

## Press Release

Sorath Builders

August 10, 2018

### Rating Downgraded and Reaffirmed



Total Bank Facilities Rated*	Rs. 12.00 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable (Downgraded from ACUITE B)
Short Term Rating	ACUITE A4 (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuite has downgraded long-term rating to '**ACUITE B-**' (read as **ACUITE B minus**) from '**ACUITE B**' (read as **ACUITE B**) and reaffirmed short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.12.00 crore bank facilities of Sorath Builders (SB). The outlook is '**Stable**'.

The downgrade in SB's rating is on account of the sharp deterioration in its operating and financial performance during FY2018 (Provisional) and FY2017 due to unavailability of new orders. However, Acuite believes that the revenue and margins are expected to improve over the medium term on account of healthy orders in hand of Rs.48.37 crore.

Sorath Builders (SB), established in 1996 by Mr. Laxmanbhai A. Patel and Mr. Dineshbhai L. Patel is engaged in civil construction. The partnership firm undertakes building repair work and construction of water retaining structures among others for central and state governments. The operations are based out of Ahmedabad (Gujarat).

### Key Rating Drivers

#### Strengths

- **Experienced partners and established track record of operations**

Sorath Builders (SB) has established presence in civil construction industry since 1996. The firm undertakes civil construction work since the past two decades for central and state government of Gujarat. The partners of the firm have over two decades of experience in same line of business and their established network has helped to maintain longstanding relationships with customers and suppliers.

- **Modest order book position**

The firm has total orders in hand of Rs.48.37 crore as on June 2018. The work orders in hand are to be completed within one to three years which provide revenue visibility over medium term.

#### Weaknesses

- **Moderate financial risk profile**

The financial risk profile is moderate marked by low net worth of Rs.5.72 crore as on 31 March, 2018 (Provisional). The gearing stood at 1.09 times as on 31 March, 2018 (Provisional) as compared to 1.11 times as on 31 March, 2017. Interest Coverage Ratio stood at 1.23 times in FY2018 (Provisional) as compared to 1.21 times in FY2017. Net Cash Accruals/Total debt (NCA/TD) stood at 0.03 times for FY2018 (Provisional). Debt Service Coverage ratio stood at 1.23 times for FY2018 (Provisional).

### • Working capital intensive operations

SB has working capital intensive operations evident from the high Gross Current Assets (GCA) of 432 days as on 31 March, 2018 (Provisional) and 418 days as on 31 March, 2017. The high GCA days is due to high inventory levels maintained at 255 days in FY2018 (Provisional) as compared to 188 days in FY2017.

### • Competitive industry and tender based nature of business

The firm is engaged in civil construction and faces intense competition from other players in the sector. Moreover, the firm's operations are tender based in nature. The revenue is dependent on successful bidding of tenders.

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Sorath Builders to arrive at the rating.

### Outlook: Stable

Acuite believes that SB's outlook will remain 'Stable' and the firm will benefit over the medium term from its experienced partners. The outlook may be revised to 'Positive' in case the firm is able to sustain its existing revenue and financial risk profile with stable operating margins. The outlook may be revised to 'Negative' in case of a stretched working capital cycle or further decline in revenue.

### About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	12.85	17.38	42.61
EBITDA	Rs. Cr.	0.65	0.69	1.47
PAT	Rs. Cr.	0.10	0.12	0.61
EBITDA Margin	(%)	5.09	3.95	3.45
PAT Margin	(%)	0.80	0.67	1.44
ROCE	(%)	6.97	8.16	12.44
Total Debt/Tangible Net Worth	Times	1.09	1.11	1.51
PBDIT/Interest	Times	1.23	1.21	1.68
Total Debt/PBDIT	Times	6.95	5.60	4.65
Gross Current Assets (Days)	Days	432	418	259

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

### Note on complexity levels of the rated instrument

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

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
18-Apr-2018	Cash Credit	Long Term	6.00	ACUITE B (Indicative)
	Bank Guarantee	Short Term	3.00	ACUITE A4 (Indicative)
	Proposed Bank Facility	Short Term	3.00	ACUITE A4 (Indicative)
14-Mar-2017	Cash Credit	Long Term	6.00	ACUITE B / Stable (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A4 (Assigned)
	Proposed Bank Guarantee	Short Term	3.00	ACUITE 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	ACUITE B-/Stable (Downgraded from ACUITE B)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A4 (Reaffirmed)

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### About Acuité Ratings & Research:

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