

Press Release

YOGESH CONSTRUCTION

November 21, 2017

Rating Assigned



Total Bank Facilities Rated*	Rs. 40.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA BB**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 40.00 crore bank facilities of YOGESH CONSTRUCTION. The outlook is '**Stable**'.

Yogesh Construction (YC), is a partnership firm established in 2007 by Mr. Yogesh Shah and Mr. Pravin Shah. The Mumbai-based civil construction firm undertakes civil contracts mainly for Municipal Corporation of Greater Mumbai (MCGM) and also sub-contracts for Surat Municipal Corporation (SMC). The firm is registered as Class AA -Category I contractor with MCGM and can bid for contracts upto Rs. 80.00 crore. The firm mainly undertakes contracts for drainage, sewerage construction and road repair.

Key Rating Drivers

Strengths

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

YC is engaged in the civil construction industry for more than two decades. The firm mainly executes civil construction contracts including drainage, sewerage construction and road repair. The firm is a Class AA - Category I contractor with MCGM. Further, the partners, Mr. Yogesh Shah and Mr. Pravin Shah collectively possess more than two decades of experience in the civil construction industry.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by adjusted tangible networth of Rs. 44.44 crore (Provisional) as on 31 March, 2017 as against Rs. 40.33 crore in the previous year. The adjusted gearing stood at 0.14 times on 31 March, 2017 (Provisional) as against 0.16 times in the previous year. For arriving at the rating, SMERA has considered the interest-bearing unsecured loan of Rs. 25.00 crore from related parties as part of equity as the same is subordinated to bank debt. The Interest coverage ratio (ICR) stood at 1.71 times for FY2017 (Provisional) and FY2016. The Debt service coverage ratio (DSCR) stood at 1.59 times for FY2017 (Provisional) and FY2016. The total liabilities to tangible networth (TOL/TNW) stood at 0.28 times as on 31 March, 2017 (Provisional) as against 0.45 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.51 times in FY2017 (Provisional) compared to 0.34 times in FY2016. Going forward, SMERA expects the firm to maintain its financial risk profile in the absence of major debt funded capex plan.

Weaknesses

- **Uneven revenue trend due to the tender based nature of operations**

YC reported operating income of Rs. 53.95 crore for FY2017 (Provisional) as against Rs. 50.05 crore for FY2016 and Rs. 54.85 crore for FY2015. The uneven trend in its revenue is mainly on account of tender-based nature of operations which makes it vulnerable to order cyclicity. Further, the firm executes civil construction contracts mainly in Mumbai thereby exposing the firm to geographic concentration risk. The firm is exposed to intense competition from organised and unorganised players in the civil construction industry. However, the firm has healthy unexecuted order book position of Rs. 149.50 crore which is expected to be executed over the next 18 months. Hence, the healthy order book position provides

moderate revenue visibility over the medium term.

- **Working capital intensive operations**

The operations are working capital intensive evident from the gross current asset days (GCA) of 302 (Provisional) for FY2017 as against 347 days for FY2016. This is mainly on account of high debtor days of 70 for FY2017 and high amount of deposits to be maintained with customers including tender deposits and retention money. However, the average cash credit limit utilisation stood at around 25 percent ended 30 September, 2017.

- **Profitability susceptible to fluctuations in raw material prices**

The prices of main raw materials i.e. iron, steel and cement are highly volatile in nature. Further, the raw material cost constitutes around 55 percent of total sales. Hence, any adverse movement in raw material prices can adversely impact profitability and operations of the firm. However, the firm reported healthy EBITDA margin of 11.38 percent for FY2017 (Provisional) as against 8.05 percent in the previous year.

- **Risk of capital withdrawal**

The firm is exposed to the risk of capital withdrawal considering its partnership constitution.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of the firm to arrive at the rating.

Outlook: Stable

SMERA believes that the outlook on YC's rated facilities will remain stable over the medium term on account of its established operational track record and extensive experience in the civil construction industry. The outlook may be revised to 'Positive' in case of significant growth in revenue and profitability while effectively managing its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in net cash accruals or deterioration in the financial and liquidity profile due to higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

In FY2016-17 (Provisional), the firm reported net profit of Rs. 2.91 crore on operating income of Rs.53.95 crore as against net profit of Rs. 2.05 crore on operating income of Rs.50.05 crore in the previous year. The adjusted tangible net worth stood at Rs. 44.44 crore as on 31 March, 2017 as against Rs. 40.33 crore a year earlier.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA BB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	SMERA A4+
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	SMERA A4+

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ABOUT SMERA

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