

Press Release

Pochampad Construction Company Private Limited

March 26, 2021

Rating Upgraded



Total Bank Facilities Rated*	Rs. 122.00 Cr.
Long Term Rating	ACUITE BBB-/Outlook: Stable (Upgraded from ACUITE BB+)
Short Term Rating	ACUITE A3 (Upgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and short-term rating to '**ACUITE A3**' (read as **ACUITE A three**) from '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.122.00 Cr bank facilities of Pochampad Construction Company Private Limited (PCCP). The outlook is '**Stable**'.

Reason for rating upgrade

The ratings for PCCP was downgraded earlier on account of information risk. However, Acuite has now received all the critical information from the company and the rating is reinstated based on healthy financial risk profile, profitability margins and order book.

Hyderabad based, Pochampad Constructions Company Private Limited (PCCPL) was established in 1992 as a proprietary 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 Limited 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, lying of pipes, etc. The firm undertakes contracts from the government.

Analytical Approach

Acuite has considered the standalone financial and business risk profile of PCCP to arrive at the 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 along with other directors, Mr. Rekha Velchala and Mr. Ranga Rao Meneni. They have an experience of over two decades 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, lying of pipes, etc. under government and semi government entities. The promoter's extensive experience is also reflected through the healthy order book position, unexecuted order book remains at Rs.497.77 crore as on 31 January, 2021. 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), 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.

- **Healthy Financial risk profile**

PCCPL's financial risk profile is healthy marked by healthy net worth, low gearing and high debt protection measures. The net worth increased to Rs.72.12 crore as on 31 March, 2020 from Rs.63.43 crore in the previous year on account of stable profitability leading to higher accretion to reserves. This includes quasi equity of Rs.3.93 in FY2020. Further, company will be maintaining quasi equity of Rs.4.54 crore till FY2023. The company's gearing stood low at 0.31 times as on 31 March, 2020 as against 0.44 times in the previous year. The total debt of Rs.22.41 crore consists of long term debt of Rs.9.37 crore and Rs.13.04 crore of short term debt obligations. The interest coverage ratio improved to 4.42 times in FY2020 from 3.61 times in the previous year. NCA/TD ratio stood 0.54 times in FY2020 as against 0.46 times in FY2019. Acuite believes that the financial risk profile will continue to remain healthy on account of healthy net cash accruals and no major debt funded capex.

Weaknesses

- **Deterioration in scale of operations**

Scale of operations deteriorated to Rs.133.81 crore in FY2020 from Rs.188.38 crore in FY2019. This is majorly because of less new tenders been floated by the government, delays in getting permissions or approvals in existing tenders which caused delays in the existing orders, nationwide lockdown in march which led to non-payment of bills raised during Q4 of FY2020 and Rs.40.00 crore order of procurement of pipes related to Solapur contract was been put to hold due to lockdown.

Acuite believes that the scale of operations will remain muted during FY2021. Revenues stood at Rs.57.14 crore for the period April to December, 2020 and it is expected to be around Rs.80.00 crore as on 31 March, 2021. However, revenues are expected to be around Rs.200.00 crore at the back of healthy unexecuted order book of Rs.497.77 crore. Out of the total Rs.200.00 crore, Rs.150.00 crore is expected from Solapur, Maharashtra project and rest from the other orders. Further, company is expected to get new orders worth Rs.300.00 crore during FY2022 from Telangana State Power Generation Corporation Limited (TSGENCO).

- **Intensive working capital cycle**

The working capital operations are intensive marked by high Gross Current Assets (GCA) days of 195 in FY2020 as against 179 in FY2019. This is majorly because of the high current assets which stood at Rs.52.22 crore which majorly consists of security deposits. The debtor levels stood at 29 in FY2020 as against 42 days in FY2019. Further, the average utilisation of bank limits stood at ~87.50 percent in the last six months ending February, 2021.

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 12.62 percent in FY2020 as against 11.19 percent in the previous year.

Liquidity Position: Adequate

PCCPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of ~Rs.9.87 to Rs.12.13 crore during the last three years through 2018- 20, while its maturing debt obligations were in the range of ~Rs.1.97 to Rs.3.55 crore over the same period. The cash accruals of the company are estimated to remain at around Rs.7.00 to 19.00 crore during 2021-23. The company's working capital operations are intensive in nature marked by Gross Current Asset (GCA) days of 195 in FY2020. The company maintains unencumbered cash and bank balances of Rs.0.11 crore as on March 31, 2020. The current ratio of the company stood moderate at 1.94 times as on March 31, 2020. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy net cash accruals and no major debt funded capex.

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.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability margins.
- Significant changes in financial risk profile and working capital operations of the firm.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr	133.81	188.38
Profit after tax (PAT)	Rs. Cr	8.69	9.61
PAT margin	%	6.50	5.10
Total debt / Tangible Net worth	Times	0.31	0.44
PBDIT / Interest	Times	4.42	3.61

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

None.

Any other information

None.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
30-Jul-2020	Cash Credit	Long Term	1.00	ACUITE BB+ (Downgraded from ACUITE BBB-/stable) (Indicative)
	Secured Overdraft	Long Term	8.00	ACUITE BB+ (Downgraded from ACUITE BBB-

				/stable) (Indicative)
	Proposed Secured Overdraft	Long Term	3.00	ACUITE BB+ (Downgraded from ACUITE BBB- /stable) (Indicative)
	Bank Guarantee	Short Term	29.00	ACUITE A4+ (Downgraded from ACUITE A3) (Indicative)
	Bank Guarantee	Short Term	44.00	ACUITE A4+ (Downgraded from ACUITE A3) (Indicative)
	Proposed Bank Guarantee	Short Term	37.00	ACUITE A4+ (Downgraded from ACUITE A3) (Indicative)
22-May-2019	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)
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)

***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 (Upgraded from ACUITE BB+)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	29.00	ACUITE A3 (Upgraded from ACUITE A4+)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	37.00	ACUITE A3 (Upgraded from ACUITE A4+)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3 (Upgraded from ACUITE A4+)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	19.00	ACUITE A3 (Upgraded from ACUITE A4+)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Saurabh Rane Analyst - Rating Operations Tel: 02249294034 saurabh.rane@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuite Ratings & Research:

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