Press Release

Govardhani Construction Co

May 26, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable
Short Term Rating	SMERA A4+

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB+' (read as SMERA BB plus)** and short term rating of **'SMERA A4+' (read as SMERA A four plus)** on the Rs. 25.00 crore bank facilities of Govardhani Construction Co. The outlook is **'Stable'**.

The Navi Mumbai-based Govardhani Construction Company (GCC), a partnership firm is a Class-1 contractor for civil construction projects. The firm, led by partners, Mr. Vijay Mhatre, Mr. Yogesh Mhatre, Mr. N. V. Mhatre and others, undertakes road construction, water pipeline work and sewage related projects for government entities.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**
GCC was established in 1984 as a proprietorship firm by Mr. Vijay Mhatre and subsequently converted to a partnership firm in 2000.

- **Long term association with government agencies**
GCC has executed projects for Maharashtra Industrial Development Corporation, City and Industrial Development Corporation of Maharashtra, and Maharashtra State Electricity Board etc. Being government entities, the counter-party default risk remains minimal. While risk associated with delayed payment exists, good liasoning coupled with the promoter's extensive experience enables GCC to collect payments within 20-35 days from work certification. With the promoter's extensive industry experience and timely execution of projects, the firm has been able to establish long-term relations with clients.

- **Healthy order book position**
GCC has a healthy order book position marked by current orders in hand of Rs. 200.00 crore (as on 24 March 2017). In FY2015-16, the firm booked revenue of Rs. 59.06 crore as compared to Rs. 35.67 crore in the previous year.

- **Healthy financial risk profile**
GCC has a healthy financial risk profile. The firm has low gearing of 0.56 times as on 31 March, 2016 as compared to 0.58 times as on 31 March, 2015. The total debt mainly consists of working capital borrowings. The coverage indicators are healthy with interest coverage ratio (ICR) of 7.78 times in FY2016 and 4.16 times in FY2015. The revenues have grown at a CAGR of 33 per cent during FY2013-14 to FY2015-16. The operating margins registered a healthy 8.42 percent in FY2015-16 as compared to 6.86 percent in FY2014-15. The firm registered PAT margin of 6.07 percent in FY2015-16 and 5.45 percent in FY2014-15.

- **Efficient working capital management and comfortable liquidity**
  GCC has exhibited efficient working capital management on account of quick payments received from customers. The net cash accruals stood at Rs. 4.79 crore in FY2015-16 as against Rs.3.14 crore in the previous year.

Weaknesses

- **Moderate scale of operations**
  The scale of operations are moderate despite the firm being in the construction business from the last 32 years. The firm achieved operating income of Rs. 59.06 crore in FY2015-16 as compared to Rs.35.67 crore in FY2014-15. Being a civil contractor, the revenue of GCC depends on the number of successful bids and the tenders being released in the financial year.

- **Competitive and fragmented industry**
  The firm is part of the civil construction industry which is marked by the presence of several mid to big sized players resulting in intense market competition. Risk become more pronounced with the minimum amount of bidding set for tenders. However, this risk is mitigated to an extent as the promoters have been in the business for the last 32 years.

Analytical Approach
SMERA has considered the standalone financial and business risk profiles of the firm.

Outlook: Stable
SMERA believes that GCC 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 revenue and profitability or if the financial risk profile deteriorates. Any higher than expected working capital requirements undertaken by the firm may also entail a 'Negative' outlook.

About the Rated Entity - Key Financials
For FY2015-16, GCC registered profit after tax (PAT) of Rs.3.58 crore on operating income of Rs.59.06 crore as against PAT of Rs. 1.95 crore on operating income of Rs. 35.67 crore in FY2014-15. The networth stood at Rs. 9.70 crore as on 31 March, 2016 compared to Rs. 8.34 crore as on 31 March, 2015.

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 (Upto last three years)
Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA BB+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	SMERA A4+

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ABOUT SMERA

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