

## Press Release

Shri Aruna Construction Private Limited

June 17, 2022



### Rating Reaffirmed and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	28.00	-	ACUITE A4+   Reaffirmed
Bank Loan Ratings	6.00	ACUITE BB+   Stable   Upgraded	-
<b>Total Outstanding Quantum (Rs. Cr)</b>	34.00	-	-
<b>Total Withdrawn Quantum (Rs. Cr)</b>	0.00	-	-

### Rating Rationale

Acuite has upgraded its long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from 'ACUITE BB' (read as ACUITE double B plus) and reaffirmed its short-term rating at '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 34.00 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 above average financial profile of the company. The rating, however is constrained by intensive working capital management and intense competition due to the fragmented nature of the construction sector.

### About the Company

Shri Aruna Constructions Private Limited (SACPL) was established in the year 2002 having its registered office in Bangalore, mainly engaged in the field of civil construction work in Karnataka for various clients. Mr. J. Venugopal Krishnam Raju, Mr. J. Rama Raju and Ms. J Sowjanya currently manage the company. SACPL primarily executes work on sub contract basis, predominantly for Nagarjuna Construction Company Limited (NCCL), which remains company's major client since its incorporation. The 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), and Nagarjuna Construction Company Limited (NCCL).

### Analytical Approach

Acuite 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.133.59 Cr in FY22 (Provisional) as against Rs.136.77 Cr in FY21. PAT margin for FY22 (Provisional) improved slightly to 4.81 percent from 4.13 percent in FY21. EBITDA stood at 7.71 percent in FY22. 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), moderate total outside liabilities to total net worth (TOL/TNW) and above-average debt protection metrics. SACPL's net worth is moderate at Rs. 54.97 Cr as on March 31, 2022 (Provisional) as compared to Rs. 48.55 Cr as on March 31, 2021. Gearing is healthy at 0.12 times as on March 31, 2022 (Provisional) as against 0.07 times as on March 31, 2021. TOL/TNW is moderate at 1.20 times as on March 31, 2022(Provisional) against 1.09 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 13.92 times and 1.09 times in FY22 (Provisional) against 8.73 times and 1.91 times in FY21, respectively. SACPL generated cash accruals of Rs.7.28 Cr during FY22, while its maturing debt obligations were of Rs.0.45 Cr for the same period. The cash accruals of the company are estimated to remain around Rs.7- 8 Cr during 2023-24. Acuité believes that with expected improvement in revenue and growth in profitability, the financial risk profile is expected to remain above-average over the medium term.

### Weaknesses

#### **Working capital intensive operations**

SACPL's working capital cycle is intensive marked by its gross current asset (GCA) of 205 days as on March 31, 2022 (Provisional) increased from 121 days as on March 31, 2021. Debtors days increased to 67days as on March 31, 2022(Provisional). This is due to delay in receipt of payment from customers during covid-19 restrictions. Creditor days are at 395 as on March 31, 2022(Provisional). Inventory days stood around 56 days as on March 31, 2022. 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 390 - 300 days over the last 3 years ending March 31, 2022. Its Bank lines utilised at an average of 40 percent over the past 12 months ending March 2022. 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 cyclicity in the works and private investment in case of non-government projects. 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.

## Rating Sensitivities

- Significant improvement in scale of operations, while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile.

## Material covenants

None

## Liquidity: Adequate

SACPL has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.7.28Cr for FY22, with debt repayment obligations of Rs.0.45 Cr for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.7Cr – Rs.8Cr over the medium term. The SACPL's working capital operations are intensive, marked by GCA of 205 days as on March 31, 2022 (Provisional). Unencumbered cash and bank balances stood at Rs.5.39Cr as on March 31, 2022. The current ratio of the firm stood at 1.32 times in FY22. Bank limits utilization of SACPL stood below ~40 percent over the past 12 months ending 31 March, 2022. Acuité believes that the liquidity position of the company is likely to remain adequate on account of adequate cash accruals against its debt repayments over the medium term.

## 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 SACPL 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.

## Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	133.59	136.77
PAT	Rs. Cr.	6.42	5.65
PAT Margin	(%)	4.81	4.13
Total Debt/Tangible Net Worth	Times	0.12	0.07
PBDIT/Interest	Times	13.92	8.73

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

None

### Any other information

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
19 Mar 2021	Proposed Bank Facility	Long Term	2.47	ACUITE BB   Stable (Upgraded from ACUITE B+)
	Bank Guarantee	Short Term	11.00	ACUITE A4+ (Upgraded from ACUITE A4)
	Cash Credit	Long Term	3.00	ACUITE BB   Stable (Upgraded from ACUITE B+)
	Working Capital Term Loan	Long Term	0.53	ACUITE BB   Stable (Upgraded from ACUITE B+)
	Bank Guarantee	Short Term	17.00	ACUITE A4+ (Upgraded from ACUITE A4)
24 Mar 2020	Term Loan	Long Term	5.20	ACUITE B+ (Withdrawn)
	Cash Credit	Long Term	3.00	ACUITE B+   Stable (Upgraded from ACUITE D)
	Bank Guarantee	Short Term	15.00	ACUITE A4 (Upgraded from ACUITE D)
	Cash Credit	Long Term	3.00	ACUITE B+   Stable (Upgraded from ACUITE D)
	Bank Guarantee	Short Term	11.00	ACUITE A4 (Upgraded from ACUITE D)
	Letter of Credit	Short Term	2.00	ACUITE A4 (Upgraded from ACUITE D)
09 Apr 2019	Cash Credit	Long Term	3.00	ACUITE D (Downgraded from ACUITE BB )
	Bank Guarantee	Short Term	23.80	ACUITE D (Downgraded from ACUITE A4+)
	Letter of Credit	Short Term	2.00	ACUITE D (Downgraded from ACUITE A4+)
	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 Term	11.00	ACUITE D (Downgraded from ACUITE A4+)
22 Mar 2019	Letter of Credit	Short Term	2.00	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	3.00	ACUITE BB (Issuer not co-operating*)
	Bank Guarantee	Short Term	11.00	ACUITE A4+ (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	19.00	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 (Assigned)
		Short		

Bank Guarantee	Term	19.00	ACUITE A4+ (Assigned)
Bank Guarantee	Short Term	11.00	ACUITE A4+ (Assigned)
Letter of Credit	Short Term	2.00	ACUITE A4+ (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A4+   Reaffirmed
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A4+   Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB+   Stable   Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.47	ACUITE BB+   Stable   Upgraded
Axis Bank	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	0.53	ACUITE BB+   Stable   Upgraded

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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