



Press Release

U Rajesh Karanth

December 20, 2023

Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities- Term Loan	2.34	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Reaffirmed	Simple
Long Term Bank Facilities- OCC/OBDB	4.00	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities- Bank Guarantee	35.00	IVR A4+ (IVR A Four Plus)	Reaffirmed	Simple
Proposed Long Term Bank Facilities- Proposed Term Loan	3.66	IVR BB+/Stable (IVR Double B Plus with Stable Outlook)	Reaffirmed	Simple
Total	45.00	Rupees Forty- Five Crore only.		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation in the rating assigned to the bank facilities of U Rajesh Karanth is on account of Experienced proprietor, healthy order book, moderate capital structure and debt protection metrics and improved scale of operations and profitability.

The ratings, however, are constrained by geographical concentration risk with stiff competition and tender based contract awarding system, susceptibility of operating margin to volatile input price and inherent risk of proprietor concern.



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Key Rating Sensitivities:

Upward Factors

- Significant growth in scale of business with further improvement in profitability metrics thereby leading to overall improvement in cash accruals and liquidity.
- Improvement in the capital structure with further improvement in debt protection metrics.

Downward Factors

- Dip in operating income and/or profitability thereby impacting the debt coverage indicators and/or any deterioration in the financial risk profile.
- Any further significant rise in working capital intensity leading to a further deterioration in the liquidity position.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced Proprietor**

The firm is being managed by experienced and professional promoter who has rich experience in the industry and is instrumental in setting up and developing the firm. The proprietor also has educational qualification in Civil Engineering and more than seventeen years of experience in the field of civil construction. This has given them an understanding of the dynamics of the market and enabled them to establish relationships.

- **Healthy Order Book**

Total unexecuted order book as on 20-10-2023 is Rs. 394.63 Cr. i.e., 1.37 times of the turnover of FY2023. They are expected to complete these orders by June 2024. The present order book is skewed towards the construction of roads and bridges under government contracts.

- **Moderate capital structure and Debt Protection Metrics**



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The Overall Gearing ratio improved from 1.09 times as on March 31, 2022, to 0.33 times as on March 31, 2023. TOL/TNW (including quasi equity) improved from 2.73 times as on March 31, 2022 to 1.97 times as on March 31, 2023.

The debt protection indicators increased marked by Interest Coverage Ratio of 12.21 times in FY23(FY 22: 7.80 times). DSCR moderated, it stood at 1.86 times in FY 23, as against 2.19 times in FY22.

Total Debt to GCA improved and stood at 1.43 years in FY23 against 5.07 years in FY22, and Tangible Net Worth (including quasi equity) also increased from Rs. 27.46 Cr. As on 31st March 2022 to Rs. 54.00 Cr. as on 31st March 2023.

- **Improved scale of operations and profitability**

TOI of U Rajesh Karanth increased from Rs. 172.52 Crore in FY22 to Rs. 286.09 Crore in FY23. The firm witnessed an increase in its operating income due to the higher flow of orders and greater execution of the same.

The profitability margins of the firm, like EBITDA margin increased from 5.35% in FY22 to 7.04% in FY23 due to higher margins earned on executed projects. PAT Margin also increased from 2.26% in FY22 to 3.27% in FY23.

Key Rating Weaknesses

- **Geographical concentration risk with Stiff Competition and tender based contract awarding system**

The company pre-dominantly operates in the state of Karnataka and is a Class I Govt. Contractor with Public Works Department and various departments of Government of Karnataka indicating geographical concentration risk where it competes with other contractors while bidding and securing orders for construction works. The presence of a tender based contract awarding system along with intense competition also restricts pricing flexibility of all players in the industry.

- **Susceptibility of operating margin to volatile input price**



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Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour cost are volatile in nature, the profitability of the firm is subject to fluctuations in raw material prices & labour cost. However, presence of escalation clause in most of the contracts protects the margin to an extent.

- **Inherent Risk of Proprietor Concern**

Being a proprietorship concern, the firm is exposed to inherent risk of the promoter's capital being withdrawn at any time and firm being dissolved upon the demise/retirement/insolvency of the proprietor.

Analytical Approach: Standalone

Applicable Criteria:

[Rating Methodology for Infrastructure Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

[Criteria of assigning rating outlook](#)

Liquidity – Adequate

Comments on liquidity: The liquidity position of the firm is expected to remain adequate on the expectation of sufficient cushion in cash accruals vis-à-vis debt repayment obligations in the next 3 years. The monthly average utilisation of fund-based limits by U Rajesh Karanth stood at 33.52% during 12 months period ended October 2023. Unencumbered cash and bank balance is Rs. 27.66 Crore as on 31.10.2023. U Rajesh Karanth's operating cycle was of -32 days in FY22 and was of -49 days in FY23. The current ratio moderated and stood at 1.23x as on March 31, 2023 as against 1.34 as on March 31, 2022. The Quick ratio also moderated and stood at 1.22x as on March 31, 2023, as against 1.31x as on March 31, 2022.



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About the Firm

U Rajesh Karanth was established as a proprietorship firm in 2005 with Mr. U Rajesh Karanth as the proprietor in Kundapura, Karnataka. The firm is a Class I PWD contractor engaged in government infrastructure projects which includes construction of roads, dams, and bridges for various departments of the Government of Karnataka.

Financials (Standalone):

For the year ended/As on*	31-03-2022	31-03-2023
	Audited	Audited
Total Operating Income	172.52	286.09
EBITDA	9.24	20.14
PAT	3.93	9.41
Total Debt	29.81	17.57
Tangible Net Worth (including quasi equity)	27.46	54.00
Ratios		
EBITDA Margin (%)	5.35	7.04
PAT Margin (%)	2.26	3.27
Overall Gearing Ratio (x)	1.09	0.33

*Classification as per infomerics' standards

Status of non-cooperation with previous CRA: Acuite has classified ratings of the Firm under Issuer Not Cooperating category as per PR dated May 17, 2023 due to unavailability of Information.

Any other information: Not Applicable



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Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (October 03, 2022)	Date(s) & Rating(s) assigned in 2022-23 (April 11, 2022)	Date(s) & Rating(s) assigned in 2021- 2022 (Feb 16, 2021)
1.	Long Term Bank Facilities	Long Term	6.34	IVR BB+/ Stable	IVR BB+/ Stable	IVR B+; INC	IVR BB-/ Stable
2.	Short Term Bank Facilities	Short Term	35.00	IVR A4+	IVR A4+	IVR A4; INC	IVR A4
3.	Proposed Long Term Bank Facilities	Long Term	3.66	IVR BB+/ Stable	IVR BB+/ Stable	-	-
5.	Proposed Short Term Bank Facilities	Short Term	-	-	IVR A4+	-	-

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facility- Term Loan	-	-	2027	2.34	IVR BB+/ Stable
Long Term Bank Facility- OCC/ ODBD	-	-	-	4.00	IVR BB+/ Stable
Short Term Bank Facility- Bank Guarantee	-	-	-	35.00	IVR A4+
Proposed Long Term Bank Facility- Proposed Term Loan	-	-	-	3.66	IVR BB+/ Stable

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/lender-RajeshKaranth-dec23.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.