

Press Release

Pochampad Construction Company Private Limited

May 22, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 122.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs. 122.00 crore bank facilities of Pochampad Construction Company Private Limited (PCCPL). The outlook is '**Stable**'.

Pochampad Constructions Company Private Limited (PCCPL) was established in 1992 as a proprietorship concern by Mr. Rajendra Rao. The proprietorship was later converted to a Partnership firm in the year 2003 and was subsequently converted to a Private Ltd Company in the year 2004. The promoters have long experience in execution of infrastructure projects as Class-1 contractor. PCCPL is engaged in niche area of undertaking water projects like construction of intake wells, and make up water system, laying of pipes, etc. The firm undertakes contracts from government.

PCCPL has executed projects mainly for NTPC, KBEWL, APSIDC, APSPHC, RWS&S, CNNL, Singareni Collieries, and IVRCL etc.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of PCCPL to arrive at this rating.

Key Rating Drivers

Strengths

• Established track record of operations and experience management

PCCPL is promoted by Mr. Rajendra Rao who also manages the day to day operations of the company. He has an experience of around more than a decade in the same line of business. PCCPL is engaged in providing different types of undertaking water projects like construction of intake wells, and make up water system, laying of pipes, etc. under government and semi government entities. The promoter's extensive experience is also reflected through the healthy order book position, order book remains at Rs.465.00 crore as on 31 March, 2019. Hence, the healthy order book provides modest revenue visibility for the company over the medium term. Acuite believes that the company will continue to benefit through the promoter's extensive industry experience over the medium term.

• Long Association with government agencies

PCCPL has executed projects for National Thermal Power Corporation (NTPC), Andhra Pradesh State Irrigation Development Corporation (APSIDC), Andhra Pradesh Public Service Commission, Rural Water Supply & Sanitation (RWS&S), Singareni Collieries etc. All these departments, being a government entity, counter-party default risk remains minimal. Although, risk associated with delayed payment exist but due to good liasoning and promoter's extensive experience, PCCPL managed to collect payments within 90-95 days from work certification. With the promoter's extensive industry experience, timely execution of projects, the company has been able to establish long-standing relationship with its client.

• Moderate financial risk profile

PCCPL's financial risk profile is marked by its moderate net worth, low gearing and moderate debt protection measures. The net worth increased to Rs.49.89 crore as on 31 March, 2018 as against Rs.42.81 crore in the previous year on account of stable profitability leading to higher accretion to

reserves. The company's gearing is estimated to be low at 0.61 times as on 31 March, 2018 as against 0.59 times in the previous year. The company has followed a conservative financial policy in the past, as reflected by its peak gearing of around 0.61 times as on March 31, 2018. The total debt of Rs.30.61 crore consists of long term debt of Rs.4.30 crore, unsecured loans from promoters of Rs. 2.14 crore and Rs.24.17 crore of short term debt obligations. The moderate profitability levels has resulted in healthy net cash accruals of Rs.9.87 crore during 2016-18, while the debt levels have remained low at around Rs.30.61 crore during the same period, leading to moderate debt protection measures. The interest coverage ratio stood at 3.68 times in FY18 as against 3.31 times in the previous year. NCA/TD ratio stood 0.32 times in FY18. Acuite believes that the financial risk profile will continue to remain moderate on account of healthy cash accruals.

Weaknesses

• Moderate Working capital cycle

The working capital management is marked by Gross Current Assets (GCA) of 221 days in FY2018 as against 186 days in FY2017. The company is exposed to delay in realisation of receivables, resulting in high GCA days. The debtor levels stood at 83 days in FY2018 as against 97 days in FY2017, respectively. The increase in the debtor levels was due to delay in payments from NTPC, APSIDC, SCCL, APSPHC, RWS&S, CNNL. As a result, the average utilisation of bank limits stood at ~90 percent in the last six months. Acuite believes that the working capital requirements will continue to remain high over the medium term on account of its high debtor value.

• Profitability susceptible to fluctuations in input cost

The input cost i.e. power cost, labour cost and raw materials - iron, steel and cement are highly volatile in nature with labour cost constituting around ~80 percent of the total revenue as the company also sub-contracts some part of its work. Hence, any adverse movement in input costs can impact profitability. However, the company reported EBITDA margin of 12.07 percent in FY2018 as against 12.08 percent in the previous year.

Liquidity Position

PCCPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of ~Rs.10.00 to Rs. 12.00 crore during the last three years through 2017 - 18, while its maturing debt obligations were in the range of ~Rs.3.00 to Rs. 5.00 crore over the same period. The cash accruals of the company are estimated to remain at around Rs. 13.00 - Rs.16.00 crore during 2019-21. The company's operations are moderately working capital intensive as marked by Gross Current Asset (GCA) days of 221 in FY 2018. The company maintains unencumbered cash and bank balances of Rs.8.93 crore as on March 31, 2018. The current ratio of the company stood moderate at 1.50 times as on March 31, 2018. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual while it has repaid its long debt.

Outlook: Stable

Acuite believes that the outlook on PCCPL's rated facilities will remain stable over the medium term on account of its promoter's extensive experience, moderate financial risk profile and established operational track record. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	150.65	187.17	204.55
EBITDA	Rs. Cr.	18.18	22.61	24.52
PAT	Rs. Cr.	7.31	9.13	10.70
EBITDA Margin	(%)	12.07	12.08	11.99
PAT Margin	(%)	4.85	4.88	5.23
ROCE	(%)	21.73	35.39	44.38
Total Debt/Tangible Net Worth	Times	0.61	0.59	0.52
PBDIT/Interest	Times	3.68	3.31	3.66

Total Debt/PBDIT	Times	1.58	1.07	0.71
Gross Current Assets (Days)	Days	221	186	88

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
26-Feb-2018	Cash Credit	Long Term	1.00	ACUITE BBB- / Stable (Reaffirmed)
	Secured Overdraft	Long Term	8.00	ACUITE BBB- / Stable (Reaffirmed)
	Proposed Secured Overdraft	Long Term	3.00	ACUITE BBB- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	29.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	44.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Guarantee	Short Term	37.00	ACUITE A3 (Reaffirmed)
30-Dec-2016	Cash Credit	Long Term	1.00	ACUITE BBB- / Stable (Reaffirmed)
	Secured Overdraft	Long Term	8.00	ACUITE BBB- / Stable (Reaffirmed)
	Proposed Secured Overdraft	Long Term	3.00	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	29.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	44.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Guarantee	Short Term	37.00	ACUITE A3 (Reaffirmed)
01-Oct-2015	Cash Credit	Long Term	1.00	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	73.00	ACUITE A3 (Assigned)
	Secured Overdraft	Long Term	8.00	ACUITE BBB- / Stable (Assigned)

	Proposed Bank Guarantee	Short Term	40.00	ACUITE A3 (Assigned)
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***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB- / Stable (Reaffirmed)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB- / Stable (Reaffirmed)
Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB- / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	29.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	44.00	ACUITE A3 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	37.00	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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