



## Rating Rationale

Krishna Arjuna Enterprises

28 June 2018

Brickwork Ratings assigns 'BWR BB-/A4' for the Bank Loan Facilities of Rs. 27.00 Crs of Krishna Arjuna Enterprises ('KAE' or 'the Firm')

### Particulars

Facility*	Amount (Rs. Crs)	Tenure	Rating <sup>^</sup>
<b><u>Fund Based</u></b> SOD	22.00	Long Term	<b>BWR BB-</b> <i>(Pronounced as BWR Double B Minus)</i> <b>(Outlook:Stable)</b>
<b><u>Non-Fund Based</u></b> Letter of Credit	5.00	Short Term	<b>BWR A4</b> <i>(Pronounced as BWR A Four)</i>
<b>Total</b>	<b>27.00 (INR Twenty Seven Crores Only )</b>		

<sup>^</sup> Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*Annexure-I provides details of bank wise facilities

### Rationale/Description of Key Rating Drivers/Rating sensitivities

BWR has essentially relied upon the audited financial results of the Firm upto FY17, provisional financial for FY18, projected financials upto FY20, publicly available information and information/clarifications provided by the management.

The ratings draw strength from the partners' experience in infrastructure industry, group support and healthy order book position. The ratings, however, are constrained by the modest scale of operations, average financial risk profile marked by high gearing, low profitability and moderate debt coverage indicators, subcontracting nature of the business, exposure to cyclicity associated with the infrastructure industry and partnership nature of the constitution.

Going forward the ability of the Firm, to increase its scale of operations, timely completion of its projects, improve its overall credit risk profile and efficiently manage its working capital cycle would be the key rating sensitivities.

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## **Analytical approach**

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

## **Key Rating drivers**

### **Credit strengths**

- **Partners' experience in the industry**

The Managing Partner of KAE has two decades of experience in civil construction industry. In addition to this, the other three partners of the Firm have cumulative experience of around three decades in similar line of business.

- **Group Support and healthy order book position**

KAE receives work orders mainly from its parent company KMC Constructions Ltd. and also from other group Special Purpose Vehicles (SPV). As on June 8, 2018, KAE had an outstanding order book position of around Rs.224 Crs, which is to be executed over a period of next 24 months. It provides a revenue visibility for the Firm over a medium term.

### **Credit Weaknesses**

- **Modest scale of operation**

Due to delays in land acquisition by National Highway Authority of India (NHAI), in FY17 KAE's scale of operation had declined significantly as it reported low net revenue of Rs.20.92 Crs as against Rs.102.40 Crs in FY16. However in FY18, on provisional basis, the Firm has recorded net revenue of Rs.119.05 Crs. Going forward, the operation scale of the Firm is expected to remain moderate in view of current outstanding order book position.

- **Average financial risk profile marked by high gearing, low profitability and moderate debt coverage indicators**

Due to relatively small capital base coupled with increased long term borrowings from NBFC's, the overall gearing of KAE has increased at 4.06 times as on March 31, 2018 (prov.) as against 3.17 times as on March 31, 2017. Due to subcontracting nature of the business, the operating profit margin of the Firm for FY18 (prov.) was low at 10.87%. Consequently, KAE's ISCR for FY18 (prov.) was moderate at 3.41 times as against 1.28 times for FY17.

- **Subcontracting nature of the business and exposure to cyclicity associated with the infrastructure industry**

KAE receives work orders in the form of sub-contracts from its parent company and other associate SPVs. This restricts, the profitability as well as operational scale of the Firm. Further, the Firm is also exposed to the cyclical nature of infrastructure industry.



- **Partnership nature of Constitution**

KAE is a partnership firm, which is exposed to the inherent risk of capital withdrawal by the partners in the event of personal contingencies of the partners.

**Rating Outlook: Stable**

BWR believes KAE's business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit margins show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and margins show lower than expected figures.

**Background**

Krishna Arjuna Enterprise (KAE) is a Hyderabad, Telangana based partnership firm established in 2005 by Mr. M. Pruthvi Kumar Reddy, Ms. M. Mani Manjari, Mr. M. Sri Kirthi, Ms. M. Vaishnavi with profit sharing pattern of 30%, 20%, 25% and 25% respectively. KAE is mainly engaged in sub-contracting of civil construction orders received mainly from its group company i.e. KMC Constructions Ltd. (KMCCL), who is an EPC Contractor for Road projects. Mr. Pruthvi Kumar Reddy is also a director in KMCCL and holds around 20% of its shares. Mr. M. Sri Kirthi is also a director and minority shareholder in KMCCL. As on June 8, 2018, the Firm had an outstanding order book position of Rs.224 crs which is to be executed over a period of next 2 years.

**Financial Performance**

In FY17, KAE reported net revenue of Rs.20.92 Crs and PAT of Rs.0.76 Crs as against net revenue of Rs.102.40 Crs and PAT of Rs.4.88 Crs. In FY18, on provisional basis, the Firm has recorded net revenue of Rs.119.05 Crs and PAT of Rs.8.72 Crs.

Key financial indicators are furnished in Annexure II.



**Rating History for the last three years:**

Sl. No.	Facility	Current Rating (June 2018)			Rating History		
		Type	Amount (Rs. Crs)	Rating	2017	2016	2015
1	SOD	Long Term	22.00	<b>BWR BB-</b> (Outlook:Stable)  <b>Assigned</b>	N/A	N/A	N/A
2	Letter of Credit	Short Term	5.00	<b>BWR A4</b>  <b>Assigned</b>			
	<b>Total</b>		<b>27.00</b>	<b>INR Twenty Seven Crores only</b>			

**Status of Non cooperation with other CRA : Not Applicable**

**Any other information : Not applicable**

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)
- [Infrastructure Sector](#)

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**Krishna Arjuna Enterprises**  
**Annexure I**  
**Details of Rated Bank Facilities**

Bank	Facilities	Rated Amount (Rs. Crs)
Andhra Bank, Saifabad Branch, Hyderabad, Telangana	SOD	22.00
	Letter of Credit	5.00
	<b>Total</b>	<b>27.00</b>

**Annexure II**  
**Key Financial Indicators**

Particulars		31/Mar/2016 (A)	31/Mar/2017 (A)
<b>Net Revenue</b>	(Rs. Cr)	102.40	20.92
<b>EBITDA</b>	(Rs. Cr)	8.35	5.08
<b>PAT</b>	(Rs. Cr)	4.88	0.76
<b>Partner's Capital (PC)</b>	(Rs. Cr)	15.18	10.25
<b>Total Debt: PC</b>	(Times)	6.30	3.17
<b>Current Ratio</b>	(Times)	9.79	1.82

**For print and digital media**

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**Note on complexity levels of the rated instrument:**

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto:info@brickworkratings.com).

**About Brickwork Ratings**

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BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 11,99,663 Cr. In addition, BWR has rated over 6819 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹48,803 Cr have been rated.

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