



Press Release

Shri Aruna Construction Private Limited

April 09, 2019

Rating Downgraded

Total Bank Facilities Rated*	Rs. 48.00 Cr.
Long Term Rating	ACUITE D (Downgraded from ACUITE BB/Stable)
Short Term Rating	ACUITE D (Downgraded from ACUITE A4+)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE D**' (**read as ACUITE D**) from '**ACUITE BB**' (**read as ACUITE BB**) and short term rating to '**ACUITE D**' (**read as ACUITE D**) from '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.48.00 crore bank facilities of SHRI ARUNA CONSTRUCTION PRIVATE LIMITED. The outlook is '**Stable**'.

The downgrade of the rating reflects delays in servicing of its debt obligations, owing to delayed realisation of its receivables and high repayment obligations on its project specific loan.

Shri Aruna Construction Private Limited (SACPL) established in 2002, promoted by Mr. J. Rama Raju and Mr. J. Venugopal Krishnam Raju is engaged in the field of Civil and Construction work having presence in Karnataka. The company is engaged in the construction of commercial and residential buildings, bridges, hospitals, layout development among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the SACPL to arrive at this rating.

Key Rating Drivers

Strengths

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

SACPL is promoted by Mr. J. Rama Raju and Mr. J. Venugopal Krishnam Raju undertakes civil construction projects with strong presence in Karnataka. Both the directors have more than two decades of experience in the industry. The company enjoys strong presence in the segment with long standing relations with government agencies namely Karnataka Health System Development and Reform Project (KHSDRP), Karnataka Public Work Department (KPWD), Health and Family Welfare Department (HFWD) among others. The company reported revenues of Rs.95.49 crore in FY2018 as against Rs.57.91 crore in FY2017. Further, from April 2018 to February 2019, the company reported revenues of Rs.93.81 crore and has unexecuted orders of Rs.217 crore. Acuité believes that the company will benefit from the experience of the management and long track record of operations in the industry over the medium term.

- **Moderate financial risk profile**

The financial risk profile of the company is moderate marked by healthy gearing (debt to equity ratio), moderate total outside liabilities to total net worth (TOL/TNW), and debt protections metrics. Gearing is healthy at 0.65 times as on 31 March, 2018 as against 0.48 times as on 31 March, 2017. TOL/TNW is moderate at 2.81 times as on 31 March, 2018 as against 2.72 times as on 31 March, 2017. Net worth is moderate at Rs.32.06 crore as on 31 March, 2018 as against Rs.27.49 crore as on 31 March, 2017. Of the total debt of Rs.20.83 crore, long term debt constitutes Rs.9.29 crore and short term debt of Rs.11.54 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are comfortable at 3.13 times and 0.24 times respectively in FY2018. The

company reported cash accruals of Rs.5.06 crore for FY2018.

Weaknesses

- **Delays in servicing of debt obligations**

The company has been delaying in servicing of its debt obligations for the last three months through March 2019, by about 10-15 days; owing to stretch in its liquidity. The company availed project specific term loan of Rs.9.29 crores, which is payable over a period of 12 monthly instalments starting from October 2018 of Rs.0.83 crores each. Huge debt repayments besides slow pace of debtors realisation and locking of funds in deposits and retention money lead to mismatch in its cash flows and delays in debt servicing.

- **Working Capital Intensive Operations**

Operations of the company are working capital intensive marked by high gross current assets (GCA) at 340 days in FY2018 as against 437 days in FY2017. This is on account stretch in inventory cycle to 126 days in FY2018 as against 101 days in FY2017. Debtor's cycle is moderate and stood at 43 days as against 98 days in FY2019. Further, GCA days are high due to retention money receivables and deposits. This lead to high utilisation of its working capital limits at about 85 percent for the last six months through February 2019. Acuité believes that the operations continue to be working capital intensive over the medium term.

- **Competitive and fragmented industry**

SACPL is into civil works which is marked by the presence of several mid to large sized players. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts, and susceptibility to inherent cyclical in the sector. Further, the company is exposed to geographical concentration risk as the company is presently executing orders mainly in Karnataka. Acuité believes that SACPL's revenues and margins are susceptible to the competitive bidding scenario, besides its geographical concentration of its projects.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	95.49	57.91	73.06
EBITDA	Rs. Cr.	10.41	6.22	6.02
PAT	Rs. Cr.	4.57	2.10	2.66
EBITDA Margin	(%)	10.90	10.73	8.24
PAT Margin	(%)	4.78	3.63	3.65
ROCE	(%)	21.80	15.29	34.78
Total Debt/Tangible Net Worth	Times	0.65	0.48	0.37
PBDIT/Interest	Times	3.13	2.44	4.35
Total Debt/PBDIT	Times	1.94	2.07	1.41
Gross Current Assets (Days)	Days	340	437	364

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
22-Mar-2019	Cash Credit	Long Term	3.00	ACUITE BB Issuer not co-operating*
	Cash Credit	Long Term	3.00	ACUITE BB Issuer not co-operating*
	Term Loan	Long Term	10.00	ACUITE BB Issuer not co-operating*
	Bank Guarantee	Short Term	11.00	ACUITE A4+ Issuer not co-operating*
	Bank Guarantee	Short Term	19.00	ACUITE A4+ Issuer not co-operating*
	Letter of Credit	Short Term	2.00	ACUITE A4+ Issuer not co-operating*
10-Jan-2018	Cash Credit	Long Term	3.00	ACUITE BB/Stable (Assigned)
	Cash Credit	Long Term	3.00	ACUITE BB/Stable (Assigned)
	Term Loan	Long Term	10.00	ACUITE BB/Stable (Assigned)
	Bank Guarantee	Short Term	11.00	ACUITE A4+ (Assigned)
	Bank Guarantee	Short Term	19.00	ACUITE A4+ (Assigned)
	Letter of Credit	Short Term	2.00	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	3.00	ACUITE D (Downgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE D (Downgraded)
Term Loan	Not Applicable	Not Applicable	Not Applicable	5.20	ACUITE D (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	23.80	ACUITE D (Downgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE D (Downgraded)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE D (Downgraded)

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About Acuité Ratings & Research:

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