

Press Release

19 June, 2017

Seth Construction Company

Rating Reaffirmed



| | |
|--------------------------------------|---------------|
| Total Bank Facilities Rated * | Rs. 10.00 Cr. |
| Short Term Rating | SMERA A4+ |

Refer Annexure for details

Rating Rationale

SMERA has reaffirmed short term rating of 'SMERA A4+' (read as SMERA A four plus) on the Rs. 10.00 crore bank facilities of Seth Construction Company.

Seth Construction Company (SCC) established in 1973 is a Nagpur-based partnership firm promoted by Yashpal Seth and family. The firm executes infrastructure-related contracts for government entities such as Public Works Departments (PWD) - Maharashtra, Defense Research and Development Organization (DRDO), Nagpur Municipal Corporation (NMC) among others.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

SCC thus benefits from its long track record of operations. The partners, Mr. Yashpal Seth, Mr. Manu Seth and Mr. Amit Seth possess experience of over four decades in the civil construction industry.

- **Healthy financial risk profile**

The gearing (debt to equity ratio) deteriorated marginally but remained healthy at 0.63 times as on March 31 2016 as against 0.34 times as on March 31 2015. The marginal deterioration is on account of additional secured loans, mainly vehicle and construction equipment loans availed during FY2016. The Interest Coverage ratio declined to 3.37 times in FY2016 as against 5.27 times in FY2015 due to lower profitability and increase in secured loans in FY2016. The NCA to TD ratio declined to 0.34 times as on March 31, 2016 as against 0.96 times as on March 31, 2015.

Weaknesses

- **Uneven revenues**

SCC has reported operating income of Rs. 32.07 cr in FY2016 as compared to Rs. 54.21 cr in FY2015 and Rs. 47.83 cr in FY2014. The revenues are uneven due to the project based business. For 9MFY17, the firm booked revenue of Rs. 23.20 cr.

- **Moderate order book position**

SCC has unexecuted order book of Rs. 45.94 cr to be executed by June 2018.

- **High dependence on government orders**

Since SCC caters largely to government organisations, any change in government policies or in the political scenario may have an impact on the business and financial risk profile.

• **Partnership constitution**

Being a partnership firm, SCC is exposed to the inherent risk of capital withdrawal.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm.

About the Rated Entity - Key Financials

SCC established in 1973 is a Nagpur-based partnership firm promoted by Yashpal Seth and family. The firm executes infrastructure-related contracts for Public Works Departments (PWD) - Maharashtra, Defense Research and Development Organization (DRDO), Nagpur Municipal Corporation (NMC) among others. For FY2015-16, SCC reported profit after tax (PAT) of Rs. 1.79 cr on operating income of Rs. 32.07 cr, as against PAT of Rs.3.14 cr on operating income of Rs. 54.21 cr in FY2014-15. The net worth stood at Rs. 12.26 cr as on March 31, 2016 against Rs. 11.72 cr a year earlier.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

| Date | Name of Instrument / Facilities | Term | Amount (Rs. Cr.) | Ratings/Outlook |
|-------------|---------------------------------|------------|------------------|-----------------|
| 01-Dec-2015 | Bank Guarantee | Short Term | INR 10 | SMERA A4+ |

***Annexure – Details of instruments rated**

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Cr.) | Ratings/Outlook |
|------------------------------------|------------------|----------------|----------------|-----------------------------|-----------------|
| Bank guarantee/Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 10.00 | SMERA A4+ |

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ABOUT SMERA

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