

Press Release

Yogesh Construction

January 03, 2019

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 40.00 crore bank facilities of Yogesh Construction (YC). The outlook is '**Stable**'.

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.

Analytical Approach

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

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. Further, the Partners 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 net worth of Rs. 44.99 crore as on 31 March, 2018 as against Rs. 43.70 crore in the previous year. The adjusted gearing stood at 0.26 times on 31 March, 2018 as against 0.14 times in the previous year. For arriving at the rating, Acuite 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 1.81 times for FY2018 and 1.72 times for FY2017. The debt service coverage ratio (DSCR) stood at 1.81 times for FY2018 and 1.59 times for FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 0.60 times as on 31 March, 2018 as against 0.36 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.25 times in FY2018 compared to 0.52 times in FY2017. Going forward, Acuite 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. 43.14 crore for FY2018 as against Rs. 53.58 crore for FY2017 and Rs. 50.05 crore for FY2016. 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. 347.63 crore which is expected to be executed over the next 24 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 Assets (GCA) of 510 days for FY2018 as against 324 days for FY2017. This is mainly on account of high debtor days of 145 as on 31 March, 2018 and high amount of deposits to be maintained with customers including tender deposits and retention money. However, the average cash credit limit utilisation for the last six months stood at ~47 percent ended 30 November, 2018.

• Profitability susceptible to fluctuations in input cost

The input cost i.e. power cost, labour cost and raw materials - iron, steel and cement cost are highly volatile in nature with labour cost constituting around ~32 percent of the total revenue as the firm sub-contracts its work. Hence, any adverse movement in input costs can impact profitability. However, the firm reported EBITDA margin of 10.70 percent for FY2018 as against 11.15 percent in the previous year.

Outlook: Stable

Acuite 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

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	43.14	53.58	50.05
EBITDA	Rs. Cr.	4.61	5.97	4.03
PAT	Rs. Cr.	2.73	2.95	2.05
EBITDA Margin	(%)	10.70	11.15	8.05
PAT Margin	(%)	6.34	5.50	4.10
ROCE	(%)	11.91	15.12	13.07
Total Debt/Tangible Net Worth	Times	0.26	0.14	0.16
PBDIT/Interest	Times	1.81	1.72	1.71
Total Debt/PBDIT	Times	1.78	0.80	1.21
Gross Current Assets (Days)	Days	510	324	347

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	5.00	ACUITE BB / Stable (Assigned)
	Bank Guarantee	Short Term	30.00	ACUITE A4+ (Assigned)
	Proposed Bank Guarantee	Short Term	5.00	ACUITE A4+ (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	5.00	ACUITE BB / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A4+ (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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