

## Press Release

### Pochampad Construction Company Private Limited

September 05, 2022



## Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	11.00	ACUITE B+   Stable   Downgraded	-
Bank Loan Ratings	111.00	-	ACUITE A4   Downgraded
Total Outstanding Quantum (Rs. Cr)	122.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

## Rating Rationale

Acuite has downgraded the long-term rating from '**ACUITE BB+**' (read as **ACUITE double B plus**)' to '**ACUITE B+**' (read as **ACUITE B Plus**)' and the short-term rating from '**ACUITE A4+**' (read as **ACUITE A four plus**)' to '**ACUITE A4**' (read as **ACUITE A four**)' on the Rs. 122.00 Cr bank facilities of Pochampad Construction Company Private Limited (PCCPL). The rating has been removed from Issuer Non-Cooperating. The outlook is '**Stable**'.

### Rationale for Downgrade

The downgrade in ratings factor in continuous decline in total operating income of the company during FY20-22 (Prov.) along with profitability levels, led by lower order book size and absence of any new order for the past three years, thereby impacting business risk profile of the company. The lower order book also provides short time revenue visibility. The same has also resulted in stretched liquidity with almost full utilization of working capital limit. The ratings are however underpinned by experienced promoters and comfortable financial risk profile.

### About the Company

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 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. Directors of Pochampad Construction Company Private Limited are Ranga Rao Meneni, Rajender Rao Velchala, Rekha Velchala.

### Analytical Approach

Acuite has considered standalone financial and business risk profile of PCCPL

### Key Rating Drivers

## Strengths

### Experienced Management

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 Ltd Company in the year 2004. The promoters have long experience in execution of infrastructure projects as Class-1 contractor.

Directors of Pochampad Construction Company Private Limited are Ranga Rao Meneni, Rajender Rao Velchala, Rekha Velchala.

### Comfortable financial risk profile

The capital structure of the company as represented by debt –equity ratio continues to remain below unity for the past three accounts closing dates ending March 31, 2022 (Prov.). The debt-equity ratio has improved marginally to 0.30 times in FY22 (Prov.) vis-à-vis 0.35 times in FY21. The improvement is led by repayment of existing term loan coupled with accretion of profit to reserves. Similarly, total outstanding liability to tangible net- worth also improved to 0.82 times in FY22 as against 1.17 times in FY21. Nevertheless, Debt-EBITDA moderated to 2.74 times in FY22 (Prov.) as against 1.93 times in FY21 due to decline in operating profit. Similarly, net cash accruals to total debt also marginally moderated to 0.23 times in FY22 vis-à-vis 0.29 times in FY21.

The company is not planning to avail any additional debt. Hence, the capital structure is expected to improve going ahead given, increase in revenue and profitability.

## Weaknesses

### Continuous decline in total operating income during FY20-22 (Prov.)

There has been significant decline in total operating income from Rs. 133.81 crore in FY20 to Rs.35.23 crore in FY22 (Prov.), reporting y-o-y de- growth of 49%. The decline in revenue in FY21 is mainly on account of COVID induced lockdown which resulted in delay in execution of orders coupled with absence of any new orders during FY21-22, resulting in shrink in order book size. In addition to this, only limited tenders were opened for irrigation activity despite relaxation in COVID norms. In line with total operating income, the operating profit has also declined to Rs.6.70 crore in FY22 (Prov.) from Rs. 9.38 crore in FY21 (Rs. 16.88 crore in FY20). The net profit has almost halved for past three years and remained at Rs.2.21 crore in FY22 (Prov.) vis-à-vis Rs. 4.43 crore in FY21 (Rs.8.69 crore in FY20). However, the net profit margin has remained at similar level at around 6-6.5% in FY20-22 (Prov.). As

Acuite believes that ability of the company to expand its order book position for improvement in revenue is critical from rating perspective.

