Press Release

JAMPANA CONSTRUCTION PRIVATE LIMITED

21 November, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 116.00 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 BBB minus)** and short term rating of **'SMERA A3' (read as SMERA A three)** on the Rs. 116.00 crore bank facilities of JAMPANA CONSTRUCTION PRIVATE LIMITED. The outlook is **'Stable'**.

Jampana Construction Private Limited (JCPL), a civil construction company was established in 2003 by Mr. J. Srinivasa Raju and Mr. J. Krishna Chaitanya Varma. The company is engaged in the construction of residential and commercial buildings, bridges, hospitals, layout development etc in Karnataka, Tamil Nadu, Maharashtra and Andhra Pradesh.

Key Rating Drivers

Strengths

• **Significant experience of promoters in the construction sector**
The promoters have significant experience in the construction industry. Mr. J. Srinivasa Raju, aged 50 years, has been associated with the industry for over 30 years with extensive experience in planning, execution, quality control and cost structures of construction projects while Mr. J. Krishna Chaitanya Varma, aged 32 years is also actively involved in the business. The company enjoys a strong presence in the construction segment with long standing relations with central and state government agencies.

• **Comfortable financial risk profile**
The company has comfortable financial risk profile with gearing at 0.31 times on account of moderate debt levels of Rs. 22.32 crore as on 31 March, 2017. The TOL to TNW ratio is also relatively low at around 2.06 times as on 31 March, 2017. The Interest coverage has also been good at 2.90 times in FY2017. The Networth remains comfortable at Rs.71.64 crore as on 31 March, 2017. The operating margins of the company have remained in the range of 8-11 percent in the past. However, FY2017 has been an aberration with margins of 6.34 percent due to increase in cost arising from the change in design of two projects of National Building Construction Corporation Limited (NBCC) - at Nagpur and Hyderabad during the construction phase.

• **Healthy orders in hand**
The company has a strong order book in hand with a work value of Rs. 734 crore to be executed in around three years. The healthy order book is expected to drive revenues, expected to be in the range of Rs.210 crore in FY2017. Further, the management is in the process of garnering fresh work contracts which would help in sustaining revenue growth over the medium term.

Weaknesses

• **Customer and geographical concentration risk**
JCPL primarily caters to government bodies namely NBCC, a central public sector undertaking and state government bodies in Karnataka such as Karnataka Housing Board, Karnataka Health System Development Project, Karnataka PWD, Karnataka State Police Housing & Infrastructure Development Corporation

Limited. Since the group caters to clients in Tamil Nadu, Andhra Pradesh and Maharashtra, it is exposed to geographical and customer concentration risk.

- **Working capital intensive operations**

The operations are fairly working capital intensive with gross current assets (GCA) of around 261 days as on 31 March, 2017 compared to 218 days in the previous year. This is mainly on account of high debtors of 102 days as on 31 March, 2017 which increased from 50 days as on 31 March, 2016 due to funds being stuck in power supply lines' project in UP. Also, the company has significant investment of Rs.16.34 crore and Rs.11.24 crore in group companies - M/s. Harsha Developers and Jampana Developers Private Limited (JDPL) as on date. Harsha Developers is a 51 per cent JV of the company engaged in the construction of commercial and residential buildings in Hyderabad while JDPL has land holdings for future construction projects. SMERA does not expect significant deployment of funds from JCPL in these ventures going forward. Further, it is expected that a part of the advances in Harsha Developers would be repaid and also a part of the investments in JDPL would be liquidated by the current fiscal end i.e. March 2018.

- **Susceptibility of profit margins to volatility in raw material prices**

The profit margins are susceptible to adverse variations in input prices given the fixed/semi-fixed nature of contract pricing. This vulnerability is reflected in the decline of operating margins to 6.34 per cent in FY2017 compared to 8.98 per cent in FY2016. The margins are nevertheless, expected to improve in the current fiscal with improvement in overall industry performance and higher revenue growth.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Jampana Construction Private Limited.

Outlook: Stable

SMERA believes that JCPL will maintain a stable outlook over the medium term on account of its experienced management and healthy order book. 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. 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 Group

Not Applicable

About the Rated Entity - Key Financials

For FY2016-17, (JCPL) reported Profit after tax (PAT) of Rs. 2.64 crore on operating income of Rs. 196.18 crore as against PAT of Rs. 8.91 crore on operating income of Rs. 212.31 crore in the previous. The net worth stood at Rs. 71.64 crore as on 31 March, 2017 as against Rs. 68.99 crore as on 31 March, 2016.

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

None

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.smera.in/criteria-default.htm
- Financial Ratios And Adjustments - https://www.smera.in/criteria-fin-ratios.htm
- Infrastructure Entities - https://www.smera.in/criteria-infra.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	14.00	SMERA BBB- / Stable
Term loans	Not Applicable	Not Applicable	Not Applicable	8.00	SMERA BBB- / Stable
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	82.00	SMERA A3
Letter of credit	Not Applicable	Not Applicable	Not Applicable	12.00	SMERA A3

Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in Abhishek Verma Manager - Rating Operations Tel: 022-67141115 abhishek.verma@smera.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 varsha.bist@smera.in

ABOUT SMERA

SMERA Ratings Limited is a joint initiative of SIDBI, D&B and leading public and private sector banks in India. SMERA is registered with SEBI, accredited by RBI as an External Credit Assessment Institution (ECAI), under BASEL-II norms for undertaking Bank Loan Ratings. SMERA Bond Ratings is a division of SMERA Ratings Limited responsible for ratings of bank facilities, and capital market/money market debt instruments such as Bonds, Debentures, Commercial Papers, Fixed Deposits, Certificate of Deposits etc.. For more details, please visit www.smera.in.