R. Krishnamurthy & Co.

December 31, 2024

Ratings

Sl. No.	Instrument/ Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
1.	Long Term Bank Facilities	5.00	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)	Reaffirmed	Simple
2.	Short Term Bank Facilities	18.00	IVR A4 (IVR A Four)	IVR A4 (IVR A Four)	Reaffirmed	Simple
	Total	**23.00**	**Rupees Twenty Three Crore Only**			

Details of Facilities are in Annexure 1

Facility wise lender details are at Annexure 2

Detailed explanation of covenants is at Annexure 3

Detailed Rationale

Infomerics Valuation and Rating Private Limited (IVR) has reaffirmed the long term rating and short term rating of IVR BB- with Stable outlook and IVR A4 respectively for the bank loan facilities of R. Krishnamurthy & Co. (RKC).

The rating continues to draw comfort from its experienced partners and long track record of operations, moderate order book with medium term revenue visibility, comfortable capital tructure. However, these rating strengths are partially offset by moderate scale of operations and thin profitability margins, weak debt protection metrics, competitive tender-driven operations in a construction sector, risks associated with EPC operations and sensitivity to volatile input costs, risks associated with the constitution.

The 'Stable' outlook reflects strength from its experienced management and established long track record. Further, the firm's has moderate order book position reflecting satisfactory medium-term revenue visibility.

IVR has principally relied on the audited financial results of RKC's up to 31 March 2024, (refers to period from 1st April 2023 to 31st March 2024) and projected financials for FY25, FY26 and FY27, and publicly available information/ clarifications provided by the firm's management.

Upward factors

- Substantial growth in operating income above Rs.55.00 crore and improvement in profitability.
- Sustenance of the capital structure.
- Timely execution of existing order book along with diversification in regional presence.

Downward factors

- Moderation in scale of operations and/or profitability impacting the liquidity profile on a sustained basis.
- Moderation in the debt protection metrics.
- Increase in working capital intensity.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced partners and long track record of operations:**
  R. Krishnamurthy & Co (RKC), established in 1991 by Mr. R. Krishnamurthy in Chennai, Tamil Nadu, began as a proprietorship firm and was later converted into a partnership firm the same year. With over three decades of presence in the civil construction segment, the partners bring extensive experience that has consistently ensured a steady flow of orders year after year. The firm has a proven track record of executing multiple projects across Tamil Nadu, Pondicherry, Karnataka, and Delhi, catering primarily to reputed clients, including various government departments and organizations. This focus on government clientele significantly reduces counterparty risk, reinforcing RKC's reliability and credibility in the industry.

- **Moderate order book with medium term revenue visibility:**
  The firm holds an outstanding order book of Rs.142.13 crore, providing moderate revenue visibility for the medium term. However, the full utilization of its Bank Guarantee (BG) facilities limits its ability to bid for new projects, leaving minimal cushion for expansion. The addition of new projects and ensuring adequate BG availability will remain critical factors to monitor moving forward.

- **Comfortable Capital Structure:**
  The firm's capital structure has remained comfortable, supported by moderate capital levels. As of March 31, 2024, the TOL/TNW stood at 0.97x, and the overall gearing ratio was 0.39x, compared to 0.26x and 0.98x, respectively, as of March 31, 2023. With no plans for raising additional debt, the capital structure is expected to remain stable and comfortable in the near term.

Key Rating Weaknesses

- **Moderate scale of operations and thin profitability margins:**
The scale of operations of the firm has improved by 60.30% from Rs. 24.29 crore in FY2023 to Rs. 38.94 crore in FY2024, on account of timely execution of orders. With an improvement in TOI, the EBIDTA and PAT margin significantly declined and relatively thin from 9.75% and 0.98% respectively in FY2023 to 6.35% and 0.30% respectively in FY2024, on account of tax and stock adjustments.

- **Weak debt protection metrics:**
The firm's debt protection metrics were below average in FY2024. The interest service coverage ratio (ISCR) remained constant at 1.29x in FY2024, compared to 1.24x in FY2023. However, the debt service coverage ratio (DSCR) declined to 0.75x in FY2024 from 1.47x in FY2023. This decrease is due to the firm taking on a term loan of Rs. 0.35 crore, which includes Rs. 0.05 crore repayment of long-term debt. Despite this, the firm is confident that, if a liquidity issue arises in the next financial year, it will be able to infuse capital from its partners.

