

Press Release

Ghai Construction Limited (GCL)

23 January, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs.20.00 Cr
Long Term Rating	SMERA BB+/Stable (Assigned)
Short Term Rating	SMERA A4+ (Assigned)

*Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB+**' (read as **SMERA double B plus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.20.00 crore bank facilities of Ghai Construction Limited (GCL). The outlook is '**Stable**'.

GCL, incorporated in 1995 is a government-approved 'Category 1' contractor.

List of key rating drivers and their detailed description

Strengths:

Established track record of operations and experienced promoters: The company was promoted by Mr. Amarjitsingh Ghai, Mr. Gurpreetsingh Ghai and Mr. Prakashsingh Ghai who possess experience of over two decades in the civil construction industry.

Healthy financial risk profile: GCL has healthy financial risk profile. The company has low gearing of 0.38 times as on 31st March 2016 as compared to 0.35 times in the previous year. The total debt mainly consists of working capital borrowings. GCL has healthy coverage indicators with interest coverage ratio (ICR) of 5.36 times in FY2016 and 4.73 times in FY2015. The net worth of the company stood at Rs.14.84 crore as on 31st March 2016 as compared to Rs.13.50 crore as on 31st March 2015.

The operating margins of the firm are healthy at 11.38 percent in FY2015-16 and 13.41 percent in FY2014-15. The PAT margin has also been healthy at 3.40 percent in FY2015-16 and 4.03 times in FY2014-15.

Healthy order book position: GLC has healthy order book position of Rs.15.00 crore as on date.

Long association with government agencies: GCL has executed projects for Pune Municipal Corporation, Mira Bhayender Municipal Corporation, Indian Railways, Pimpri Chinchwad New Town Development Authority etc. The counter-party default risk is minimal since these are government entities. The company has been able to establish long-standing relationships with clients owing to the extensive experience of the promoters and timely execution of projects.

Weaknesses:

Moderate scale of operations due to tender based business: Despite being in the construction business for the last 21 years, the operations of GCL are at a moderate level. The company has achieved operating income of Rs.41.58 crore in FY2015-16 as compared to Rs.27.53 crore in FY2014-15. Besides, being a civil contractor, the revenue of the company depends on the number of successful bids and the tenders being released in the financial year.

High dependence on government orders: GCL has high dependence on government orders as it caters to Central Public Works Department (CPWD) and Public Works Department (PWD). Further, the operations are susceptible to the tender based nature of activities, volatility in raw material prices and intense competition among players bidding for government contracts.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company.

Applicable Criteria

- Infrastructure Sector: <https://www.smera.in/criteria-infra.htm>
- Application of Financial Ratios and Adjustments: <https://www.smera.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smera.in/criteria-default.htm>

Outlook: Stable

SMERA believes that GCL 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 company 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 the company registers lower-than-expected growth in revenues and profitability, deterioration in the financial risk profile or higher than expected working capital requirements.

About the Rated Entity

The Pune-based GCL undertakes civil construction projects for the government. For FY2015-16, GCL registered profit after tax (PAT) of Rs.1.41 crore on total income of Rs.41.58 crore as against PAT of Rs.1.11 crore on total income of Rs.25.73 crore for FY2014-15. The net worth stood at Rs.14.84 crore as on 31 March, 2016 against Rs.13.50 crore a year earlier.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Name of Instrument /Facilities	2017			2016		2015		2014	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	5.00	SMERA BB+/Stable (Assigned)	-	-	-	-	-	-
Bank Guarantee	ST	15.00	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	N.A	N.A	N.A	5.00	SMERA BB+/Stable (Assigned)
Bank Guarantee	N.A	N.A	N.A	15.00	SMERA A4+ (Assigned)

Note on complexity levels of the rated instrument:
<https://www.smera.in/criteria-complexity-levels.htm>
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ABOUT SMERA

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