

Press Release

Shri Aruna Construction Private Limited

March 19, 2021



Rating Upgraded

Total Bank Facilities Rated*	Rs. 34.00 Cr.
Long Term Rating	ACUITE BB/ Outlook: Stable (Upgraded from ACUITE B+/Stable)
Short Term Rating	ACUITE A4+ (Upgraded from ACUITE A4)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded its long-term rating to '**ACUITE BB**' (read as ACUITE double B) from '**ACUITE B+**' (read as ACUITE B plus) and upgraded its short-term rating to '**ACUITE A4+**' (read as ACUITE A four plus) from '**ACUITE A4**' (read as ACUITE A four) on the Rs. 34 Cr bank facilities of Shri Aruna Constructions Private Limited (SACPL). The outlook is '**Stable**'.

The rating upgrade reflects the long track record of SACPL, its extensive experience of promoters in the Infrastructure sector, its moderate order book position providing medium-term revenue visibility. The rating also factors in its steady scale of operations with stable EBITDA margins and moderate financial profile of the company. The ratings, albeit, remained constrained by its tender-based nature of operations, exposure to slowdown in Indian economy on account of the ongoing Covid-19 pandemic, intense competition due to the fragmented nature of the construction sector and increased non-fund based limit requirement. Acuite believes that no fresh order has been awarded in the last 2 years to SACPL and successful bidding of the Rs.188 Cr in tendering stage remains key monitorable. Also, the ability of the company to secure new orders and working capital enhancements in a timely manner would remain crucial to support the growth over the medium term.

Shri Aruna Constructions Private Limited (SACPL) was established in the year 2002 having its registered office in Bangalore. It is engaged in the field of civil construction work in Karnataka for various clients. SACPL primarily executes work on sub-contract basis predominantly for Nagarjuna Construction Company Limited (NCCL) which remained company's major client since its incorporation. Other major customers include Karnataka State Road Transport Corporation (KSRTC), Karnataka Housing Board (KHB), Karnataka State Police Housing & Infrastructure Development Corporation Limited (KSPH & IDCL), Sarva Sikshana Abhiyan, Karnataka Health System Development Research Projects (KHSDRP).

Analytical Approach

Acuité has taken the standalone view of business and financial risk profile of SACPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced Management and established presence in Karnataka**

SACPL is promoted by Mr. J.Rama Raju and Mr. J.Venu Gopal Krishnam Raju, undertakes civil construction projects with established presence in Karnataka. Both the directors have more than two decades of experience in the industry. The company benefits from its established presence in the segment with long standing relationship 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.113.46 Cr in FY2020 as against Rs.113.75 Cr in FY2019. Further, from April 2019 to February 2020, the company reported revenues of Rs.86 Cr and has unexecuted orders of Rs.215 Cr as on January 31, 2021. 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.

- **Above-average financial risk profile**

SACPL's financial risk profile is above-average marked by moderate net worth, healthy gearing (debt-to-equity), and moderate total outside liabilities to total net worth (TOLTNW) and healthy debt protection metrics. SACPL's net worth is moderate at Rs. 42.90 Cr as on March 31, 2020 as compared to Rs. 37.15 Cr as on March 31, 2019. Gearing is healthy at 0.07 times as on March 31, 2020 as against 0.29 times as on March 31, 2020. TOL/TNW is moderate at 1.83 times as on March 31, 2020 vis-à-vis 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 6.63 times and 2.29 times in FY2020 vis-à-vis 3.71 times and 0.56 times in FY2019, respectively. SACPL's generated cash accruals of Rs.5.15 to 6.86 Cr during the last 3 years through 2018-20, while its maturing debt obligations were in the range of Rs.0.15-5.15 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.5-7 Cr during 2021-23 while their repayment obligations are estimated to be around Rs.0.50 Cr during the same period. Acuité believes that with expected improvement in revenue and growth in profitability, the financial risk profile is expected to improve over the medium term.

Weaknesses

- **Working capital intensive operations**

SACPL's working capital cycle is intensive with high gross current assets (GCA) days in the range of 208-248 days over the last 3 years ending March 31, 2020. The GCA days are marked by high inventory days (mostly work-in-progress) and moderate debtor days. SACPL's had inventory days of 117-153 days and 10-43 days over the last 3 years ending March 31, 2020. The GCA days includes the other current asset portion in form of retention money, security deposits and other advances which further take it to elongated levels. SACPL's pays the raw material creditors within 355-522 days over the last 3 years ending March 31, 2020. Its Bank lines utilised at an average of 47 percent over the past 6 months ending January 2021. Acuité believes that the working capital cycle is estimated to remain intensive over the medium term.

