

May 12, 2017

Koneru Constructions Private Limited

Summary of rated instruments

Instrument*	Rated Amount (in crore)	Rating Action
Fund-based	5.12 (revised from 4.00)	[ICRA]B+ (Stable); assigned/outstanding
Non Fund-based	7.50 (revised from 7.00)	[ICRA]A4; assigned/outstanding
Unallocated Limits	3.38	[ICRA]B+ (Stable)/[ICRA]A4; assigned
Total	16.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term/short-term rating of [ICRA]B+ (pronounced ICRA B plus)¹/[ICRA]A4 (pronounced ICRA A four) to the Rs. 3.38-crore² unallocated limits of Koneru Constructions Private Limited (KCPL). The outlook on the long-term rating is 'Stable'.

ICRA also has long-term rating of [ICRA]B+(Stable) outstanding on Rs. 5.12 crore (revised from Rs. 4.00 crore) fund-based facilities and short-term rating of [ICRA]A4 outstanding on Rs. 7.50 crore (revised from Rs. 7.00 crore) non fund-based facilities of Koneru Constructions Private Limited.

Rationale

The assigned ratings are constrained by KCPL's small scale of operation in a highly competitive industry limiting financial flexibility and margin expansion. The ratings are further constrained by high client concentration risk faced by the company with only one customer accounting for 79% of the revenues in FY2015 and 55% of the revenues in FY2016; the revenue concentration is also expected to remain high going forward as the same customer accounts for significant portion of outstanding order book of KCPL. The ratings also factor in the stretched liquidity profile of the company on account of high receivables and inventory levels resulting in high utilisation of working capital limits in the past twelve months. ICRA also notes the absence of price escalation clause with its major customer which exposes it to fluctuations in raw material prices.

The ratings however, positively factor in the long track record of promoters in civil and mechanical construction works resulting in well established client base.

Going forward, ability of the company to improve the scale of operations by securing new orders and timely execution of existing orders, improve margins, and effectively manage its working capital requirements would be the key rating sensitivity.

¹ For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

² 100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

- Significant experience (of over a decade) of the promoters in civil and mechanical construction works
- The unexecuted order book/ revenue as on 31st March, 2016 is 2.05 times which provides visibility to revenues in the medium term

Credit weaknesses

- Small scale of operations with revenues of Rs 18.10 crore in FY2016 despite being in the industry for more than 9 years
- High client concentration risks with 79% of the revenue in FY2015 and around 55% in FY2016 from Thermal Power Corporation of India limited (TPCIL); going forward for FY2018 the concentration is expected to remain high on TPCIL with it being the largest customer in the outstanding order book
- Significant competition from well-established and reputed players of the industry keeps the margin in check
- Stretched liquidity position on account of high working capital intensive nature of operations as evident from high utilisation of CC limits
- Absence of price escalation clause with its major customer exposes it to fluctuations in raw material prices

Description of key rating drivers:

The company has been engaged in civil construction for more than 9 years and currently is into construction of railway sheds & buildings and construction of buildings for various government and private clients. The company had outstanding order book of Rs 37.10 crore as on 30th June, 2016 which constitute projects from Indian Railway departments, Power Mech Infra Limited, Thermal Powertech Corporation India Limited (TPCIL) etc.

The company is exposed to high client concentration risk with 79% of the revenue in FY2015 and ~55% in FY2016 being contributed by a single entity. Also, going forward, this trend is expected to continue with majority of the company's outstanding order book being dominated by TPCIL. The company also faces significant competition from other well established and reputed players of the industry which often restricts its margins.

The Operating income of the company declined from Rs. 20.43 crore in FY2015 to Rs. 18.10 crore in FY2016 owing to lower work order execution on the back of limited fresh orders. However, operating margin improved from 9.51% in FY2015 to 10.95% in FY2016 on the back of reduced raw material expenses.

The working capital utilisation remains high for the company owing to high debtor and inventory days resulting in stretched liquidity.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Ratings: A Note on Methodology](#)
[Rating Methodology for Construction Entities](#)

About the company:

Koneru Constructions Private Limited (KCPL), incorporated in November 2006 by Mr. Koneru Viswa Prasad and Smt D.Bhagya Lakshmi W/o. Sri K.V.Prasad as directors, is engaged in erecting and construction of buildings, offices factories, refineries and furnaces. Currently the company is engaged in executing of Civil, Mechanical and Engineering works for Indian Railways and private clients.

In FY2016, the company reported a net profit of Rs. 0.86 crore on an operating income of Rs. 18.10 crore, compared to a net profit of Rs. 0.88 crore on an operating income of Rs. 20.43 crore in FY2015.

Status of non-cooperation with previous CRA:

CRISIL has in its rationale published on Koneru Constructions Private Limited dated March 28, 2016, stated the following:

“CRISIL has suspended its ratings on the bank facilities of Koneru Constructions Private Limited (KCPL). The suspension of ratings is on account of non-cooperation by KCPL with CRISIL's efforts to undertake a review of the ratings outstanding. Despite repeated requests by CRISIL, KCPL is yet to provide adequate information to enable CRISIL to assess KCPL's ability to service its debt. The suspension reflects CRISIL's inability to maintain a valid rating in the absence of adequate information.”

Any other information: Not applicable

Rating history for last three years:

Table:

S. No.	Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. Crore)	Date & Rating	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015
				May 2017	July 2016	-	-
1	Fund-based limits	Long term	5.12	[ICRA]B+ (Stable)	[ICRA]B+	-	-
2	Non fund-based limits	Short term	7.50	[ICRA]A4	[ICRA]A4	-	-
3	Unallocated Limits	Long term/Short term	3.38	[ICRA]B+ (Stable)/ [ICRA]A4	[ICRA]B+ / [ICRA]A4	-	-

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1
Instrument Details

Instrument	Date of Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. Crore)	Current Rating and Outlook
Cash Credit	-	-	-	5.00	[ICRA]B+(Stable)
Term Loan	August, 2016	-	July, 2019	0.12	
Bank Guarantee	-	-	-	7.50	[ICRA]A4
Unallocated Limits	-	-	-	3.38	[ICRA]B+(Stable)/ [ICRA]A4

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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