



## Press Release

**U Rajesh Karanth**

**February 16, 2021**

### Ratings

Instrument Facility /	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	10.00	IVR BB-/Stable (IVR Double B Minus with Stable Outlook)	Assigned
Short Term Bank Facilities	20.00	IVR A4 (IVR A Four)	Assigned
<b>Total</b>	<b>30.00</b> <b>(Thirty crores only)</b>		

**Details of Facilities are in Annexure 1**

### Detailed Rationale

The ratings assigned to bank facilities of U Rajesh Karanth factors experienced management team and long track record of project execution, comfortable debt protection metrics, strong liquidity, and working capital management. However, rating is constrained on account of modest scale of operations, susceptibility of operating margin to volatile input prices, geographical concentration risk, and stiff competition and tender based contract awarding system.

### Key Rating Sensitivities:

#### Upward Factors

- Substantial & sustained improvement in scale of operations leading to improvement in debt protection metrics.

#### Downward Factors

- Decline in scale of operations leading to deterioration in debt protection metrics.

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

- Experienced management team and long track record of project execution



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U Rajesh Karanth is a Class I Government Contractors with Public Works Department, Public Works, Port & Inland Water Transportation Department, and Karnataka Neeravari Nigam Limited. The proprietor also has educational qualification in Civil Engineering and more than sixteen years of experience in the field of civil construction. This has given them an understanding of the dynamics of the market and enabled them to establish relationships.

- **Comfortable Debt protection Metrics**

The firm's capital structure was comfortable with overall gearing ratio was around 0.57x in FY20. Total debt/GCA and interest coverage also remained comfortable at 1.93x and 6.73x in FY20. TOL/TNW is 0.67X as on 31st March, 2020.

- **Liquidity remained strong supported by working capital management**

The current ratio of the firm remains comfortable and stood at 6.68x as on March 31, 2020. The company cash flow from operation also remains adequate. The liquidity of the firm is expected to remain strong in the near to medium term in view of sufficient cash accruals in comparison to debt obligation. The average utilisation of the cash credit facility remains at 41% in the past twelve months ended December, 2020.

### Key Rating Weaknesses

- **Modest scale of operations**

The firm has modest scale of operations as reflected in turnover of Rs. 122.08 Cr during FY 20, and CAGR of 14.54% from FY 18-20. Moreover, the firm has also recorded turnover of Rs. 93.45 Cr from April 1, 2020 to December 31, 2020.

- **Susceptibility of operating margin to volatile input prices**

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour cost are volatile in nature, the profitability of the company is subject to



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fluctuation in raw material prices & labour cost. However, presences of escalation clause in most of the contracts protect the margin to an extent.

- **Geographical concentration risk**

The company pre-dominantly operates in the states of Karnataka. It is Class I Govt. Contractors with Public Works Department and various departments of Government of Karnataka indicating geographical concentration risk.

- **Stiff competition and tender based contract awarding system**

The firm faces competition from other contractors while bidding and securing construction works. The presence of a tender based contract awarding system also restricts pricing flexibility of all players in the industry.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non- Financial Sector)

**Liquidity – Adequate**

The liquidity is considered to be adequate as reflected in cash and bank balance of Rs. 7.39 Cr., current ratio of 6.68 times, and quick ratio of 6.45 times during FY 20.

**About the Firm**

U Rajesh Karanth was established as a proprietorship firm in 2005 with Mr. U Rajesh Karanth as the proprietor in Kundapura, Karnataka. The firm is a Class I PWD contractor engaged in government infrastructure projects which includes construction of roads, dams, and bridges for various departments of the Government of Karnataka.



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### Financials (Standalone):

For the year ended / As on	31-03-2018	31-03-2019	31-03-2020*
	A	A	P
Total Operating Income	81.22	99.08	122.08
EBITDA	6.43	6.41	7.93
PAT	5.05	4.95	6.29
Total Debt	13.99	14.65	13.80
Adjusted Tangible Net worth	17.57	29.63	31.85
<b>Ratios</b>			
EBIDTA Margin	7.92	6.47	6.50
PAT Margin	6.19	4.98	5.14
Overall Gearing ratio	1.17	0.72	0.57

\* Classification as per Infomerics' standards

### Status of non-cooperation with previous CRA:

Acuite Ratings in their press release dated November 17, 2020 have classified U Rajesh Karanth as ISSUER NOT COOPERATING.

Any other information: None

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Term loan	Long term	6.00	IVR BB-/Stable	-	-	-
2	Cash credit	Long term	4.00	IVR BB-/Stable	-	-	-
3	Bank Guarantee	Short term	20.00	IVR A4			



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**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](http://www.infomerics.com).

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### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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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
Term loan	-	-	March, 2030	6.00	IVR BB-/Stable



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Cash credit	-	-	-	4.00	IVR BB-/Stable
Bank Guarantee	-	-	-	20.00	IVR A4

