

Press Release

Jampana Construction Private Limited

D-U-N-S® Number: 67-566-2845

February 19, 2019



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 135.00 Cr. (Enhanced from Rs.116.00 Cr)
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs.116.00 crore bank facilities and assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs.19.00 crore bank facilities of Jampana Construction Private Limited (JCPL). The outlook is '**Stable**'.

The reaffirmation of the rating reflects established track record, as well as the extensive experience of its promoters and management team in executing civil-construction contracts. JCPL's order book is healthy at Rs.860.51 crore as on December 2018 providing adequate revenue visibility over the medium term; its financial risk profile is healthy. JCPL reported decline in its revenues in FY2018 to Rs.133.38 crore against Rs.196.18 crore in FY2017. The decline was owing to right of way issues and uncertainty in billing during the implementation of GST, among others. However, healthy order book and new orders are expected to support improvement of its revenues to Rs.160-180 crore over the medium term. The ratings also reflect working capital intensive operations and susceptibility of its profits to tender based business and volatility in raw material prices, though partly mitigated by price escalation terms.

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 and layout development in Karnataka, Tamil Nadu, Maharashtra and Andhra Pradesh.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced promoters and established relationships with Karnataka Govt**

JCPL is promoted by Mr. J. Srinivasa Raju who has more than two decades of experience in the construction business. Due to established track record in the construction industry, the promoters have established relations with its customers which has benefitted in terms of bagging new orders in competitive bidding model. The company enjoys a strong presence in the construction segment with long standing relations with central and state government agencies which helped JCPL. The company has an unexecuted order book of Rs.860.51 crore in hand as on December 31, 2018 which is to be executed over the next 24 months, provides adequate revenue visibility over the medium term. Further, the company is securing regular orders on sub-contract basis from large players such as NCC Limited and other Government projects. Further, the company's focus remains primarily on the Government sector because of low credit risk.

In FY 2018, the revenues have dropped by 30 percent from Rs.196.18 crore in FY2017 to Rs.133.38 crore in FY2018 due to issues in billing at Government Departments of Karnataka, as there is an ambiguity about the rates at which bills shall be raised. This caused stalling of the work for couple of

months during FY2018 and further, right of way issues caused stalling of the work. Acuité believes that with diversified clientele, experienced management and operational track record, JCPL continues to enjoy the benefit of its business risk profile over the medium term.

• Comfortable financial risk profile

The gearing remained healthy and has been improving from 0.31 times as on March, 2017 to 0.26 times as on March, 2018 due to increasing accretion to reserves and the gearing is expected to remain healthy under 0.5 times over the medium term. JCPL's net worth is healthy at Rs.76.78 crore and is expected to improve over the medium term backed by improving topline and moderate profitability. Total outside liabilities to total net worth (TOL/TNW) is moderate at 1.87 times in FY2018 and is expected to improve marginally. JCPL's improving net cash accruals and moderate debt levels have led to comfortable debt protection metrics marked by net cash accruals to total debt (NCA/TD) and interest coverage ratio (ICR) of 0.39 times and 2.81 times in FY2018. JCPL has incurred capex of Rs.13.00 crore for construction equipment and shuttering materials in FY2019, which is funded out of term loan of Rs.9.50 crore and remaining being internal accruals. Acuité believes that with moderate cash accruals and no significant capex plans, the financial risk profile is expected to improve marginally over the medium term.

Weaknesses

• Working capital intensive operations

The company has intensive working capital operations as evident from its Gross Current Assets (GCA) of 368 days as on March 31, 2018 as against 261 days as on March 31, 2017. High owing to unbilled inventory/work-in-progress at year end; resulted in high inventory levels of 113 days. Further, as the work is majorly of Government Departments, the receivable days are also high which stands at 112 as on March 31, 2018 (PY:102 days). Working capital intensive operations lead to high utilisation of its working capital limits at about 88 percent over the past nine months ended December 2018. Acuité believes that with moderate accruals, nature of the works, operations continue to be working capital intensive over the medium term.

• Tender nature of operations

Since operations are tender driven, topline depends on successful bidding. Also, any slowdown in orders from Government departments or cyclical in the construction industry is likely to adversely affect the business and financial risk profile. Further, domestic civil construction industry remains highly competitive with numerous contractors, leading to high competition that restricts the company's pricing flexibility, besides tender based system coupled with competitive bidding process, result in thin operating margins for the company.

Liquidity Position:

JCPL has moderate liquidity marked by moderate net cash accruals though partly constrained by high bank limit utilisation. JCPL reported cash accruals of Rs.7.83 crore, while its maturing debt obligations are about Rs.1.45 crore. The cash accruals of the JCPL are estimated to remain at around Rs.8.50-10.00 crore during 2019-21, against which its repayment obligations are about Rs.4.50 crore during 2019-21. However, majority of the cash accruals are absorbed into the incremental working capital requirements as reflected in increased GCA days at 367 in FY2018 from 218 days in FY2017; this resulted in high utilisation of bank limits at over 89 percent for six months through December 2018. The current ratio stood at 1.43 times as on March 31, 2018. Acuité believes that the liquidity of JCPL is likely to remain moderate on account of working capital intensive operations.

Outlook: Stable

Acuité believes that JCPL will maintain 'Stable' outlook and continue to benefit from the extensive experience of its promoters and the healthy order-book position. The outlook may be revised to 'Positive' if the company is able to demonstrate substantial growth in revenues and healthy profitability. Conversely, the outlook may be revised to 'Negative' if there is any slowdown in order execution, or cost escalation results in lower-than-expected cash accruals; or if any major capital expenditure or stretch in the working-capital cycle weakens liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17(Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	133.38	196.18	212.31
EBITDA	Rs. Cr.	12.04	12.43	19.07
PAT	Rs. Cr.	5.14	2.64	8.91
EBITDA Margin	(%)	9.02	6.34	8.98
PAT Margin	(%)	3.86	1.35	4.20
ROCE	(%)	14.55	16.42	47.46
Total Debt/Tangible Net Worth	Times	0.26	0.31	0.25
PBDIT/Interest	Times	2.81	2.90	3.73
Total Debt/PBDIT	Times	1.23	1.25	0.71
Gross Current Assets (Days)	Days	367	261	218

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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
21-Nov-2017	Cash Credit	Long Term	14.00	ACUITE BBB- / Stable (Assigned)
	Term Loans	Long Term	8.00	ACUITE BBB- / Stable (Assigned)
	Bank guarantee	Short Term	82.00	ACUITE A3 (Assigned)
	Letter of Credit	Short Term	12.00	ACUITE A3 (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	12.00	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB-/Stable (Assigned)
Term Loan	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE BBB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	58.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A3 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A3 (Assigned)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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