



Press Release

R. Krishnamurthy & Co.

June 10, 2021

Ratings

Instrument / Facility	Amount	Rating	Rating Action
Long Term Bank Facilities	9.00	IVR BB+ / Stable (Double B Plus; Stable Outlook)	Assigned
Short Term Bank Facilities	21.00	IVR A4+ (A Four Plus)	Assigned
Long Term/Short Term Bank Facilities (including proposed limits)	20.00	IVR BB+ / Stable ; IVR A4+ (Double B Plus; Stable Outlook ; A Four Plus)	Assigned
Total	50.00 (Fifty crore only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The assigned ratings to the bank facilities of R Krishnamurthy & Co (RK) factors in the experience of the firm in the civil construction segment along with proven project execution capability coupled with reputed clientele, mostly government departments lowering counterparty risk. Further, the assigned rating also factors in the moderate order book position reflecting satisfactory medium-term revenue visibility and comfortable capital structure. Notably, Covid-19 had a minimal impact on the firm's revenues given that most state governments had allowed the continuation of civil construction activities in the lockdown period.

However, the ratings are constrained due to moderate scale of operations coupled with low operating profitability and coverage indicators, Further, the ratings also remained constrained on geographical concentration risk with most of the projects concentrated in the state of Tamil Nadu as also the risks related to the project execution, Further, given the tender driven nature of business coupled with highly fragmented & competitive construction sector results in moderate bid win ratios. The ratings also considers, high working capital intensity which is inherent of the civil construction business, along with susceptibility of operating margin to volatile input price . The ratings also factor in the risks associated with partnership constitution.

Key Rating Sensitivities:

Upward Factors

- Sustained revenue growth and substantial improvement in profitability
- Sustenance of the capital structure with improvement in liquidity



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- Significant geographical diversification

Downward Rating Factor

- Moderation in operating income and/or cash accrual or deterioration in operating margin to below 5%
- Moderation in the capital structure with overall gearing above 1.5x and /or deterioration in debt protection metrics
- Moderation in liquidity position with stretch in operating cycle

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced Partners in the civil construction segment

R. Krishnamurthy & Co was established by Mr. R. Krishnamurthy of Chennai, Tamil Nadu in 1991 as a proprietorship firm, later on converted to partnership firm in the 1991. The day-to-day operations are managed by Mr. Krishnamurthy. Given their long presence, the partners hold an extensive experience in the civil construction which has resulted in regular order flow to the firm year on year.

Proven project execution capability coupled with reputed clientele, mostly government departments lowering counterparty risk

RK has successfully completed multiple projects in and around Tamil Nadu for various government departments and non-government organisations. The firm has also spread out of its catchment area, Tamil Nadu and Pondicherry to Karnataka and Delhi with regards to the projects. Further, most of the clients of the firm are mostly government departments and/or government organisations which indicates low counterparty risk.

Moderate order book reflecting satisfactory medium-term revenue visibility

The firm has an outstanding order book of Rs.269.78 crores (2.24x of its FY2021 revenue) to be executed over the next 3 years. However, absence of adequate cushion in BG facilities given its full utilisation limits bidding for new projects. Thus, addition of new projects and adequate BG availability, going forward will be a key monitorable.



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Comfortable capital structure

The capital structure of the firm remains comfortable mainly on adequate capital levels. The debt equity ratio and overall gearing ratio remained at 0.52x and 0.84x as on March 31, 2021 while the same had remained 0.38x and 0.84x as on March 31, 2020. In absence of any debt raising plans, the capital structure is expected to remain comfortable in the near term.

Key Rating Weaknesses

Moderate scale of operations coupled with low operating profitability and coverage indicators

RKC scale in past few fiscals has remained moderate in the Rs.120 – Rs.132 crore range. The total operating income of the firm declined marginally to Rs. 120.55 crore in FY2021 from Rs.122.94 crore in FY2020. EBITDA and PAT of the company were relatively steady at Rs. 5.45 crore and Rs.3.13 crore respectively and continued marking low profitability margins with EBITDA of the firm at 4.52% margin though non operating income resulted in PAT margin at 2.58% for FY2021. Limited profitability at absolute levels resulted in an interest coverage ratio at 2.71x with the long term debt to GCA, Total Debt to GCA and TOL/TNW continued to be high at 4.62 years, 7.43 years and 3.40 years, respectively, as on March 31, 2021.