- **Competitive tender-driven operations in the construction sector:**
The domestic construction industry is characterized by intense competition, with numerous players of varying sizes and capabilities vying for market share. The firm primarily secures work orders from government departments through a competitive tendering process, which exposes it to a price-sensitive environment and fierce bidding. This competitive landscape may exert pressure on the firm's profit margins. Further, the promoter's extensive industry experience provides some degree of stability and strategic advantage in navigating these challenges.

- **Risks associated with EPC operations and sensitivity to volatile input costs:**
The firm faces inherent risks associated with its role as an EPC contractor, including economic vulnerabilities, regulatory uncertainties in developing markets, delayed payments from government clients, and project execution challenges. Key raw materials such as steel, cement, and sand, typically procured from local suppliers, along with labour and subcontracting expenses, constitute a significant portion of the firm's total cost of sales. Given the volatile nature of raw material prices and labour costs, the firm's operating margins remain susceptible to fluctuations. While the inclusion of price variation clauses in eligible projects provides some cushion against cost volatility, the overall profitability remains exposed to market dynamics and operational challenges.

- **Risks associated with the constitution:**
  M/s R. Krishnamurthy & co., being a partnership firm is prone to risk of capital withdrawal and any significant withdrawal of capital by the partners may weaken its net worth base and impact the capital structure.

Analytical Approach: For arriving at the ratings, IVR has analysed RKC's credit profile by considering the standalone financial statements of the company.

Applicable Criteria:

Rating Methodology for Infrastructure Companies.
Financial Ratios & Interpretation (Non-Financial Sector).
Criteria for assigning Rating outlook.
Policy on Default Recognition
Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The firm's liquidity position is adequate marked by improved gross cash accruals as against its repayment obligation during the projected years. The firm is expecting the gross cash accruals from Rs.0.97 crore to Rs.2.00 crore as against the repayment obligation of Rs.0.05 crore to Rs.0.05 crore during the FY2025- 27. The current ratio of the firm stood adequate at 1.40x in FY2024. Further, the cash & cash equivalent stands adequate at Rs.8.33 crore as on March 31, 2024.

About the Company

R. Krishnamurthy & Co. (RK) was founded as a proprietorship business in September 1991 and later changed to a partnership firm in April 2008. The firm has been named after the primary partner Mr. R. Krishnamurthy, who runs the business, with his wife and the second partner and a team of civil engineers and architects. RK generally executes government construction contracts of up to Rs.100.00 crore as an Engineering contractor. The firm primarily operates in Tamil Nadu and undertakes government and private contracts, with major focus on government projects. It undertakes construction activities of multi-stored building, Industrial Structure, Railway sliding, Bridges, Road Works, Water & Sewage works.

Financials (Standalone):

(Rs. crore)

For the year ended*/As on	31-03-2023	31-03-2024
	Audited	Audited
Total Operating Income	24.29	38.94
EBITDA	2.37	2.47
PAT	0.24	0.12
Total Debt	18.17	12.90
Tangible Net worth	36.09	33.01
EBITDA Margin (%)	9.75	6.35
PAT Margin (%)	0.98	0.30
Overall Gearing Ratio (x)	0.50	0.39
Interest Coverage Ratio (x)	1.24	1.29

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: ICRA, ACUITE and CARE Ratings vide press release dated December 11, 2024, August 07, 2024, and May 29, 2024, respectively, has continued to classify the case under Issuer Not Cooperating category on account of non-submission of relevant information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2024-25)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24 (November 02, 2023)	Date(s) & Rating(s) assigned in 2022-23 (August 30, 2022)	Date(s) & Rating(s) assigned in 2021-22 (June 10, 2021)
1.	Fund Based	Long Term	5.00	IVR BB-/Stable	IVR BB-/Stable	IVR BB/INC*	IVR BB+/Stable
2.	Non Fund Based	Short Term	18.00	IVR A4	IVR A4	IVR A4/INC*	IVR A4+

**Issuer not cooperating; Based on best available information.*

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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.

For more information visit www.infomerics.com.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	5.00	IVR BB-/Stable
Bank Guarantee	-	-	-	18.00	IVR A4

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/Len-R-krishnamurthy-31dec24.pdf

Annexure 3: Detailed explanation of covenants of the rated securities/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: 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 Complexity Level of Rated Instruments/Facilities.