- **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. SACPL is into mid-size projects, wherein the competition is moderate vis-à-vis high or low value projects. However, the risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts, and susceptibility to inherent cyclical in the works and private investment in case of non-government projects. Also, site clearance issues of evacuation, movement of public infrastructure among others poses risk of delay in project execution, and thus impacting the revenues. However, having an operational track record of around over two decades has helped the company to mitigate this risk. Acuité expects SACPL enjoys the operational advantage and timely completion of the projects leading to securing business from Governments and corporates regularly.

Liquidity Position: Adequate

Liquidity of SACPL's is adequate marked by moderate cash accruals to its repayment obligations and albeit constrained by working capital intensive nature. SACPL's generated cash accruals of Rs.5.15 to 6.86 Cr during the last 3 years through 2018-20, while its maturing debt obligations were in the range of Rs.0.15-5.15 Cr during the same period. The cash accruals of the company are estimated to remain around Rs.5-7 Cr during 2021-23 while their repayment obligations are estimated to be around Rs.0.50 Cr during the same period. SACPL's operations are high working capital intensive as marked by Gross Current Asset (GCA) days in the range of 208-248 days over the last 3 years ending March 31, 2020. Its working capital credit limits were utilised at about 65 per cent during the last 6 months period ended Jan 2021. Further, it has free cash and bank balance of Rs. 3.70 Cr as on March 31, 2020. Acuité believes that though cash accruals are adequate, however, incremental working capital requirement for the growing size of operations are expected to absorb the cushion in the liquidity.

Rating Sensitivities

- Sustained increase in order inflow, providing adequate revenue visibility in the medium term
- Significant improvement in scale of operations, while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile.

Outlook: Stable

Acuité believes that SACPL will continue to benefit over the medium term due to its experienced management and moderate order book providing revenue visibility. The outlook may be revised to 'Positive', in case of timely execution of its unexecuted order book leading to higher-than-expected revenues and profitability with improvement in working capital management. Conversely, the outlook may be revised to 'Negative' in case UIPL registers lower-than-expected decline in revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	113.46	113.75
PAT	Rs. Cr.	5.74	5.00
PAT Margin	(%)	5.06	4.40
Total Debt/Tangible Net Worth	Times	0.07	0.29
PBDIT/Interest	Times	6.33	3.71

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

None

Any other information

None

Material covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector Entities- <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-March-2020	Cash Credit	Long Term	3.00	ACUITE B+/Stable (Upgraded from ACUITE D)
	Cash Credit	Long Term	3.00	ACUITE B+/Stable (Upgraded from ACUITE D)
	Term Loan	Long Term	5.20	ACUITE B+ (Withdrawn)
	Bank Guarantee	Short Term	15.00	ACUITEA4 (Upgraded from ACUITE D)
	Bank Guarantee	Short Term	11.00	ACUITEA4 (Upgraded from ACUITE D)
	Letter of Credit	Short Term	2.00	ACUITEA4 (Upgraded from ACUITE D)
09-April-2019	Cash Credit	Long Term	3.00	ACUITE D (Downgraded from ACUITE BB)
	Cash Credit	Long Term	3.00	ACUITE D (Downgraded from ACUITE BB)
	Term Loan	Long Term	5.20	ACUITE D (Downgraded from ACUITE BB)
	Bank Guarantee	Short	23.80	ACUITE D

		Term		(Downgraded from ACUITE A4+)
	Bank Guarantee	Short Term	11.00	ACUITE D (Downgraded from ACUITE A4+)
	Letter of Credit	Short Term	2.00	ACUITE D (Downgraded from ACUITE A4+)
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*

***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 BB/ Stable (Upgraded from ACUITE B+/Stable)
Working Capital Term Loan	Not Applicable	Not Applicable	Not Applicable	0.53	ACUITE BB/ Stable (Upgraded from ACUITE B+/Stable)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.47	ACUITE BB/ Stable (Upgraded from ACUITE B+/Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A4+ (Upgraded from ACUITE A4)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	17.00*	ACUITE A4+ (Upgraded from ACUITE A4)

*CC Rs.3.00 Cr and LC Rs.2.00 Cr is sublimit to BG.R.17 Cr

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About Acuité Ratings & Research:

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