Geographical concentration risk with most of the ongoing projects mainly in Tamil Nadu and Pondicherry

The present order book is skewed towards civil work in Tamil Nadu from various government departments indicating a geographical and sectoral concentration risk. Further to reduce its geographical concentration risk the firm has started bidding for projects in other states like Karnataka and Delhi and the firm has been able to secure some projects from these states.

Risks related to the project execution, tender driven nature of business coupled with highly fragmented & competitive construction sector

Execution risks for newly awarded projects in a timely manner will be key to achieving growth in revenues and profits. Further, the business certainty is dependent on the firm's ability to successfully bid for the tenders given the highly competitive nature of the segment marked by presence of several players especially small and medium sized players.



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High working capital intensity

Construction business, by its nature, remains working capital intensive as, a large part of working capital remained blocked in earnest money, retention money or in the form of fixed deposits as margin against required bank guarantees which has led to stretched its working capital intensity to 38% in FY2021 (28% in FY2020 and 23% in FY2019). The release of these funds would be critical as far as the working capital management of the firm is concerned and remains a key monitorable, going forward. To support the working capital requirement, the firm is mainly relying on bank borrowings, unsecured loan, and high credit period availed from its input suppliers as evident by creditor days at 42 days as on March 31, 2021.

Susceptibility of operating margin to volatile input prices

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

Risks associated with partnership constitution

Given RK's constitution as a partnership firm, it remains exposed to discrete risks, including the possibility of withdrawal of capital by the partners.

Liquidity: Stretched

The liquidity position of the firm remains stretched owing to its limited accruals as also substantial blockage of funds for bank guarantees, retention money and EMD for tenders, group companies among others leading to high working capital utilisation (~93% in last twelve months ended April 2021). The working capital intensity remains high as on March 31, 2021 at 38% while cash and bank balance remain low Rs.1.50 crore as on March 31, 2021. Absence of any term loans on books or additional debt raising provide some comfort to the liquidity.

Analytical Approach: Standalone

Applicable Criteria:



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Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non- Financial Sector)

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 upto Rs.100 crores 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-storied building, Industrial Structure, Railway sliding, Bridges, Road Works, Water & Sewage works.

Financials: Standalone

(Rs. crore)

For the year ended*/ As on	31-03-2020	31-03-2021
	Audited	Provisional
Total Operating Income	122.94	120.55
EBIDTA	4.91	5.45
PAT	3.23	3.13
Total Debt	28.53	31.15
Adjusted Net worth	33.79	36.92
EBIDTA Margin (%)	4.00	4.52
PAT Margin (%)	2.59	2.58
Overall Gearing Ratio (x)	0.84	0.84

*as per Infomerics standards ;

Status of non-cooperation with previous CRA: Vide Press Release dated November 27, 2020 CRISIL has moved the company to Issuer Non Cooperating category.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/ Facilities	Current Ratings (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	LT	9.00	IVR BB+ / Stable	-	-	-
2.	Letter of Credit/ BG	ST	21.00	IVR A4+	-	-	-
3.	Secured OD	LT/ST	2.80	IVR BB+ /			



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		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
				Stable IVR A4+			
4.	Proposed	LT/ST	17.20	IVR BB+/ Stable IVR A4+	-	-	-

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.

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About Infomerics:

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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 Facilities	-	-	-	9.00	IVR BB+ / Stable
Short Term Bank Facilities	-	-	-	21.00	IVR A4+
Long Term / Short Term Bank Facilities	-	-	-	2.80	IVR BB+/ Stable IVR A4+
Proposed Long Term Bank Facilities	-	-	-	17.20	IVR BB+/ Stable IVR A4+

Annexure 2: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/Lender-R-Krishnamurthy-Lender.pdf>