

Press Release

Giddegowda Contractors (GGC)

04 April, 2018



Rating Downgraded And Reaffirmed

Total Bank Facilities Rated	Rs.16.00 crore
Long Term Rating	SMERA B+ / Stable (Downgraded from SMERA BB-/Stable)
Short Term Rating	SMERA A4 (Reaffirmed)

**Refer annexure for details*

SMERA has downgraded the long-term rating to '**SMERA B+**' (**read as SMERA B plus**) from '**SMERA BB-**' (**read as SMERA double B minus**) and reaffirmed the short term rating of '**SMERA A4**' (**read as SMERA A four**) on the Rs.16.00 crore bank facilities of Giddegowda Contractors (GGC). The outlook is 'stable'

The downgrade is in view of the volatility in the revenue streams coupled with stretched liquidity profile of the firm. The rating takes into account extensive experience of the proprietor, reputed client base & significant volatility in revenue streams.

Established in 1996, Giddegowda Contractors is a partnership firm managed by Mr. Roopesh Kumar and Mr. Gidde Gowda who has vast experience of more than two decades. It engages in providing civil construction service for underground drainage system.

Key rating drivers

Strengths

Established track record of operations and experience management

Established in 1996, Gidde Gowda Contractors is a partnership firm managed by Mr. Roopesh Kumar and Mr. Gidde Gowda who has vast experience of more than two decades.

Long Association with government agencies

GGC has executed projects for government entities like Karnataka Urban Water Supply and Drainage Board (KUWS&D) and Bangalore Water Supply and Sewerage Board (BWSSB). Hence, counter-party default risk remains minimal. Although, risk associated with delayed payment exist but due to good liaisoning and promoter's extensive experience, GGC managed to collect payments within 50-60 days from work certification. With the promoter's extensive industry experience and timely execution of projects, the company has been able to establish long-standing relationship with its clients.

Healthy Order book position

GGC have healthy order book position marked by current orders in hand of Rs.68.46 crore from Karnataka Urban Water Supply and Drainage Board (KUWS&D) and Bangalore Water Supply and Sewerage Board (BWSSB) which is to be executed by the FY2019.

Weaknesses

Weak financial risk profile

The financial risk profile of GGC is weak marked by net worth of Rs.0.87 crore as on 31 March 2017 from Rs.1.38 crore as on 31 March 2016. This is due to decrease in equity share capital from Rs.1.38 crore as on 31 March 2016 to Rs.0.87 crore as on 31 March 2017. The Gearing (debt-equity) had deteriorated to 6.64 times as on 31 March 2017 from 4.53 times as on 31 March 2016. The total debt is Rs.5.75 crore as on 31st March, 2017 which comprises long term debt Rs.0.38 crore and short term debt of Rs.5.75 crore. The Interest coverage ratio had stood at 2.71 times for FY2017 from 2.77 times for FY2016.

Intensive working capital operations

GGC has intensive working capital operations marked by GCA days of 123 days as on 31 March 2017 as against 130 days as on 31 March 2016. Inventory days stood at 34 days as on 31 March 2017 as compared to 70 days as on 31 March 2016. Further, the company had debtors outstanding of 22 days as on 31 March 2017 as compared to 26 days as on 31 March 2016 and creditors outstanding of 160 days as on 31 March 2017 as compared to 121 days as on 31 March 2016. The company's liquidity profile is moderately stretched as its average working capital limit utilization is ~80 percent.

Competitive and fragmented industry

The company is engaged as civil contractor. The particular sector is marked by the presence of several mid to big size players. The company faces intense competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent as management operating in this environment for last 33 years.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of GGC to arrive at the rating.

Outlook – Stable

SMERA believes that the company will maintain a stable outlook owing to the management's extensive experience and established relationships with customers. The outlook may be revised to Positive in case of significant increase in revenues while maintaining profitability. Conversely, the outlook may be revised to Negative in case of elongation of working capital cycle or if the company takes on any large debt funded capex.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	26.27	29.14	15.34
EBITDA	Rs. Cr.	9.90	9.20	9.25
PAT	Rs. Cr.	2.39	1.48	0.36
EBITDA Margin	(%)	11.13	8.34	10.71
PAT Margin	(%)	4.10	3.16	3.18
ROCE	(%)	5.08	3.99	4.55

Total Debt/Tangible Net Worth	Times	6.64	4.53	6.26
PBDIT/Interest	Times	2.71	2.77	2.16
Total Debt/PBDIT	Times	1.90	2.42	3.19
Gross Current Assets (Days)	Days	123	130	141

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

None

Any other information:

Not Applicable

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
26 th August 2016	Cash Credit	Long Term	5.00	SMERA BB- / Stable (Assigned)
	Proposed Cash Credit	Long Term	1.00	SMERA BB- / Stable (Assigned)
	Bank Guarantee	Short Term	8.00	SMERA A4 (Assigned)
	Proposed Bank Guarantee	Short Term	2.00	SMERA A4 (Assigned)

Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA B+/ Stable (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	9.50	SMERA A4 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA A4 (Reaffirmed)

(Proposed)

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ABOUT SMERA

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