Press Release

R. Krishnamurthy & Co.

November 02, 2023

Ratings

Sl. No.	Instrument/ Facility	Amount (Rs. Crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
1.	Long Term Bank Facility	10.50	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)	IVR BB; Issuer Not Cooperating (IVR Double B; Issuer Not Cooperating)	Downgraded and moved out of Issuer Not Cooperating Category	Simple
2.	Short Term Bank Facilities	21.00	IVR A4 (IVR A Four)	IVR A4; Issuer Not Cooperating (IVR A Four; Issuer Not Cooperating)	Reaffirmed and moved out of Issuer Not Cooperating Category	Simple
	Total	**31.50**	**Rupees Thirty One Crore and Fifty Lakhs Only**			

Details of Facilities are in Annexure 1

Detailed Rationale

Informerics Valuation and Rating Private Limited (IVR) has downgraded the rating for long-term rating at IVR BB- with stable outlook and reaffirmed the short term rating at IVR A for the bank loan facilities of R. Krishnamurthy & Co. (RKC) and moved out from issuer not cooperating category.

The rating continues to draw comfort from its experienced partners in the civil construction segment, Proven project execution capability, Reputed clientele mostly government departments lowering counterparty risk, Moderate order book reflecting satisfactory medium-term revenue visibility, Comfortable capital structure. However, these rating strengths are partially offset by Moderate scale of operations, low operating profitability and coverage indicators, Geographical concentration risk with most of the ongoing projects mainly in Tamil Nadu and Pondicherry, Tender-based nature of operations with intense competition in the industry, Inherent risk as an EPC contractor and susceptibility of operating margin to volatile input prices, Risks associated with the constitution.

IVR has principally relied on the audited financial results of RKC's up to 31 March 2022, management certified provisional results for FY23 and projected financials for FY24, FY25 and FY26, and publicly available information/ clarifications provided by the company's management.

Upward Factors

- Substantial and sustained growth in operating income and improvement in profitability.
- Sustenance of the capital structure.
- Timely and proper execution of existing order book along with steady procurement of new orders and 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 capital structure with moderation in the overall gearing.
- Increase in working capital intensity.

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 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; Reputed clientele mostly government departments lowering counterparty risk:

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

Moderate order book reflecting satisfactory medium-term revenue visibility:

The firm has an outstanding order book of Rs.186.57 crores 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.

Comfortable capital structure:

The capital structure of the firm remains comfortable mainly on moderate capital levels. The debt equity ratio and overall gearing ratio remained at 0.30x and 0.64x as on March 31, 2023(P) while the same had remained 0.35x and 0.66x as on March 31,2022. 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, low operating profitability and coverage indicators:

RKC scale of operations in past few fiscals has shown declining trend from Rs.51.84 crore in FY21 to Rs. 24.29 crore in FY23(P). The total operating income of the firm declined to Rs. 24.29 crore in FY23(P) from Rs.25.74 crore in FY22. EBITDA and PAT of the company also declined at Rs. 2.04 crore in FY23(P) (FY22: 2.66 crore) and Rs.0.22 crore (FY22: 0.16 crore) respectively. PAT margins continued marking low profitability of the firm at 0.89% in FY23(P) (FY22: 0.63%) and EBIDTA margins stood at 8.41% in FY23(P) (FY22: 10.34%). Limited profitability at absolute levels resulted in an interest coverage ratio at 1.44x with the long-term debt to GCA, Total Debt to GCA and TOL/TNW continued to be high at 11.49 years, 24.57 years and 1.03x, respectively, as on March 31, 2023(Provisional).

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 though the firm has been able to secure some projects from these states.

Tender-based nature of operations with intense competition in the industry:

The domestic construction sector is highly crowded with presence of many players with varied statures & capabilities. Further, firm receives most its work orders from government departments through tenders floated by the departments and based on its ability to secure these tenders amidst intense price war. Profit margin of the firm may come under pressure because of this competitive nature of the industry. However, the promoter's long industry presence imparts comfort.

Inherent risk as an EPC contractor and susceptibility of operating margin to volatile input prices:

Economic vulnerability and regulatory risks in developing markets, delay in payments from the Government, project execution risk and fluctuating input costs are the key business risk faced by the firm in the sector. 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. 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 subcontracting) cost. However, presence of price variation clause on eligible project mitigates the risk to some extent.

Risks associated with the constitution:

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

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 (~95% in last twelve months ended June 2023). The working capital intensity remains high as on March 31,2023(P) while cash and bank balance remain low Rs.0.02 crore as on March 31, 2023. Absence of any term loans on books or additional debt raising provide some comfort to the liquidity.

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 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	31-03-2022	31-03-2023
	Audited	Provisional
Total Operating Income	25.74	24.29

For the year ended*/As on	31-03-2022	31-03-2023
EBITDA	2.66	2.04
PAT	0.16	0.22
Total Debt	21.78	21.36
Tangible Net worth	33.08	33.24
EBITDA Margin (%)	10.34	8.41
PAT Margin (%)	0.63	0.89
Overall Gearing Ratio (x)	0.66	0.64

**Classification as per Infomerics' standards*

Status of non-cooperation with previous CRA: CRISIL, ACUITE and ICRA vide press release dated March 23, 2023, May 13, 2023, and July 28, 2023, 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 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2022-23 (August 30, 2022)	Date(s) & Rating(s) assigned in 2021-22 (June 10, 2021)	Date(s) & Rating(s) assigned in 2020-21
1.	Fund Based	Long Term	10.50	IVR BB-/Stable	IVR BB; INC	IVR BB+/Stable/ A4+	-

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 (August 30, 2022)	Date(s) & Rating(s) assigned in 2021-22 (June 10, 2021)	Date(s) & Rating(s) assigned in 2020-21
2.	Non-Fund Based	Short Term	21.00	IVR A4	IVR A4; INC	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.

For more information visit www.infomerics.com.

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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 – Cash Credit	-	-	-	10.50	IVR BB-/Stable
Short Term Bank Facility – Bank Guarantee	-	-	-	21.00	IVR A4

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

Annexure 3: Facility wise lender details

https://www.infomerics.com/admin/prfiles/len-RKC-nov2023.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 Complexity Level of Rated Instruments/Facilities.