

Press Release

Ace Corporation

October 16, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 11.00 crore (Enhanced from Rs. 9.50 crore)
Long Term Rating	ACUITE B/ Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE B**' (**read as ACUITE B**) and short-term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 11.00 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) and Mumbai Metropolitan Region Development Authority (MMRDA). The firm is a class 1 contractor registered with Brihanmumbai Municipal Corporation (BMC).

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of AC to arrive at this rating.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

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. The promoter is ably supported by his son, Mr. Nilesh Shah. Mr. Nilesh looks after the day-to-day operations of the firm.

- **Healthy order book position**

AC has healthy order book position marked by current orders in hand of Rs. 79.78. crore from BMC as on October 2019 to be executed by March 2021. For April to September 2019, the firm booked revenue to the tune of Rs. 3.33 crore.

Weaknesses

- **Small scale of operations**

The firm has small scale of operations marked by operating income of Rs. 7.16 crore in FY2019 (provisional) as against Rs. 14.11 crore in FY2018. This is mainly on account of the tender-based nature of business. The revenues of the firm declined as it had low work in hand for FY2019. Acuité believes that the ability of the firm to scale up its operations will be a key monitorable. 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 more than three decades.

- **Average financial risk profile**

AC has average financial risk profile with low net worth of Rs. 2.64 crore as on 31 March, 2019 (Provisional) compared to Rs. 3.91 crore as on 31 March, 2018. The decline in networth is on account of withdrawal of capital by the firm. The gearing of the firm stood at 1.65 times as on 31 March, 2019 (Provisional) compared to 1.12 times as on 31 March, 2018. The total debt of Rs. 4.37 crore as on 31 March, 2019 (provisional) comprises working capital funds of Rs. 1.85 crore with the balance being unsecured loans from promoters. The interest coverage ratio (ICR) declined and stood moderate at 1.46 times for FY2019 as compared to 2.09 times for FY2018. This is due to decline in profitability of the firm.

Acuité believes that the firm will maintain an average financial risk profile over the medium term.

- **Working capital intensive operations**

AC's operations are working capital intensive as reflected by the gross current asset (GCA) days. The GCA stood at 258 days for FY2018-19 (provisional) compared to GCA days of 180 days for FY2017-18. The firm primarily undertakes construction contracts for BMC. There is a delay in receiving payments from the Government, reflected in the high debtor days of around 118 days in FY2019 (provisional). The same stood at 75 days in the previous year. Acuite expects the operations of the company to remain working capital intensive on account of delay in payments from Government resulting in high debtor days for the firm.

Rating Sensitivities

- Substantial improvement in scale of operation (~Rs. 20.00-30.00 crores), while maintaining profitability margin of around 5-6 per cent over the medium term.
- Withdrawal of capital or unsecured loans.

Material Covenants

None

Liquidity Position: Adequate

The firm has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs. 0.26 crore for FY2019 (Provisional) against Rs. 0.06 crore of maturing debt obligations for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs. 0.57 crore to Rs. 1.20 crore during 2020-22 against debt obligation of Rs. 0.02 crore for the same period. The firm maintains unencumbered cash and bank balances of Rs. 0.72 crore as on 31 March, 2019(Provisional). The current ratio stood low at 1.05 times as on 31 March, 2019 (Provisional). Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash accruals to its maturing debt obligation.

Outlook: Stable

Acuité believes that AC will maintain '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 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

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	7.16	14.11	10.27
EBITDA	Rs. Cr.	0.62	0.71	0.61
PAT	Rs. Cr.	0.23	0.47	0.54
EBITDA Margin	(%)	8.69	5.02	5.91
PAT Margin	(%)	3.21	3.35	5.27
ROCE	(%)	10.43	11.16	11.24
Total Debt/Tangible Net Worth	Times	1.65	1.12	1.38
PBDIT/Interest	Times	1.46	2.09	2.40
Total Debt/PBDIT	Times	5.28	4.49	5.03
Gross Current Assets (Days)	Days	258	180	321

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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. Cr.)	Ratings/Outlook
23-Oct-2018	Cash Credit	Long Term	2.00	ACUITE B/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	4.50	ACUITE A4 (Reaffirmed)
	Proposed Bank Guarantee	Short Term	1.50	ACUITE A4 (Reaffirmed)
	Proposed Short Term Loan	Short Term	1.50	ACUITE A4 (Reaffirmed)
04-Sept-2017	Cash Credit	Long Term	1.50	ACUITE B/ Stable (Assigned)
	Proposed Cash Credit	Long Term	0.50	ACUITE B/ Stable (Assigned)
	Bank Guarantee	Short Term	4.50	ACUITE A4 (Assigned)
	Proposed Bank Guarantee	Short Term	1.50	ACUITE A4 (Assigned)
	Proposed Short Term Loan	Short Term	1.50	ACUITE A4 (Assigned)

***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	2.00	ACUITE B / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00 (Enhanced from Rs.4.50 Cr.)	ACUITE A4 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Reaffirmed)

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About Acuité Ratings & Research:

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