

Press Release

Shri Aruna Construction Private Limited

10 January, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 48.00 Cr
Long Term Rating	SMERA BB/Stable
Short term Rating	SMERA A4+

*Refer Annexure for details

SMERA has assigned long-term rating of '**SMERA BB**' (read as SMERA double B) and short term rating of '**SMERA A4+**' (read as SMERA A four plus) on the Rs.48.00 crore bank facilities of Shri Aruna Construction Private Limited (SACPL). The outlook is '**Stable**'.

SACPL was established in 2002 by Mr. J. Rama Raju and Mr. J. Venugopal Krishnam Raju. The company is engaged in civil construction in Karnataka and undertakes construction of commercial and residential buildings, bridges, hospitals among others.

List of key rating drivers and their detailed description:

Strengths:

Experienced management

The company, established by Mr. J. Rama Raju and Mr. J. Venugopal Krishnam Raju undertakes civil construction projects with strong presence in Karnataka. Both the directors have over two decades of experience in the industry. The company enjoys strong presence in the segment with long standing relations with government agencies.

Comfortable financial risk profile

The financial risk profile is comfortable with gearing of 0.48 times as on 31 March, 2017, TOL to TNW ratio of around 2.72 times as on 31 March, 2017. The Interest Coverage also remains moderate at 2.44 times in FY2017. The networth is moderate at Rs.27.49 crore as on 31 March, 2017. The margins improved at 10.73 percent in FY2017 compared to 8.24 percent in FY2016.

Healthy orders in hand

The company has a strong order book in hand with a work value of Rs. 320 crore ending Nov, 2017 to be executed in around three years time. Further, in the current year, the revenues are expected to be at Rs. 80 crore for the full year. For the 8 months period the revenue stood at Rs. 47.9 crore. Also, the management is in the process of getting fresh work contracts which would also help in achieving the expected growth in the medium term.

Weaknesses:

Decline in revenues due to delay in project

The revenues declined to Rs. 57.91 crore in FY2017 from Rs. 100.84 crore in FY2015 on account of delays in execution of one of the major orders from NCC Limited in Jayangar, Bangalore. The revenue of the company were impacted as a result during FY2016 and FY2017. Around 40 percent of the work is completed yet work did not commence. The company has received new orders in the current year, which are expected to strengthen the revenue position. The profit margins are susceptible to adverse variations in input prices and

reflected in the volatility in margins at around 8-10 percent.

Customer and geographical concentration

SACPL largely caters to government organisations in Karnataka namely, Karnataka Housing Board, Karnataka Health System Development Project, Karnataka PWD, Karnataka State Police Housing, etc. Since the presence of the company is limited to government organisations in Karnataka, the company is exposed to geographical and customer concentration risk.

Working capital intensive operations

The operations are working capital intensive with GCA of around 437 days compared to 364 days in FY2016. This is mainly on account of high inventory of 101 days in FY2017 from 68 days in FY2016. The working capital cycle is supported as the company receives high credit period from its suppliers.

Competitive and fragmented nature of industry

Being a tender based business exposes the company to intense competition from other players in the industry, thus affecting revenues and margins.

Analytical approach: SMERA has considered the standalone business and financial risk profiles of the company.

Outlook - Stable

SMERA believes that SACPL will maintain a stable outlook in the medium term on account of its experienced management and healthy order book. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenues and profitability, deterioration in the financial risk profile or higher than expected working capital requirements.

About the Rated Entity – Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	57.91	73.06	100.84
EBITDA	Rs. Cr.	6.22	6.02	7.85
PAT	Rs. Cr.	2.10	2.66	4.44
EBITDA Margin	(%)	10.73	8.24	7.78
PAT Margin	(%)	3.63	3.65	4.40
ROCE	(%)	15.29	20.46	62.33
Total Debt/Tangible Net Worth	Times	0.48	0.37	0.14
PBDIT/Interest	Times	2.44	4.35	8.12
Total Debt/PBDIT	Times	2.07	1.41	0.37
Gross Current Assets (Days)	Days	437	364	244

Applicable Criteria

- Application of Financial Ratios and Adjustments:
<https://www.smerra.in/criteria-fin-ratios.htm>
- Default Recognition: <https://www.smerra.in/criteria-default.htm>

Note on complexity levels of the rated instrument:

<https://www.smerra.in/criteria-complexity-levels.htm>

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

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. Crore)	Ratings/Outlook
Cash Credit	N.A.	N.A.	N.A.	3.00	SMERA BB/ Stable (Assigned)
Cash Credit	N.A.	N.A.	N.A.	3.00	SMERA BB/ Stable (Assigned)
Term Loan	N.A.	N.A.	N.A.	10.00	SMERA BB/ Stable (Assigned)
Bank Guarantee	N.A.	N.A.	N.A.	19.00	SMERA A4+ (Assigned)
Bank Guarantee	N.A.	N.A.	N.A.	11.00	SMERA A4+ (Assigned)
Letter of Credit	N.A.	N.A.	N.A.	2.00	SMERA A4+ (Assigned)

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ABOUT SMERA

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