

Press Release

Ace Corporation

September 04, 2017



Rating Assigned

Total Bank Facilities Rated*	Rs. 9.50 Cr.
Long Term Rating	SMERA B / Outlook: Stable
Short Term Rating	SMERA A4

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA B**' (read as **SMERA B**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs. 9.50 crore bank facilities of Ace Corporation. The outlook is '**Stable**'.

Ace Corporation (AC), a Mumbai-based partnership firm was established in 1983, by Mr. Kirti Kumar Shah. The firm undertakes civil construction work - construction of roads, parks and buildings for BMC (Brihanmumbai Municipal Corporation) through tender bidding. AC has also started bidding for projects of Maharashtra Housing and Area Development Authority (MHADA).

Key Rating Drivers

Strengths

- Established track record of operations and experienced promoter**

AC was established in 1983 as a partnership firm and has been carrying out civil construction work for BMC. Mr. Kirti Kumar Shah, Managing Partner has more than two decades of experience in the civil construction industry.

- Moderate order book position**

AC has moderate order book position marked by current orders in hand of Rs. 22.85 crore from BMC as on August 2017 to be executed by March 2020. For April to June 2017, the firm booked revenue to the tune of Rs. 5.00 crore.

- Moderate financial risk profile**

AC has moderate financial risk profile with networth of Rs. 3.28 crore as on 31 March, 2017 (Provisional) compared to Rs.3.32 crore as on 31 March, 2016. The gearing of the firm stood at 1.00 times as on 31 March, 2017 (Provisional) compared to 1.53 times as on 31 March, 2016. The total debt of Rs. 3.27 crore as on 31 March, 2017 comprises cash credit of Rs. 1.26 crore with the balance being unsecured loans from promoters.

Weaknesses

- Moderate scale of operations due to tender based nature of business**

The operations are at a moderate level despite the firm being in the construction business from the last 34 years. The firm registered revenue of Rs. 10.01 crore for FY2016-17 (Provisional) compared to Rs. 13.39 crore for FY2015-16. Being a civil contractor, the revenue of AC depends on the number of successful bids and the tenders released in the financial year.

- Competitive and fragmented industry**

The civil construction sector is marked by the presence of several mid to big sized players. The firm

faces intense competition from other players. Risk becomes more pronounced as tenders are based on the minimum amount of bidding of contracts. However, the risk is mitigated to an extent as the management has been operating in the industry for 34 years.

• **Working capital intensive operations, stretched liquidity**

The operations are working capital intensive. The Gross Current Asset (GCA) stood at 125 days for FY2016-17 due to high debtors of 116 days compared to GCA days of 77 days for FY2015-16 with debtors of 76 days.

Analytical Approach

SMERA has considered the standalone financial and business risk profile of the firm.

Outlook: Stable

SMERA believes that AC will maintain a stable outlook in 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, deterioration in the financial risk profile or higher than expected working capital requirements.

About the Rated Entity - Key Financials

For FY2015-16, AC reported profit after tax (PAT) of Rs. (1.20) crore on operating income of Rs.4.85 crore compared with PAT of Rs.0.03 crore on operating income of Rs.15.57 crore for FY2014-15. The net worth as on 31 March, 2016 stood at Rs.2.46 crore as against net worth of Rs.2.74 crore in the previous year.

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>
- 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	1.50	SMERA B / Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	SMERA B / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.50	SMERA A4
Proposed Bank	Not	Not	Not	1.50	SMERA A4

Guarantee	Applicable	Applicable	Applicable		
Proposed	Not Applicable	Not Applicable	Not Applicable	1.50	SMERA A4

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