Rating Rationale

K.V. Chinnaiah

21Feb2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹5.00 Crores of K.V. Chinnaiah.(KVC or The Company)

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating
Fund based Cash Credit	3.50	Long Term	BWR B+ (Pronounced as BWR single B plus) (Outlook: Stable)
Non Fund Based Bank Guarantee	1.50	Short Term	BWR A4 (Pronounced as BWR A four)
Total	**5.00**	**₹ Five Crores Only**	

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Ratings :Assigned

Rationale/Description of Key Rating Drivers/Rating sensitivities:
BWR has principally relied upon the audited financial results up to FY18, projected financials FY19 and FY20, publicly available information and information/clarifications provided by the firm's management.

The rating assigned to the bank facilities of K.V Chinnaiah (KVC) continues to be tempered by small scale of operations, short-term revenue visibility from order book position, low net worth base, presence in highly fragmented industry with intense competition from large number of players and inherent risk of proprietorship firm.

The rating also factors in improvement in capital structure and debt coverage indicators and increase in profitability margins albeit decline in total operating income in FY18 (refers to the period from April 01 to March 31). The ratings, however, derive strength from the experience of the proprietor around four decades in civil construction industry and long track record of operations.

Going forward, the ability of the company to increase its scale of operations and improve profitability margins in competitive environment and timely execution of orders received would be the key rating sensitivities

Credit Strengths:

- Profit Before Interest, Depreciation & Tax(EBITDA) has marginally improved from Rs.2.72 crores in FY17 to Rs.2.81 crores in FY18.
- Profit After Tax (PAT) has also improved from Rs.1.05 crores in FY17 to Rs.1.42 crores in FY18.
- Interest coverage ratio of the firm has improved from 3.48 x in FY17 to 4.08 x FY18.

Credit Weakness:

- The total operating income of the firm reduced from Rs.18.87 in FY17 to Rs.10.62 crore in FY18.
- The Indian construction sector is highly fragmented with the presence of many mid and large-sized players.
- Given the volatile economic environment, there has been a slowdown in release of new contracts, which has resulted in sluggish.
- Risk of raw material price fluctuations.

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).

Rating Outlook: Stable

BWR believes the **K.V. Chinnaiah** 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 show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

K.V. Chinnaiah (KVC) is a proprietorship concern established in the year 1973 by Mr. K.V. Chinnaiah. KVC is a Class I Government contractor registered with the Public Works Department (PWD) Karnataka.The firm majorly undertakes National Highway road works, Underpass construction for PWD. The proprietor has an experience of over 20 years in the hotel industry. He is running two hotels by names KVC International in Mysore town and in KRS which are giving ample support to his Contracting Business.

Company Financial Performance

Profit Before Interest, Depreciation & Tax (EBITDA) has marginally improved from Rs.2.72 crores in FY17 to Rs.2.81 crores in FY18. Profit After Tax (PAT) has also improved from Rs.1.05 crores in FY17 to Rs.1.42 crores in FY18. Interest service coverage ratio of the firm improved from 3.48x in FY17 to 4.08 x in FY18.

Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	10.62	18.87
EBITDA	₹ Cr	2.81	2.72
PAT	₹ Cr	1.42	1.05
Tangible Net worth	₹ Cr	4.12	3.38
Total Debt/Tangible Net worth	Times	3.44	3.28
Current Ratio	Times	1.36	0.73

Rating History for the last three years

S.No	Facility	Current Rating			Rating History		
		Type	Amount (₹ Crs)	Rating	2018	2017	2016
1.	**Fund Based**	Long Term	3.5	**BWR B+** (Pronounced as BWR single B plus) (Outlook:Stable)	**Not Rated**		
2.	**Non Fund Based**	Short Term	1.5	**BWR A4** (Pronounced as BWR A four)			
	Total		**5.00**	**₹ Five Crores Only**			

Status of non-cooperation with previous CRA: NA

Any other information: Not Available

Hyperlink/Reference to applicable Criteria

- **General Criteria**
- **Approach to Financial Ratios**
- **Manufacturing Companies**
- **Short Term Debt**

For any other criteria obtain hyperlinks from website

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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 Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

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.

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