



Press Release
K. Seshagiri Rao & Co
September 20, 2024
Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	116.00	ACUITE BBB- Stable Upgraded	-
Bank Loan Ratings	4.00	-	ACUITE A3 Upgraded
Total Outstanding Quantum (Rs. Cr)	120.00	-	-

Rating Rationale

Acuite has upgraded its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from **ACUITE BB+** (read as **ACUITE double B plus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A4+**' (read as **ACUITE A four Plus**) on the Rs.120 Cr. on the bank facilities of K Seshagiri Rao and Co. (KSRC). The outlook is '**Stable**'.

Rationale for rating:

The rating upgrade factors in the stable operating performance of KSRC in slag handling business, moderate sales growth in the residential real estate segment and above average financial risk profile. The firm registered revenue of Rs.213.10 Cr. in FY2024 (Prov.) posting a growth rate of 4.67 percent against the previous year's revenue. The slag handling business revenue was primary revenue driver, with a Y-o-Y growth rate of ~5 percent, while real estate segment shown moderate sales traction during the year. The operating profit margins remained stable and the financial risk profile was above average despite the debt infusion towards the construction of residential project. Going forward, stable improvement in the slag handling operations and timely completion of the residential project will be a key rating monitorable.

About the Company

K Seshagiri Rao and 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).

Unsupported Rating

Not applicable

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 a 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.

Stable growth in revenue from slag handling segment:

The firm registered a revenue of Rs.213.10 Cr. in FY2024 (Prov.) with a growth rate of 4.67 percent against FY2023 revenue of Rs.203.58 Cr. Slag handling segment majorly contributes to the revenue with Rs.148.21 Cr. in FY2024 (Prov.) compared to Rs.141.30 Cr. in FY2023, while real estate sales stood at Rs.64.7 Cr. in FY2024 (Prov.) compared to Rs.62 Cr. in FY2023. The operating profits margin improved to 22.84 percent in FY2024 (Prov.) from 21.74 percent in FY2023 while PAT margin remained in the range of 14.5-14.0 for both years. Further the firm registered revenue of Rs.39.93 Cr. in slag handling segment during the first four months of FY2025 which is marginally higher, compared to Rs.34.51 Cr. registered during the same period previous year. Acuite expects, the revenue from slag handling segment is expected to improve over the medium term on account new orders which are to be completed within next 6-12 months.

Above average financial risk profile:

The firm's financial risk profile is above average, marked by healthy net worth, low gearing and above average debt protection metrics. The firm's net worth stood at Rs.159.97 Cr. as on March 31, 2024 (Prov.) against Rs.150.01 Cr. as on March 31, 2023. The improvement in net worth is due to accretion of profits to reserves during the period. However, the promoters have withdrawn Rs.20 Cr. during the year. Despite the increase in long-term debt, the leverage indicators stood healthy with gearing and total outside liabilities to tangible net worth (TOL/TNW) levels at 0.82 times 1.09 times as of March 31, 2024 (Prov.) respectively compared to 0.66 times and 0.87 times as on March 31, 2023 respectively. The total debt stood at Rs.131.95Cr as on March 31, 2024 (Prov.) against Rs.99.06Cr as on March 31, 2023. The debt protection metrics stood above average with DSCR and ICR of 1.76 times and 4.55 times respectively as on March 31, 2024 (Prov.). Debt to EBITDA stood at 2.71 times as on March 31, 2024 (Prov.) against 2.24 times as on March 31, 2023. Acuite believes that the financial risk profile of the firm will improve over the medium term due to its conservative leverage policy and increasing scale of operations.

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.

Weaknesses

Moderate project progress and with exposure to saleability and project execution risk:

The Firm has started at residential project in January 2021 with a total project cost of Rs.314.28 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.59.93 Cr. (~19 percent of project cost), bank funding of about Rs.100 Cr. (~31.43 percent of project cost) and customer advances of about Rs.146.84 Cr. (~ 46.72 percent).The lenders has sanctioned loan of Rs.100 Cr. during October , 2022 and Rs.67 Cr. has been utilized till March 31, 2024 while promoters have already infused their complete share. The firm has received Rs.73.33 Cr. from the customers as advances from the sales of Rs.100Cr made till June 30, 2024. Going forward the construction of the project is majorly funded through customer advances and balance through debt, which exposes the project to moderate funding and execution risk. Acuite believes that 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 key rating sensitivity factors.

