

## K.Rajagopalan & Co

September 19, 2024

Facilities/Instruments	Amount (₹ crore)	Rating	Rating Action
Long Term Bank Facilities	1.05 (Reduced from 1.97)	CARE BB+; Stable	Reaffirmed
Short Term Bank Facilities	57.00	CARE A4+	Reaffirmed

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of K.Rajagopalan & Co (KRC) are constrained by the moderate scale of operations, geographical concentration of the order book, competitive and tender based nature of the construction industry, partnership nature of the firm with capital withdrawals risk, profit margins exposed to volatility in raw material prices.

The ratings, however, derive strength from the experienced promoters & long track record of the firm, comfortable capital structure and debt coverage metrics, established relationship with reputed clientele.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Ability to scale up operations to over ₹ 150.00 crores while maintaining Profit before interest, lease rentals, depreciation and taxation (PBILDT) margin above 12% in future years.
- Ability to diversify the order book in terms of geography and order segments.

#### Negative factors

- Any significant delays in execution of orders resulting in sizable decline in scale of operations below ₹ 50.00 crores.
- Any withdrawal of capital by promoters leading to deterioration in overall gearing above 2.00x.

**Analytical approach:** Standalone

#### Outlook: Stable

The Stable outlook by CARE Rating Limited (CARE Ratings) reflects that the firm is expected to continue to maintain comfortable capital structure with no major capex planned in the medium term, and benefits derived from the extensive experience promoters in the field of construction.

### Detailed description of key rating drivers:

#### Key weaknesses

**Moderate scale of operations with geographically concentrated order book:** KRC had growth in scale of operations from ₹ 110.28 crore in FY23 (refers to the period April 01 to March 31) to ₹ 125.96 crore in FY24. However, the scale of operations remains moderate within the range of ₹ 86.65 crore to ₹ 146.34 crore in the last four years ended FY24. The orderbook of the firm stood moderate at ₹ 148.93 crore (including L1 orders) as on July 31, 2024, translating to 1.18x of FY24 turnover. The operations of the firm are geographically concentrated in regions of Tamil Nadu catering to GoTN bodies such as TANGEDCO, TNEB and PWD and are susceptible to changes in the economic, socio-political scenario in the state. The firm has made turnover of ₹ 60.00 crore in 5m FY25 (refers to the period April 01 to August 31).

**Partnership nature of business constitution with inherent risk of withdrawal of capital:** KRC is a partnership nature of business wherein the inherent risk of withdrawal of capital by the partners at the time of their personal contingencies resulting in erosion of capital base leading to adverse effect on capital structure. The partners have withdrawn the capital to the extent of ₹ 8.96 crore in FY22 and have infused ₹ 0.75 crore in the last two financial years ended FY24.

**A highly competitive and fragmented industry with margins exposed to volatility in raw material prices:** KRC receives its work orders mainly from government departments. All these are tender based, and the revenues are dependent on the firm's ability to bid successfully for these tenders. The profitability margins come under pressure because of the competitive nature of the industry. The raw material is the major cost driver and the prices of the same are volatile in nature therefore the cost base remains exposed to any adverse price fluctuations in the prices of cement, sand, steel, being major cost components amongst all materials. The PBILDT margin of the firm has been volatile in the range of 10.27% to 12.31% over the past four years ended FY24.

## Key strengths

**Experienced Promoters and long track record of operations:** KRC was established in 1972 and has a track record of over five decades in the field of construction. It is a partnership-based firm started by Late Mr. Kandasamy who had over five decades of experience. Currently the firm is managed by the family members of Mr. Kandasamy who also have vast experience in the construction sector.

**Comfortable capital structure and debt coverage metrics:** The capital structure of the firm stood comfortable, marked by overall gearing of 0.47x as on March 31, 2024, against 0.35x as on March 31, 2023. The debt coverage indicators marked by total debt/GCA also remained comfortable albeit deteriorated to 1.65x as on March 31, 2024, against 0.94x as on March 31, 2023, due to increase in working capital utilisation.

## Liquidity: Stretched

Liquidity is stretched marked by tightly matched accruals against the repayment obligations with moderate accruals of ₹ 11.35 crore as on March 31, 2024. The firm has fund based working capital limits of ₹ 16.00 crore and non-fund-based limits of ₹ 41.00 crore and the average utilization of the same stood at 90% and 55% respectively for past 12 months ended August 31, 2024. The collection period stood at 45-60 days excluding the retention money. The bank guarantee is mostly used for the performance guarantee. The current ratio of the firm stood at 1.53x as on March 31, 2024.

**Assumptions/Covenants:** Not applicable

**Environment, social, and governance (ESG) risks:** Not applicable

## Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Construction](#)

[Infrastructure Sector Ratings](#)

[Short Term Instruments](#)

## About the company and industry

### Industry classification

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil Construction

KRC is a partnership firm established in 1972 by Late Mr. Kandasamy. It is situated in Mettur, Tamil Nadu. K.Rajagopalan & Co focuses on the projects based upon constructing different parts and structures of Hydro power plants, thermal power plants and other related projects. The major revenue is through state contracts (Tamil Nadu) and the ongoing projects constitute mostly of TANGEDCO (Tamil Nadu Generation and Distribution Corporation) and PWD (Public Works Department) orders.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (P)	5m FY25 (P)
Total operating income	110.28	125.96	60.00
PBILDT	13.57	13.58	NA
PAT	8.61	8.26	NA
Overall gearing (times)	0.35	0.47	NA
Interest coverage (times)	6.16	5.02	NA

A: Audited P: Provisional NA: Not Available; Note: these are latest available financial results

**Status of non-cooperation with previous CRA:** Brickwork Ratings India Private Limited (BWR) has conducted a review based on the best available information and has classified KRC as "non-cooperative" vide its press release dated May 16, 2024. The reason provided by BWR is the non-furnishing of information for monitoring of rating.

**Any other information:** Not applicable

**Rating history for last three years:** Annexure-2

**Detailed explanation of covenants of rated instrument / facility:** Annexure-3

**Complexity level of instruments rated:** Annexure-4

**Lender details:** Annexure-5

#### Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned and Rating Outlook
Fund-based - LT-Term Loan		-	-	July 2027	1.05	CARE BB+; Stable
Fund-based - ST-Bank Overdraft		-	-	-	16.00	CARE A4+
Non-fund-based - ST-Bank Guarantee		-	-	-	41.00	CARE A4+

#### Annexure-2: Rating history for last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - ST-Bank Guarantee	ST	41.00	CARE A4+	-	1)CARE A4+ (07-Aug-23)	1)CARE A4+ (13-Jul-22)	-
2	Fund-based - ST-Bank Overdraft	ST	16.00	CARE A4+	-	1)CARE A4+ (07-Aug-23)	1)CARE A4+ (13-Jul-22)	-
3	Fund-based - LT-Term Loan	LT	1.05	CARE BB+; Stable	-	1)CARE BB+; Stable (07-Aug-23)	1)CARE BB+; Stable (13-Jul-22)	-

LT: Long term; ST: Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities – Not applicable**

**Annexure-4: Complexity level of instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Term Loan	Simple
2	Fund-based - ST-Bank Overdraft	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

**Annexure-5: Lender details**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of rated instruments:** CARE Ratings has classified instruments rated by it based on complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for clarifications.

## Contact us

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### About us:

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### Disclaimer:

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