



Press Release
SHRI ARUNA CONSTRUCTIONS PRIVATE LIMITED
September 15, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	4.00	ACUITE BB+ Stable Reaffirmed	-
Bank Loan Ratings	30.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	34.00	-	-

Rating Rationale

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

Rationale for rating reaffirmation:

The rating reaffirmation considers Shri Aruna Constructions Private Limited (SACPL's) improved operating performance during FY23, moderate orderbook position and healthy financial risk profile. The company has recorded revenue of Rs.162.43 Cr during FY23 (Provisionals), recorded a 23 percent year-on-year growth against Rs. 131.25Cr in previous year. The operating margins have declined marginally to 7.98 percent during FY23 (Prov.) from 8.78 percent of FY22 which is on account of increased raw material prices. Currently as on June 30, 2023 the company has order book of ~Rs.322Cr which is to be executed in next 18-24 months providing revenue visibility over the medium term. Despite the presence of -healthy outstanding order book, the company is expected to report revenue in the range of Rs.160-170Cr for FY24 due to subdued performance during Q1FY24. The strengths are partially offset by the moderate working capital operations and highly competitive and fragmented industry with tender-based nature of operations.

Going forward the company's ability to sustain the growth in its operations while improving operating margin levels and working capital operations will be a key monitorable.

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. . 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).

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:

SACPL is promoted by Mr. J.Rama Raju and Mr. J.Venu Gopal Krishnam Raju and 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 has reported revenue of Rs.162.43Cr during FY23 (Prov.) against Rs.131.25Cr during FY22. The growth in revenue is on account of presence of healthy order book throughout the year and timely execution of the same. The established presence and track record of in time completion of the orders has resulted in attaining repeated order from Karnataka State government departments. SACPL currently has around Rs.322Cr of outstanding order book from KPWD, Karnataka State Police Housing Corporation (KSPH) and others which are to be executed in next 18-24 months providing revenue visibility over the medium term.

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.

Healthy financial Risk Profile:

Financial risk profile of SACPL is healthy as observed from the healthy net worth position and capital structure, and adequate coverage indicators. The net worth improved to Rs.64.02 Cr as on March 31, 2023 (prov.) as against Rs.55.70Cr during FY22. Growth in net worth is primarily due to accretion of profits to reserves. The capital structure is strong as observed from low gearing of 0.07 times as on March 31, 2023(Prov) against 0.15 times during previous year. Further to this, the total outside liabilities to net worth was at 0.81 times as on March 31, 2023 (Prov) as against 0.87 times in previous year. The coverage indicators were comfortable with DSCR of 8.87 times as on March 31st 2023 (Prov.) as against 9.86 times as on March 31st 2022. Interest coverage stood at 13.05 times as on March 31st 2023(Prov.) as against 14.45 times as on March 31st 2022. Debt to EBITDA improved to 0.34 times as per FY23 (Provisionals) from 0.72 times during previous year. Acuite believes that financial risk profile of SACPL will remain healthy in the medium term on account of healthy net worth and capital structure.

Weaknesses

Moderate intensive working capital cycle:

Working capital operations are moderately managed which is evident from GCA days of 136 days during FY23 (prov.) against 130 days during FY22. 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. Inventory days stood in the range of 40-55 days during the past 3 years. SACPL realizes its bill within 15-20 days from the customers which helped in paying their subcontractors/ piece meal contractors on time. The company enjoys credit period of 60 days from suppliers of raw materials and manages its operations with the cash credit facilities, as a result dependency on external long term debt is very low. Besides, current ratio of the company has improved significantly to 2.53 times during FY23 against 1.03 times I previous year. SACPL's bank limits were utilized at an average of 72 percent during the past 12 months ending May 31, 2023. Acuite believes that working capital operations of the company will remain moderately intensive over the medium.

Customer concentration risk on the revenue profile:

SACPL has outstanding orders of ~Rs.322Cr as on June 30,2023 which are to be executed in next 18-24 months. Around 90 percent of the works to be executed are from 3 customers i.e. Karnataka Public Works Department (KPWD), Karnataka State Police housing, State govt's residential project depicting high customer concentration risk on the revenue profile. However, the risk is mitigated to an extent by timely payments from state government as

evident from low debtor days.

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 improving profitability margins.
- Any further deterioration in the working capital operations.

All Covenants

None

Liquidity Position Adequate

SACPL has adequate liquidity which is evident from the sufficient Net cash accruals (NCA) against low debt repayment. The company has reported NCA's of Rs. 9.82Cr as on March 31, 2023(Prov) against repayment obligations of Rs.0.22Cr for equipment loans for the same period. These loans are expected to be repaid during FY25. Bank limits were utilized in the range of 70-72 percent during the past 12 months ending May 31, 2023. Further to this, the gross current assets days stood at 136 days during FY23. The company has unencumbered cash and bank balances of Rs.3.79 Cr which provides additional comfort towards liquidity. Going forward, the liquidity is expected to be adequate with net cash accruals in the range of Rs 10-12 Cr over FY24-26 with low debt repayment obligations.

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 revenues and profitability or any significant stretch in its working capital management or larger-than-expected infusion of debt leading to deterioration of its financial risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	162.43	131.25
PAT	Rs. Cr.	8.31	7.15
PAT Margin	(%)	5.12	5.45
Total Debt/Tangible Net Worth	Times	0.07	0.15
PBDIT/Interest	Times	13.05	14.45

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

ICRA vide its press release dated 24th April 2023, had rated the company to ICRA B+/Stable/A4; Issuer Not Cooperating.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Complexity Level Of Financial Instruments: <https://www.acuite.in/view-rating-criteria-55.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Jun 2022	Cash Credit	Long Term	3.00	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Bank Guarantee	Short Term	11.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Long Term	2.47	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Working Capital Term Loan	Long Term	0.53	ACUITE BB+ Stable (Upgraded from ACUITE BB Stable)
	Bank Guarantee	Short Term	17.00	ACUITE A4+ (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Axis Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	19.00	ACUITE A4+ Reaffirmed
Union Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	11.00	ACUITE A4+ Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE BB+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE BB+ Stable Reaffirmed

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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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