



Press Release

Suwarna Buildcon Private Limited

28 July, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) and short term rating of '**SMERA A3**' (read as **SMERA A three**) on the Rs. 20.00 crore bank facilities of Suwarna Buildcon Private Limited. The outlook is '**Stable**'.

Suwarna Buildcon Private Limited (SBPL) was incorporated in 2011. The company is a registered Class I contractor and undertakes projects as a principal contractor and also as a subcontractor catering to the irrigation segment. SBPL undertakes construction of weirs and barrages, road work, minor bridges and also buildings in Maharashtra. The day-to-day operations are led by Mr. Manojkumar Abrol, his wife Mrs. Rashmi M Abrol and daughter Ms. Rashi Abrol.

Key Rating Drivers

Strengths

•Experienced promoters and healthy revenue visibility

The company benefits from the extensive experience of its promoter, Mr. Manojkumar Abrol who possesses over 20 years of experience in civil construction. The company registered operating income of Rs. 36.00 crore for FY2015-16 as against Rs.21.13 crore in the previous year. The significant growth in revenue is on account of a sub-contract from Sadbhav Engineering Limited in FY2015-16.

•Healthy financial risk profile

The financial risk profile is healthy marked by gearing of 0.84 times as on 31st March, 2016. The interest coverage ratio and debt service coverage ratio stood at 5.19 times and 4.47 times respectively for FY2016. Further, the net cash accruals to total debt (NCA/TD) stood at 0.38 times for FY2015-16. SBPL plans to avail term loan of Rs. 5.00 crore to fund the purchase of machinery worth Rs. 7.00 crore in FY2017-18. The company also plans to dilute its investment worth Rs. 3.02 crore as on 31st March, 2016 in its group company, Sadguru Sri Sri Sakhar Karkhana Limited (SSSSKL) in FY2017-18. During FY2016-17, SBPL recovered advances worth Rs. 5.14 crore given to SSSSKL as

loan. This led to improvement in the liquidity position as the average cash credit limit utilisation stood at around 10 percent for the last six months ended 28 February, 2017. Going forward, this is expected to reduce the dependence on external bank borrowings leading to improvement in the financial and liquidity profile of the company.

• **Healthy order book position alongwith price escalation clause**

The company has 12 projects from Sadbhav Engineering Limited (SEL) and government departments translating into Rs. 1.73 billion as on February 28, 2017 expected to be executed over the next two years. Hence, the current order book position provides healthy revenue visibility over the medium term. Further, the contracts are suitably guarded against fluctuations in input prices through the built-in price escalation clause that shields the company from large variations thus protecting operating margins.

Weaknesses

• **Modest scale of operations**

The operations of SBPL are considered to be at a moderate level despite the company being in the civil construction business for more than a decade. The company has achieved operating income of Rs. 36.00 crore in FY2015-16 compared to Rs.21.13 crore in FY2014-15 and Rs. 14.85 crore in FY2013-14. Further, SBPL reported operating income of Rs.59.64 crore (Provisional) during April, 2016 to February, 2017.

• **Customer concentration risk**

SBPL derived around 27 percent revenue from a single customer - SEL for FY2015-16 as against 26 percent in the previous year. The remaining 23 percent is derived from government departments for projects executed mainly in Maharashtra. Further, out of the current order book position, around 54 percent is from SEL and the remaining 46 percent from government departments. Hence, any slowdown in receipt of orders or delays in payments from SEL can potentially impact the liquidity profile of SBPL. However, the risk is mitigated to some extent as SEL is one of the reputed EPC contractors in India.

• **Competitive and fragmented industry, tender based business**

The company faces intense competition in the civil construction industry from several mid to big sized players. Besides, the nature of operations is tender based which may affect profitability. However, the risk is mitigated to an extent as the management has been in the business for over a decade and has healthy order book position.

Analytical Approach

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

Outlook: Stable

SMERA believes that SBPL will maintain a stable outlook in the medium term on account of its experienced management and healthy order book position. 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 and comfortable liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in cash accruals or stretched working capital cycle resulting in deterioration of its financial risk profile.

About the Rated Entity - Key Financials

For FY2015-16, SBPL reported Profit after Tax (PAT) of Rs. 2.94 crore on operating income of Rs. 36.00 crore as against PAT of Rs. 3.14 crore on operating income of Rs. 21.13 in the previous year. The net worth stood at Rs. 12.26 crore as on 31 March, 2016 as against Rs. 9.32 crore in the previous year.

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

CARE, vide release dated January 21, 2015 has suspended its ratings on account of lack of adequate information required for monitoring of ratings.

Any other information

Not Applicable

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
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BBB- / Stable
Proposed Term Loan	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BBB- / Stable
Proposed Bank guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A3

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