

Ashoka Associates: Assigned

Facilities	Amount (Rs Crore)	Ratings/Outlook
Cash Credit	2.50	SMERA BB-/Stable (Assigned)
Cash Credit	0.20	SMERA BB-/Stable (Assigned)
Proposed Cash Credit	8.00	SMERA BB-/Stable (Assigned)
Bank Guarantee	2.80	SMERA A4 (Assigned)

SMERA has assigned long term rating of **'SMERA BB-' (read as SMERA double B minus)** and short term rating of **'SMERA A4' (read as SMERA A four)** on the above mentioned bank facilities of Ashoka Associates (AA). The outlook is **'Stable'**.

The ratings derive comfort from the established track record of operations, experienced promoters, long term association with government agencies and a healthy order book position. The ratings are also supported by the moderate financial risk profile. However, the ratings are constrained by the moderate scale of operations due to the tender based nature of business, the competitive and fragmented civil construction industry and working capital intensive business. The ratings also factors in risks arising from the partnership constitution of the firm.

AA, established in 1998 as a partnership firm by Mr. C Ashoka and others, has been a player in the civil construction business for over two decades. The firm has executed several projects related to construction of roads, highways, bridges and buildings. The firm undertakes contracts from government and semi-government organisations. Since most of the clients are government entities, the counterparty risk is significantly mitigated.

AA has a healthy order book position of Rs.35.00 crore as on September 2016 and long standing relationships with clients. The firm has a moderate financial risk profile marked by moderate gearing of 1.18 times as on 31 March 2016 (Provisional) as compared to 1.16 times in the previous year. The interest coverage ratio (ICR) stood at 4.29 times for FY2015-16 (Provisional) and 5.10 times for FY2014-15. The operating margins of the firm remained healthy at 7.24 percent in FY2015-16 (Provisionals).

However, the operations of the firm are moderate despite its two decade long track record of operations. Further, the firm's performance is also susceptible to the tender based nature of activities and intense competition among players bidding for government contracts. AA's operations are working capital intensive. The firm's gross current asset stood at 85 days as on 31st March 2016 (Provisional) as compared to 496 days as on 31st March 2015. Besides, AA is a partnership firm and is exposed to risk of withdrawal of capital.

Rating Sensitivity Factors

- Scaling up of operations while maintaining profit margins
- Timely completion of projects

Outlook: Stable

SMERA believes Ashoka Associates will maintain a stable outlook in the medium term on account of its experienced promoters. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues and profitability, deterioration in the financial risk profile or higher than expected working capital requirements.

About the Firm

The Karnataka-based Ashoka Associates, a partnership firm established in 1998 is a Class-1 contractor for civil construction projects. The firm undertakes construction of roads, highways, bridges and buildings and related projects for government and semi-government.

For FY2015-16 (Provisional), AA registered profit after tax (PAT) of Rs.1.30 crore on total income of Rs.28.57 crore as against PAT of Rs.1.07 crore on total income of Rs.8.10 crore for FY2014-15.

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ABOUT SMERA

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