

Press Release

Amma Construction India Private Limited

August 22, 2019



Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs. 26.00 Cr. (Enhanced from Rs.10.00 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 long-term rating to '**ACUITE BB-**' (read as ACUITE BB minus) from **ACUITE B+/Stable** and upgraded short-term rating of '**ACUITE A4+**' (read as ACUITE A four plus) from **ACUITE A4** on the Rs.10.00 crore and assigned long-term rating of '**ACUITE BB-**' (read as ACUITE double B minus) and short term rating of '**ACUITE A4+**' (read as ACUITE A four plus) to Rs.16.00 Crore bank facilities of bank facilities of AMMA CONSTRUCTION INDIA PRIVATE LIMITED. The outlook is '**Stable**'.

The rating upgrade factors in improved business risk profile, moderate order book position providing adequate revenue visibility to sustain the revenue growth, moderate financial risk profile and experienced promoters. However, it is partly constrained by working capital intensive operations and moderate scale of operations.

Amma Constructions India Private Limited (ACIPL or Amma Constructions) is a Bangalore-based company incorporated in 2010. The company is a Special Class I civil contractor for executing Government works majorly for Karnataka state. The firm participates in tenders issued by PWD and other Government departments of Karnataka state. It is promoted by Mr. Ramakrishna Reddy along with others.

Analytical Approach

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

Key Rating Drivers

Strengths

• **Experienced management and established relationships with Karnataka Government**

ACIPL was started by Mr. Ramakrishna Reddy along with other directors. The company is a registered class I contractor with different states and local governing bodies. They execute works on direct and sub-contract basis with timely deliverables leading to regular work orders and steady growth in its revenues at a healthy compound annual growth rate (CAGR) of about 25 per cent over the last three years. The entity reported revenues of Rs.31.09 crore in FY2019 as compared to Rs.17.85 crore in FY2018. As of July 2019, Amma Constructions has an unexecuted order book position of Rs.213.46 crore; the same are for completion over 24 months, which gives adequate revenue visibility over the medium term. Acuité believes that adequate order book position, experienced promoters is expected to support in improving its business risk profile over the medium term.

• **Comfortable financial risk profile**

ACIPL's financial risk profile is comfortable marked by comfortable gearing (debt-to-equity), and total outside liabilities to tangible net worth (TOL/TNW) and moderate debt protection metrics. ACIPL's net worth is moderate at Rs.12.25 crore as on March 31, 2019 (provisional) as compared to Rs.11.57 crore as on March 31, 2018. ACIPL's gearing and TOL/TNW are comfortable at 1.18 times and 1.86 times as on March 31, 2019 as against 0.87 times and 1.57 times in FY2018, respectively. Its debt protection metrics are moderate marked by interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) at 3.15 times and 0.08 times in FY2019 (provisional) vis-à-vis 1.77 times and 0.05 times in

FY2018, respectively. It has reported cash accruals of about Rs.1.11 crores in FY2019 (provisional). Acuité believes that with adequate revenue visibility, improving scale of operations and accruals, the financial risk profile is expected to improve further over the medium term.

Weaknesses

- **High working capital intensive nature of operations**

ACIPL's operations are working capital intensive, as marked by high gross current assets (GCA) of 225 days in FY2019 (provisional) as against 328 days in FY2018. High GCA is owing to high receivable and inventory days of about 87 days and 116 days in FY2019 (provisional) against 110 days each in 2018. This caused the bank lines to be highly utilized at about 99 per cent over six months through March 31, 2019. Acuité believes that with the increasing scale of operations, the working capital requirements are expected to increase and reliance on external debt is expected to increase over the medium term.

- **Modest scale of operations, though improving**

The scale of operations of the company is modest within the civil construction industry marked by moderate revenues of Rs.31.09 crore in FY2019, a sharp increase from Rs.17.85 crore in FY18 due to incremental work order. The revenues are expected to improve significantly on basis of the unexecuted order book of about Rs.213.46 crore crores. However, still the revenues are expected to improve to moderate levels. Further, the civil-construction industry is intensely competitive on account of fragmented nature with presence of a large number of players. Also, tender nature of business constrains the business risk profile.

Liquidity Position:

ACIPL has stretched liquidity characterised by high bank limit utilisation, though sufficient cushion in accruals. ACIPL reported cash accruals of Rs.1.11 crore for FY2019 (provisional). Further, repayment obligations are expected to be in the range of Rs.0.25 crore against annual cash accruals of about Rs.1.00-2.00 crore for the medium term. Its operations are working capital intensive with GCA of about 225 days in FY2019 (provisional), that led to high bank lines been utilised at about 99 per cent through July, 2019. Its current ratio stood comfortable at 2.44 times in FY2019 (provisional). Acuité believes that the liquidity profile of ACIPL continues to be at similar levels owing to the growth trajectory and business cycle.

Outlook: Stable

Acuité believes that ACIPL 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 stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	31.09	17.85	19.95
EBITDA	Rs. Cr.	3.03	1.59	1.71
PAT	Rs. Cr.	0.68	0.16	0.44
EBITDA Margin	(%)	9.74	8.89	8.55
PAT Margin	(%)	2.19	0.90	2.18
ROCE	(%)	11.01	5.71	7.14
Total Debt/Tangible Net Worth	Times	1.18	0.87	0.71
PBDIT/Interest	Times	3.15	1.77	2.65
Total Debt/PBDIT	Times	4.67	6.44	4.55
Gross Current Assets (Days)	Days	225	328	209

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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
18-Mar-2019	Cash Credit	Long Term	3.50	ACUITE B+ Issuer not co-operating*
	Bank Guarantee	Short Term	6.50	ACUITE A4 Issuer not co-operating*
23-Jan-2018	Cash Credit	Long Term	3.50	ACUITE B+/Stable (Assigned)
	Bank Guarantee	Short Term	6.50	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	3.50	ACUITE BB-/Stable (Upgraded from ACUITE B+/Stable)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.50	ACUITE A4+ (Upgraded from ACUITE A4)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	13.50	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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