Moderate intensive nature of operations:

The firm's working capital operations are moderate despite the high gross current asset (GCA) days of 481 days in FY2024 (Prov.) against 418 days in FY2023. The high GCA days are due to increasing inventory as work-in-progress from real estate segment. The inventory in slag handling business includes spares and fuel stock. However, elongated receivables period at 114 days in FY2024 (Prov.) lead to moderate dependency on the fund based working capital limits, which were utilized at an average of 82.5 percent during the past 7 months ending August, 2024. Acuite believes that the working capital cycle of the firm will remain moderately over the medium term as the nature of the business requires to maintain adequate stock levels for continuous operations.

Rating Sensitivities

Positive:

- 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.

Negative:

- Any significant delay in project completion 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.

Liquidity position: Adequate

The firm's liquidity position is adequate as reflected through sufficient net cash accruals against the repayment obligations. The firm registered NCA's of Rs.37.98 Cr. as on March 31, 2024 (Prov.), comfortably covering the debt obligation of Rs.5.50 Cr. for the same period. NCA's are expected to range between Rs.45-50 Cr. over the medium term which would comfortably meet the expected repayment range of Rs.6.00-50 Cr. The firm's current ratio stood at 4.64 times as on March 31, 2024 (Prov.) and the GCA days remained high at 481 days in FY2024 (Prov.). The fund based bank limits were utilized at an average of 82.5 percent during the past 7 months ending August, 2024. Additionally, the firm also has Rs.6.69 Cr. free balances with bank, providing additional liquidity comfort. Acuite believes that the liquidity position of the firm will remain adequate over the medium term on account of sufficient cash accruals against repayment obligations.

Outlook: Stable

Acuite believes that KSRC will continue to benefit over the medium to long term on account

of long track record of operations, experienced management in the industry and moderate financial risk profile. The outlook may be revised to 'Positive', in case of sustainable improvement in scale of operations, profitability in slag handling business and more than expected sales in the real estate segment. Conversely, the outlook may be revised to 'Negative' in case decline in topline or any significant stretch in its working capital management or in case of low sales traction leading to delay in construction and deterioration of its financial risk profile and liquidity position.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	213.10	203.58
PAT	Rs. Cr.	30.87	29.09
PAT Margin	(%)	14.49	14.29
Total Debt/Tangible Net Worth	Times	0.82	0.66
PBDIT/Interest	Times	4.55	5.08

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
28 Jun 2024	Cash Credit	Long Term	14.00	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB- Stable)
	Dropline Overdraft	Long Term	2.00	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB- Stable)
	Term Loan	Long Term	100.00	ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB- Stable)
	Bank Guarantee (BLR)	Short Term	4.00	ACUITE A4+ (Downgraded & Issuer not co-operating* from ACUITE A3)
04 Apr 2023	Bank Guarantee (BLR)	Short Term	4.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	14.00	ACUITE BBB- Stable (Reaffirmed)
	Dropline Overdraft	Long Term	2.00	ACUITE BBB- Stable (Reaffirmed)
	Term Loan	Long Term	100.00	ACUITE BBB- Stable (Reaffirmed)
18 Feb 2022	Bank Guarantee (BLR)	Short Term	4.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	13.00	ACUITE BBB- Negative (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	1.00	ACUITE BBB- Negative (Reaffirmed)
	Dropline Overdraft	Long Term	2.00	ACUITE BBB- Negative (Reaffirmed)
	Proposed Long Term Loan	Long Term	100.00	ACUITE BBB- Negative (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.00	ACUITE A3 Upgraded (from ACUITE A4+)
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	14.00	ACUITE BBB- Stable Upgraded (from ACUITE BB+)
HDFC Bank Ltd	Not avl. / Not appl.	Dropline Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.00	ACUITE BBB- Stable Upgraded (from ACUITE BB+)
State Bank of India	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	31 Dec 2031	Simple	100.00	ACUITE BBB- Stable Upgraded (from ACUITE BB+)

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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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