

Press Release

Shri Aruna Construction Private Limited

March 24, 2020

Rating Upgraded



Total Bank Facilities Rated*	Rs.34.00 Cr. (Reduced from Rs.48.00 crore)
Long Term Rating	ACUITE B+ / Stable (Upgraded from ACUITE D)
Short Term Rating	ACUITE A4 (Upgraded from ACUITE D)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating to '**ACUITE B+**' (read as **ACUITE single B plus**) from '**ACUITE D**' (read as **ACUITE D**) and short term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE D**' (read as **ACUITE D**) on the Rs.34.00 crore bank facilities of SHRI ARUNA CONSTRUCTIONS PRIVATE LIMITED (SACPL). The outlook is '**Stable**'.

The rating upgrade reflects the timely payment of debt obligations by SACPL in the past nine months ended February 2020. The rating upgrade also reflects the overall improvement in the business and financial risk parameters of the company. The rating continues to reflect the experienced management and long track record of operations while constrained by working capital intensive operations.

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

Analytical Approach

Acuite has considered standalone business and financial risk profile of SACPL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management and long track record of operations**

SACPL is promoted by Mr. J. Rama Raju and Mr. J. Venu Gopal 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.113.75 crore in FY2019 as against Rs.103.48 crore in FY2018. Further, from April 2019 to February 2020, the company reported revenues of Rs.116.13 crore and has unexecuted orders of Rs.305 crore.

Acuite 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 and profitability margins**

SACPL's financial risk profile is comfortable marked by moderate net worth, healthy gearing and comfortable total outside liabilities to tangible net worth (TOL/TNW) and healthy debt protection metrics. SACPL's net worth is moderate at Rs.37.15 crore as on March 31, 2019 as compared to Rs.32.15 crore as on March 31, 2018. Gearing stood at 0.29 times as on March 31, 2019 as against 0.48 times as on March 31, 2018. The gearing improved on account of decrease in debt levels due to repayment of term loan facility. TOL/TNW is moderate at 2.65 times as on March 31, 2019. Its debt protection metrics are healthy marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 3.71 times and 0.56 times in FY2019. SACPL reported cash accruals of Rs.6.08 against no repayment obligation in FY19.

SACPL's cash accruals are estimated to remain around Rs.8.00 – 10.00 crores during 2020-22, with no repayment obligations which gives adequate comfort for the incremental working capital requirements.

The profitability margins of the company largely depend upon nature of contract executed and stood moderate during the review period. The operating margin of the company stood at 9.60 per cent in FY19 as against 10.06 per cent in FY18. Further, the PAT margin stood at 4.40 per cent in FY19 as against 4.50 per cent in FY18. Acuite believes that with expected improvement in revenues and growth in profitability owing to which the financial risk profile is also expected to improve further over the medium term.

Weaknesses

• Working capital intensive operations

SACPL's operations are working capital intensive marked by Gross Current Assets (GCA) of 248 days as on March 31, 2019 as against 240 days as on March 31, 2018, on account of stretch in inventory cycle to 153 days in FY2019 as against 116 days in FY2018. Receivable days are comfortable and stood at 9 days for FY19 as against 43 days for FY18. Further, GCA days are high due to retention money receivables and deposits. This lead to high utilization of its working capital limits at about 85 percent for the last six months through February 2020.

Acuite believes that the operations continue to be working capital intensive over the medium term. However, with increasing scale of operations, any further deterioration in working capital thereby leading to higher dependence on external bank borrowings will entail a negative bias towards the rating.

• Highly competitive and fragmented industry with tender based nature of business

SACPL operates in highly competitive and fragmented industry with presence of several players and tender nature of business. Winning of the contracts in tender-based model is subject to various parameters including importance of the project for the principal to ensure timely and regular payments. Also, it enjoys the operational advantage and timely completion of the projects leading to securing business from its customers regularly. Further, the company is exposed to geographical concentration risk as the company is presently executing orders mainly in Karnataka. Any event such as a significant slowdown in receipt of orders, deferment of projects by the counterparty or delay in realization of receivables from customers will have a bearing on the operating cash flows and credit profile of the company.

Rating Sensitivity factors:

- Significant Improvement in revenues
- Any further deterioration in working capital

Material Covenants: None

Liquidity Position: Adequate

Liquidity of SACPL is adequate marked by moderate cash accruals of Rs.6.08 crore against no repayment obligation in FY2019. SACPL's cash accruals are estimated to remain around Rs.8.00 – 10.00 crores during 2020-22, with no repayment obligations which gives adequate comfort for the incremental working capital requirements. However, the GCA days stood at 248 days in FY2019. The current ratio of SACPL stood comfortable at 1.96 times as on March 31, 2019. SACPL maintains cash and bank balance of Rs.2.54 crore as on March 31, 2019. SACPL has utilized 85 percent of their working capital limits. Acuite believes liquidity is likely to remain moderate due to healthy accruals as against of repayment obligations and no major capex plan.

Outlook: Stable

Acuite believes that SACPL will maintain a 'Stable' outlook over the medium term backed by its experienced management and adequate revenue visibility. The outlook may be revised to 'Positive' in case of significant improvement in its revenues, while maintaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	113.75	103.48
PAT	Rs. Cr.	5.00	4.65
PAT Margin	(%)	4.40	4.50
Total Debt/Tangible Net Worth	Times	0.29	0.48
PBDIT/Interest	Times	3.71	3.17

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

ICRA Ratings, vide its press release dated August 30, 2019 had denoted the rating of Shri Aruna Constructions Private Limited as 'ICRA BB (Stable) ICRA A4; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'ICRA BB+/Stable; ICRA A4' vide its press release dated January 17, 2017.

Any other information

None

Applicable Criteria

- Infrastructure Entities: <https://www.acuite.in/view-rating-criteria-14.htm>
- Application of Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.htm>

Note on complexity levels of the rated instrument

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

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
09-April-2019	Cash Credit	Long term	3.00	ACUITE D (Downgraded)
	Cash Credit	Long term	3.00	ACUITE D (Downgraded)
	Term Loan	Long term	5.20	ACUITE D (Downgraded)
	Bank Guarantee	Short term	23.80	ACUITE D (Downgraded)
	Bank Guarantee	Short term	11.00	ACUITE D (Downgraded)
	Letter of Credit	Short term	2.00	ACUITE D (Downgraded)
22-Mar-2019	Cash Credit	Long term	3.00	ACUITE BB Issuer not Cooperating*
	Cash Credit	Long term	3.00	ACUITE BB Issuer not Cooperating*
	Term Loan	Long term	10.00	ACUITE BB Issuer not Cooperating*
	Bank Guarantee	Short term	11.00	ACUITE A4+ Issuer not Cooperating*
	Bank Guarantee	Short term	19.00	ACUITE A4+ Issuer not Cooperating*

	Letter of Credit	Short term	2.00	ACUITE A4+ Issuer not Cooperating*
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 B+/Stable (Upgraded from ACUITE D)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE B+/Stable (Upgraded from ACUITE D)
Term Loan	Not Applicable	Not Applicable	Not Applicable	-	ACUITE B+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4 (Upgraded from ACUITE D)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A4 (Upgraded from ACUITE D)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4 (Upgraded from ACUITE D)

Contacts

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About Acuite Ratings & Research:

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