

Press Release

Shreehari Associates Private Limited

02 February, 2018



Rating Assigned

| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs.95.00 Cr. |
| Long Term Rating | SMERA B+ / Outlook: Stable |
| Short Term Rating | SMERA A4 |

* Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA B+**' (read as SMERA B plus) and short term rating of '**SMERA A4**' (read as SMERA A four) on the Rs. 95.00 crore bank facilities of Shreehari Associates Private Limited. The outlook is '**Stable**'.

Shreehari Associates Private Limited (SAPL) incorporated in 2002 is an Aurangabad (Maharashtra) based company promoted by Mr. Sacheen Mulay. The company undertakes construction of dam, water reservoirs, irrigation projects and infrastructure development for industries. SAPL is registered as Class A Category contractor.

Key rating drivers

Strengths

Established track record of operations and experienced management: SAPL has been undertaking irrigation projects and civil construction contracts in Maharashtra for almost two decades. The company is led by Mr. Sacheen Mulay who possesses more than two decades of experience in the aforementioned industry.

Moderate financial risk profile: The financial risk profile of the company is moderate marked by healthy networth, modest gearing and debt protection measures. The networth levels of the company stood at Rs. 50.56 crore as on 31 March, 2017 as against Rs. 43.27 crore as on 31 March, 2016. The gearing ratio stood at 1.10 times as on 31 March, 2017 as against 1.42 times as on 31 March, 2016. The total debt of Rs. 55.73 crore includes term loan from bank of Rs. 17.21 crore, unsecured loans from subsidiary and related parties of Rs. 4.01 and working capital funds of Rs.34.51 crore. The Interest Coverage Ratio (ICR) stood at 1.94 times for FY2017 and Debt Service Coverage Ratio (DSCR) at 1.00 times. The Net Cash accruals to Total Debt (NCA/TD) stood at 0.10 times in FY2017 as against 0.04 times in FY2016.

Weaknesses

Working capital intensive operations and stretched liquidity: The operations are working capital intensive with Gross Current Asset (GCA) days of 801 for FY2017 compared to 665 days in the previous year. The GCA days are high on account of stretched debtor days and high inventory holding period which stood at 171 days and 698 days respectively in FY2017. Further, the liquidity is stretched because of insufficient cash accruals against debt repayment

obligation. The average cash credit utilisation for the last six months stood at around 99 per cent ended 31 December, 2017.

Modest scale of operations, tender based operations: SAPL operates at a modest scale. The revenue for FY2017 stood at Rs. 51.63 crore as against Rs. 64.18 crore for FY2016 despite operation continuing for around two decades. The company is majorly dependent on tenders for its orders. The tender-based nature of operations makes it vulnerable to order cyclicalities. Further, the operations are limited mainly to Maharashtra thereby exposing the company to geographic concentration risk. However, the company reported operating income of Rs. 65.00 crore during the period April, 2017 to December, 2017 (Provisional). SAPL has unexecuted order book position of Rs. 469.00 crore that provides moderate revenue visibility over the medium term

Profitability susceptible to fluctuations in raw material prices: The prices of the main raw materials - iron, steel and cement are highly volatile in nature with raw material cost constituting around 60 percent of the total revenue. Hence, any adverse movement in raw material prices can impact profitability. However, the company reported EBITDA margin of 16.25 percent for FY2017 as against 20.59 percent in the previous year.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of Shreehari Associates Private Limited to arrive at the rating.

Outlook – Stable

SMERA believes that the outlook on SAPL's rated facilities will remain stable over the medium term on account of its promoter's extensive experience in the industry. The outlook may be revised to 'Positive' in case of strong growth in scale of operations while sustaining improvement in profit margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the scale of operations, profitability and capital structure.

About the Rated Entity - Key Financials

| | Unit | FY17 (Actual) | FY16 (Actual) | FY15 (Actual) |
|-------------------------------|---------|---------------|---------------|---------------|
| Operating Income | Rs. Cr. | 51.63 | 64.18 | 81.70 |
| EBITDA | Rs. Cr. | 8.39 | 13.22 | 11.38 |
| PAT | Rs. Cr. | 4.29 | 1.02 | 7.24 |
| EBITDA Margin | (%) | 16.25 | 20.59 | 13.93 |
| PAT Margin | (%) | 8.31 | 1.59 | 8.86 |
| ROCE | (%) | 13.83 | 12.28 | 30.29 |
| Total Debt/Tangible Net Worth | Times | 1.10 | 1.42 | 1.42 |
| PBDIT/Interest | Times | 1.94 | 1.54 | 2.02 |
| Total Debt/PBDIT | Times | 3.47 | 4.37 | 3.19 |
| Gross Current Assets (Days) | Days | 801 | 665 | 490 |

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

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

None

Rating History (Upto last three years)

Not Applicable

Annexure – Details of instruments rated

| Name of the Facilities | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. Crore) | Ratings/Outlook |
|------------------------------|------------------|----------------|----------------|-------------------------------|-----------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 28.20 | SMERA B+/ Stable (Assigned) |
| Term Loans | Not Applicable | Not Applicable | Not Applicable | 0.78 | SMERA B+/ Stable (Assigned) |
| Term Loans | Not Applicable | Not Applicable | Not Applicable | 2.49 | SMERA B+/ Stable (Assigned) |
| Term Loans | Not Applicable | Not Applicable | Not Applicable | 1.81 | SMERA B+/ Stable (Assigned) |
| Term Loans | Not Applicable | Not Applicable | Not Applicable | 3.73 | SMERA B+/ Stable (Assigned) |
| Term Loans | Not Applicable | Not Applicable | Not Applicable | 1.55 | SMERA B+/ Stable (Assigned) |
| Proposed Term Loans | Not Applicable | Not Applicable | Not Applicable | 1.44 | SMERA B+/ Stable (Assigned) |
| Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 20.00 | SMERA A4 (Assigned) |
| Letter of Credit | Not Applicable | Not Applicable | Not Applicable | 5.00 | SMERA A4 (Assigned) |
| Proposed Letter of Guarantee | Not Applicable | Not Applicable | Not Applicable | 30.00 | SMERA A4 (Assigned) |

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ABOUT SMERA

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