### Lower order book position with short term revenue visibility

The outstanding order book of the company remained at Rs.51.93 crores as on August 2022. The order book is spread across 3 orders with average ticket size of 17.31 crore. The outstanding order book is expected to be executed by March 31, 2023 thereby providing short term revenue visibility. The company does not receive mobilization advance and retention money is equivalent to 5% of bill raised. Due to small order book size, there exist order book concentration with top order constituting to around 44% of outstanding work order. The orders also have escalation clause w.r.t material such as steel and cement. Any increase in steel price would be compensated by client. The company is executing major portion of order; 82% in Karnataka and Bihar. The company has received KBUNL/IVRCL on sub-contract basis. Further, the company has its own machineries to execute orders in other states. The ability of the company to increase its order book size is crucial for increase in revenue visibility.

### Working capital intensive operation

The gross current asset days of the company increased to 706 days in FY22 as against 471 days in FY21. The GCA has increased despite decline in current asset balance. The same is due to decline in total operating income. The company raises the bill when the work is certified and the same is realised within 45-60 days. The inventory days remained at 146 days

in FY21 and further increased to 260 days in FY22 (Prov.). The same is due to higher work in progress. The company procures raw materials on need basis. The construction materials such as pipes; steel are procured against 90 days LC or against BG to its suppliers. The creditors days remained between 78-120 days in FY21-22 (Prov.). The working capital is being utilized at full.

### ESG Factors Relevant for Rating

Not Applicable

### Rating Sensitivities

>Any further weakening of operating performance on an account of absence of any new order

>Improvement in operating income coupled with improved profitability level.

### Material covenants

None

### Liquidity Position: Stretched Stretched

The liquidity profile of the company continues to remain stretched with lower net cash accruals of Rs.5.27 crore as against debt obligation of Rs. 2.18 crore. The current ratio continues to remain above 2.0 times with marginal improvement in FY22. In addition to this, the company also maintains cash and bank balance of Rs.6.78 crore as on March 31, 2022 (Prov.). However, there has also been overdrawals in working capital borrowings wherein DPD has remained at 28-29 days.

Acuite believes that albeit the company is not planning to avail any additional term loan, PCCPL's ability to increase its order book size, its execution and realisation of receivables on timely manner would be crucial from rating perspective.

### Outlook: Stable

Acuite believes that PCCPL will maintain "Stable" business risk profile on account of experienced promoter entity and healthy financial healthy financial risk of the company. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in its business risk profile and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the company's financial risk profile or delay in realization of receivables.

### Other Factors affecting Rating

Not Applicable

### Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	35.23	68.77
PAT	Rs. Cr.	2.21	4.43
PAT Margin	(%)	6.28	6.45
Total Debt/Tangible Net Worth	Times	0.30	0.35
PBDIT/Interest	Times	2.73	3.39

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

Not Applicable

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>

- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
15 Jun 2022	Proposed Bank Guarantee	Short Term	19.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	1.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	25.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	37.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	29.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	10.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Secured Overdraft	Long Term	1.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
26 Mar 2021	Bank Guarantee	Short Term	25.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Proposed Bank Guarantee	Short Term	19.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Bank Guarantee	Short Term	29.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Bank Guarantee	Short Term	37.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	10.00	ACUITE BBB-   Stable (Upgraded from ACUITE BB+)
	Secured Overdraft	Long Term	1.00	ACUITE BBB-   Stable (Upgraded from ACUITE BB+)
	Cash Credit	Long Term	1.00	ACUITE BBB-   Stable (Upgraded from ACUITE BB+)
30 Jul 2020	Proposed Bank Guarantee	Short Term	37.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	1.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	29.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	44.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Secured Overdraft	Long Term	8.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
	Proposed Secured Overdraft	Long Term	3.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
22 May	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)

2019	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)
		Long		
26 Feb 2018	Cash Credit	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)
	Secured Overdraft	Long Term	8.00	ACUITE BBB-   Stable (Assigned)
	Bank Guarantee	Short Term	73.00	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	40.00	ACUITE A3 (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A4   Downgraded
Kotak Mahindra Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4   Downgraded
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	8.10	ACUITE A4   Downgraded
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE B+   Stable   Downgraded
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE B+   Stable   Downgraded
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	64.90	ACUITE A4   Downgraded
Kotak Mahindra Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE B+   Stable   Downgraded



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### About Acuité Ratings & Research

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