. The firm had cash and bank balance of Rs.1.48 Cr as on March 31, 2021. However, the firm's financial flexibility can be constrained due to retention money held by customers which have resulted in near 99 percent utilization of working capital limits during the 6 month period ended December 2021. Liquidity to remain stretched amid project implementation. The firm will be in initial phase of construction. Timely disbursement of funds from the bank will be essential for timely completion of the project. Also promoters funding support throughout the project implementation in case of any exigency will also be key to the completion of project. Acuite believes that since financial closure is yet to be achieved, liquidity is under pressure.

Outlook: Negative

Acuite believes that KSRC's financial risk profile is likely to remain under pressure on account of deterioration in its working capital cycle and expected increasing in the significant debt levels, since construction of the project is in the nascent stage and financial closure is yet to be achieved, the firm is exposed to high project execution and funding risk. Conversely, the outlook may be revised to 'stable' in case registers higher-than-expected growth in revenues and profitability or Betterthan- expected sales performance or faster-than-anticipated construction progress, resulting in healthy cash flows.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	120.06	97.15
PAT	Rs. Cr.	10.09	6.02
PAT Margin	(%)	8.40	6.20
Total Debt/Tangible Net Worth	Times	0.34	1.66
PBDIT/Interest	Times	5.51	4.54

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Real Estate Entities: <https://www.acuite.in/view-rating-criteria-63.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
08 Oct 2020	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Long Term	8.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	2.00	ACUITE A3 (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A3 Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB- Negative Reaffirmed
HDFC Bank Ltd	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- Negative Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB- Negative Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Loan	Not Applicable	Not Applicable	Not Applicable	100.00	ACUITE BBB- Negative Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Bhavani sankar Oruganti Senior Analyst-Rating Operations Tel: 022-49294065 bhavanisankar.oruganti@acuite.in	Varsha Bist Senior Manager-Rating Operations 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.

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