

Press Release

Jampana Construction Private Limited

August 02, 2021

Rating Reaffirmed



Total Instruments Rated*	Rs. 135.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* 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 Cr 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, healthy order book position providing moderate revenue visibility over the medium term, moderate financial risk profile, adequate liquidity and favorable bid success ratios. However, the ratings also reflect working capital intensive nature of operations, geographic concentration of projects and susceptibility of its profits to tender based business and volatility in raw material prices, though partly mitigated by price escalation terms.

About the Company

Incorporated in 2003, JCPL is a Bengaluru based civil contractor engaged in the construction of commercial and residential buildings, bridges, hospitals, layout development etc. JCPL is promoted by Mr. J Srinivasa Raju and undertakes direct as well as subcontracted orders. The clientele of the Company includes National Building Construction Corporation (NBCC), Karnataka Housing Board (KHB), Karnataka Road Development Corporation Limited (KRDCL), Karnataka Health System Development Research Projects (KHSDRP), Nagarjuna Construction Company Limited (NCCL), and Bangalore Development Authority (BDA), Military Engineer Services (MES) and other state and central government agencies.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Significant experience of the promoters in the construction sector**

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.313.89 Cr in hand as on 31 June, 2021 which is to be executed over the next 12-24 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. Acuite 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.

- **Stable operating margins**

Despite fluctuating operating revenues, the company has been able to maintain operating margins in the range of 8.51 per cent to 9.97 per cent and net profit margins in the range of 4.25 percent to 5.01 per cent over past three years ended FY21. The company has been able to maintain the margins by maintaining the mix between private and government projects. Further the company has a bid success ratio of 65 per cent. Acuite believes, going forward, the company will be able to maintain the profitability, considering the right mix of private and government projects and favorable bid success ratios.

- **Moderate financial risk profile**

The company's financial risk profile is moderate marked by moderate net worth, modest capital structure and strong coverage indicators. The net worth stood moderate at Rs. 83.23 Cr as on March 31, 2021 (Provisional) against Rs. 73.60 Crore as on March 31, 2020. The net worth improved primarily due to accretion of profit to reserves. The capital structure was moderate as observed from gearing improving to 0.05 times as on 31 March 2021 from 0.40 times as on 31 March 2020 and Total Outside Liabilities to Net Worth improving to 1.15 times as on 31 March 2021 from 1.91 times as on 31 March 2020.

Coverage indicators were strong marked by Interest Coverage Ratio in the range of 3.57 times to 4.93 times over past 3 years ended FY21 (Prov) and debt service coverage ratio in the range of 1.76 times to 2.26 times over the same period. Acuite believes that with moderate cash accruals and no significant capex plans, the financial risk profile is expected to improve over the medium term.

Weaknesses

- **Working capital intensive nature of business**

The operations of the company is working capital intensive as observed from its Gross Current Assets days in the range of 273 days to 384 days over past 3 years ended FY21 (Prov). The primary reason for the same is higher unbilled inventory/work-in-progress at year end; resulted in high inventory levels of 147 days and majority of Government Departments, the receivable days are also high which stands at 82 as on March 31, 2021. Further to this, the utilization of working capital facilities was about 76 percent over the past six months ended June 2021. Acuite believes that with moderate accruals, nature of the works, operations continue to be working capital intensive over the medium term.

- **Tender nature of operations**

JCPL operates in infrastructural construction industry which is highly competitive with presence of large number small, regional and large players. EPC projects executed by the company are tender based with wins going to, the lowest bidder qualifying the terms and conditions stipulated by the respective agencies floating the bids. Acuite believes, tender based nature of operations results in volatile revenues and puts strain on profitability of the company where the bidding can get aggressive.

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

Liquidity Position: Adequate

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. JCPL generated cash accruals in the range of Rs 7.50 Cr to 13.25 over past 3 years ended FY21 (Prov) as against debt obligations in the range of Rs 2.77 Cr to 4.85 Cr for the same period. The cash accruals of the company are estimated to remain in the range of around Rs 9 - 11 Cr during FY22-24 against repayment obligations in the range of Rs.1.30 Cr for the same period. The average fund-based working capital utilization stood at 76 per cent for the past six months ended June 2021. The company maintained unencumbered cash and bank balances of Rs 7.52 Cr as on 31 March 2021. 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.

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.

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	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	94.22	169.13
PAT	Rs. Cr.	4.38	8.47
PAT Margin	(percent)	4.65	5.01
Total Debt/Tangible Net Worth	Times	0.05	0.33
PBDIT/Interest	Times	3.76	4.93

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

Not Applicable

Any other information

Not Applicable

Any Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure 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 (Up to last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
04 May 2020	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- (Withdrawn)
	Term Loan	Long term	2.51	ACUITE BBB-/Stable (Reaffirmed)
	Term Loan	Long term	3.22	ACUITE BBB-/Stable (Reaffirmed)
	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 (Withdrawn)
	Letter of Credit	Short term	12.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Short term	21.27	ACUITE A3 (Reaffirmed)

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)

***Annexure – Details of instruments rated**

Lenders Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	12.45%	Not Applicable	10.00	ACUITE BBB-/Stable (Reaffirmed)
Union Bank of India	Cash Credit	Not Applicable	12.45%	Not Applicable	2.00	ACUITE BBB-/Stable (Reaffirmed)
Union Bank of India	Term Loan	22 Sep 2015	14.50%	22 Aug 2022	1.43	ACUITE BBB-/Stable (Reaffirmed)
DCB Bank	Term Loan	04 Oct 2018	12.45%	31 Aug 2021	0.34	ACUITE BBB-/Stable (Reaffirmed)
Proposed Long Term Facility		Not Applicable	Not Applicable	Not Applicable	5.96	ACUITE BBB-/Stable (Reaffirmed)
State Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A3 (Reaffirmed)
State Bank of India	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Reaffirmed)
Union Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	24.00	ACUITE A3 (Reaffirmed)
Proposed Short term Facility		Not Applicable	Not Applicable	Not Applicable	41.27	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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