

## Press Release

08 March, 2018

### Shreeji Construction (SC)

#### Rating Reaffirmed



|                                      |                            |
|--------------------------------------|----------------------------|
| <b>Total Bank Facilities Rated *</b> | Rs.25.00 crore             |
| <b>Long Term Rating</b>              | SMERA BB-/ Outlook: Stable |

# Refer Annexure for details

#### Rating Rationale

SMERA has reaffirmed the long term rating of **'SMERA BB-' (read as SMERA double B minus)** on the Rs.25.00 crore bank facilities of Shreeji Construction (SC). The outlook is **'Stable'**.

Shreeji Construction (SC), established in 1984 is a Thane-based proprietorship concern led by Mrs. Malthi Mahendra Sheth and Mr. Bhavesh M. Sheth. The firm is engaged in the construction of asphalt and concrete roads, bridges, industrial buildings and maintenance of road infrastructure projects. It is a Class-1A contractor and has an established track record of over three decades in the execution of infrastructure projects.

#### Key Rating Drivers

##### Strengths

##### Established track record of operations, long term association with government agencies

SC was established in 1984 as a proprietorship concern by the Late Mr. Mahendra Sheth. It has executed several projects for Mumbai Metropolitan Region Development Authority, Mira Bhayandar Municipal Corporation, Virar Vasai Municipal Corporation and others. The extensive industry experience and timely execution of projects has enabled SC to establish long-standing relations with its clients.

##### Healthy order book position

SC has a healthy order book position marked by orders in hand of Rs.160 crore as on date to be executed in the next two years. The firm has booked revenue of Rs. 32.00 crore from April to Jan, 2018 and estimates revenue of Rs. 42.00 crore for FY2017-18.

##### Healthy financial risk profile

SC has healthy financial risk profile. The firm has low gearing of 0.61 times as on 31 March, 2017 as compared to 0.66 times as on 31 March, 2016. The total debt mainly consists of working capital borrowings. SC has healthy coverage indicators with Interest Coverage Ratio (ICR) of 6.57 times for FY2016-17 and 5.98 times for FY2015-16.

##### Weaknesses

##### Moderate scale of operations due to tender based business

The operations are considered to be at moderate level despite the firm being in the construction business from the last 34 years. The firm has registered operating income of Rs. 40.65 crore in FY2016-17 as compared to Rs.36.00 crore in FY2015-16. Being a civil contractor, the revenue of SC depends on the number of successful bids and tenders released in the financial year.

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## Competitive and fragmented industry

The firm is engaged as a civil contractor. The sector is marked by the presence of several mid to big sized players. The firm faces intense competition from other players in the sector. The risk become more pronounced as tenders are based on the minimum amount of bidding of contracts. Besides, the firm is also exposed to risk of capital withdrawal considering the sole proprietorship constitution. Also financial flexibility is relatively arrested.

## Analytical Approach

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

## Outlook: Stable

SMERA believes that SC will maintain a stable outlook over the medium term on account of its experienced management. 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, or deterioration in the financial risk profile or higher than expected working capital requirements.

## About the Rated Entity - Key Financials

|                               | Unit    | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income              | Rs. Cr. | 40.65         | 36.00         | 50.60         |
| EBITDA                        | Rs. Cr. | 3.66          | 3.12          | 3.71          |
| PAT                           | Rs. Cr. | 2.80          | 2.25          | 2.55          |
| EBITDA Margin                 | (%)     | 9.00          | 8.66          | 7.34          |
| PAT Margin                    | (%)     | 6.90          | 6.24          | 5.04          |
| ROCE                          | (%)     | 26.58         | 23.23         | 51.51         |
| Total Debt/Tangible Net Worth | Times   | 0.61          | 0.66          | 1.23          |
| PBDIT/Interest                | Times   | 6.57          | 5.98          | 4.53          |
| Total Debt/PBDIT              | Times   | 1.44          | 1.30          | 1.87          |
| Gross Current Assets (Days)   | Days    | 381           | 333           | 255           |

## 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

| Date         | Name of Instrument / Facilities | Term      | Amount (Rs. Crore) | Ratings/Outlook              |
|--------------|---------------------------------|-----------|--------------------|------------------------------|
| 16 Dec, 2016 | Cash Credit                     | Long Term | 5.00               | SMERA BB-/Stable (Assigned)  |
|              | Bank Guarantee                  | Long Term | 20.00              | SMERA BB-/ Stable (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 | 5.00                          | SMERA BB- / Stable |
| Bank guarantee         | Not Applicable   | Not Applicable | Not Applicable | 20.00                         | SMERA BB- / Stable |

## Contacts:

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## ABOUT SMERA

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