

Press Release

Jampana Construction Private Limited

May 04, 2020

Rating Reaffirmed and withdrawn



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its 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.135.00 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.435 crore as on February 2020 providing moderate revenue visibility over the medium term; its financial risk profile is healthy. However 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 majorly in Karnataka, Tamil Nadu, Maharashtra and Andhra Pradesh. The company is registered as a class-A contractor with the public works departments of Karnataka.

Analytical Approach

Acuite 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. The directors are well supported by along with other professional team. With the promoter's extensive industry experience and timely execution of projects, the company has been able to establish long-standing relationship with various government as well as private clients has benefitted in terms of bagging new orders in competitive bidding model. The company has an unexecuted order book of Rs.435 crore in hand as on February 2020, which is to be executed over the next 24 months, provides moderate 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. In FY 2019, JCPL has reported a revenues 130.59 as against 133.38 crore in FY2018. Further company has reported revenue about Rs.170 Cr till February 2020 (Provisional) and estimated about Rs.180 Cr for FY2020.

Acuite believes that JCPL will continue to benefit from the promoter's established presence in the industry; its improving business risk profile and strong counterparties will sustain and support the business risk profile over the medium term.

• Moderate financial risk profile

The company's financial risk profile is Moderate characterised by moderate net worth, low gearing and healthy debt protection metrics and adequate liquidity. JCPL's net worth is moderate at Rs.65.03 crore as on March 31, 2019 as against 76.78 crore as on March 31, 2019. During the last year company has paid Rs.17.30 Crore for previous year's taxation. The Company has followed a moderately

aggressive financial policy in the past; the same is reflected through its peak gearing and total outside liabilities to tangible network (TOL/TNW) levels of 0.40 and 2.27 times as on March 31, 2018.

The revenues of the company declined by around 2 per cent to Rs.130.59 crore during 2018-19, while its operating margins were stable in the range of over 9 per cent during last two years. The healthy profitability levels coupled with moderate debt levels has led to healthy debt protection measures. The NCA/TD and interest coverage ratio for FY 2019 were moderate/healthy at 0.35 times and 3.57 times, respectively in FY2019 vis-à-vis 0.39 times and 2.81 times in FY2018. JCPL's moderate cash accruals to the tune of about Rs.5-9 crore during last three years ending through 2018-2019 and its repayment obligations are about Rs.1.45 crore to 4.95 crore during the same period. Its accruals are expected in the range of Rs.10-11 crores in FY2020-22 against its repayment obligations of Rs.2-3 crores during the same period.

Acuite believes that the financial risk profile of the company is expected to remain moderate backed by expected ramp-up in operations and moderate routine capital expenditure towards addition and replacement of machinery and equipment.

Weaknesses

• Working capital intensive operations

The company has intensive working capital operations as evident from its Gross Current Assets (GCA) of 307 days as on March 31, 2019 as against 373 days as on March 31, 2018. Although working capital management on improving trend however there is a high unbilled inventory/work-in-progress at year end; resulted in high inventory levels of 125 days. Further, as the work is majorly of Government Departments, the receivable days are also high which stands at 90 as on March 31, 2019 (PY: 112 days). Its working capital limits are utilised at 71 percent over the past six months ended February 2020. Acuite expects the operations of the PIL to remain moderately working capital intensive being Government projects wherein execution is more skewed towards last quarter, the operations continue to be working capital intensive over the medium.

• 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.

Rating Sensitivities

- Significant improvement in scale of operations, while maintaining profitability margins
- Deterioration in working capital cycle and any unplanned significant capex to deterioration of financial risk profile and liquidity.
- Timely execution of current order book without any cost overrun.

Material Covenants

None

Liquidity Position: Adequate

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. JCPL generated cash accruals of Rs.9.08 crore in FY2019 against debt obligations of Rs.1.45 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.11-12 crore during FY2020-22 against repayment obligations in the range of Rs.2-3 crore for the same period. The average fund-based working capital utilization stood at 71 percent for the past six months ended February 2020. The company maintained unencumbered cash and bank balances of Rs.19 crore as on 31 March 2019. The current ratio stands at 1.88 times as on 31 March 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accruals against no major capex plans over the medium term.

Outlook: Stable

Acuite 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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	130.59	133.38
PAT	Rs. Cr.	5.55	5.14
PAT Margin	(%)	4.25	3.86
Total Debt/Tangible Net Worth	Times	0.40	0.26
PBDIT/Interest	Times	3.57	2.81

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
19-Feb-2019	Cash Credit	Long Term	12.00	ACUITE BBB-/Stable (Reaffirmed)
	Cash Credit	Long Term	2.00	ACUITE BBB-/Stable (Reaffirmed)
	Cash Credit	Long Term	1.00	ACUITE BBB-/Stable (Assigned)
	Term Loan	Long Term	4.00	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long Term	9.50	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	58.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	24.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	12.50	ACUITE A3 (Assigned)
	Letter of credit	Short Term	12.00	ACUITE A3 (Reaffirmed)
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- (Withdrawn)
Term Loan	Not Available	Not Applicable	28-02-2022	2.51 (Revised from Rs.4.00 Cr)	ACUITE BBB-/Stable (Reaffirmed)
Term Loan	31-03-2018	Not Applicable	31-03-2021	3.22 (Revised from Rs.9.50 Cr)	ACUITE BBB-/Stable (Reaffirmed)
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 (Withdrawn)
Letter of credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	21.27	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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