

Press Release

Jaidhar Constructions

July 08, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 15.50 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its 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**) on the Rs.15.50 crore bank facilities of Jaidhar Constructions (JC). The outlook is '**Stable**'.

Jaidhar Constructions (JC) was established as a partnership concern by Mr. N Chandra Shekar Rao along with his wife Mrs. N Rukmini Devi in November 2006. The registered office of the firm is located in Secunderabad, Telangana. JC ventured into manufacturing of building materials and production of Ready Mix Concrete (RMC) with a capacity of 60 cubic metre/hour. At present, the company operates 2 RMC plants in Hyderabad, Telangana.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of JC to arrive at the rating.

Key Rating Drivers

Strengths

• Extensive experience of the promoters

JC was established in 2006, promoted by Mr. N Chandra Shekar Rao along with his wife Mrs. N Rukmini Devi, the promoters of the company have been engaged in the same industry for more than a decade. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. On the back of the stable and repeat orders by the key customers, the revenues have seen a compound annual growth rate (CAGR) of about ~20 per cent over the past four years through FY2020 (provisional) at Rs.20.27 crore.

Acuite believes that JC will continue to benefit from the promoter's expertise, their strong understanding of local market dynamics, and healthy relations with customers and suppliers should continue to support the business.

• Moderate financial risk profile

JC's financial risk profile is moderate, marked by a moderate network, moderate gearing and above average debt protection metrics. JC's network is moderately estimated at around Rs.5.11 crore as on March 31, 2020 (provisional). The JC has followed a moderately aggressive financial policy in the past, and the same is reflected through its gearing and total outside liabilities to tangible network (TOL/TNW) levels of 1.79 times and 2.02 respectively as on March 31, 2020 (provisional) as against 1.84 times and 2.15 times respectively as on March 31, 2019. The JC generated cash accruals of Rs.1.50 to 2.00 crore during the last three years through 2018-FY2020 (provisional), while its maturing debt obligations were in the range of Rs.0.75-1.20 crore over the same period. The cash accruals of the JC are estimated to remain around Rs.1.40-2.00 crore during 2021-23 while their repayment obligations are estimated to be around Rs. 0.80-1.25 crore during the same period. The JC's debt protection metrics are comfortable as Interest Coverage Ratio (ICR) stood at 2.83 times and Net Cash Accruals to Total Debt (NCA/TD) at 0.22 times for FY2020 (provisional) as against as Interest Coverage Ratio (ICR) stood at 2.81 times and Net Cash Accruals to Total Debt (NCA/TD) at 0.18 times for FY2019.

Acuite believes that the financial profile of the JC is expected to similar levels over the medium term in the absence of significant debt-funded capex plans over the medium term.

Weaknesses

• Working capital intensive nature of operations

JC's working capital management is moderate oriented as reflected in its high Gross Current Asset (GCA) days of 112 as on FY2020 (provisional) as against 113 days in FY2019. The high GCA is mainly attributed to high debtor days of about 87 and inventory days of 23 for FY2020 (provisional) vis-à-vis debtor 88 days and inventory 18 days for FY2019. Its working capital limits are highly utilized at about 99 percent over six months through May 2020. Acuite believes that operations are likely to remain working capital intensive.

• Moderate scale of operations and Slowdown expected in the end-user industry

With an operating income of Rs.20 crore in fiscal 2020 (provisional), scale remains modest in the intensely competitive ready-mix concrete segment from both organized players and several local entities, catering to regional demand in the building material industry which also has low product differentiation. These factors limit bargaining power with suppliers and customers.

Due to nationwide lockdown to prevent spreading of COVID-19, slowdown is expected in industries like real estate, infrastructure projects and construction. Ongoing works in these industries are facing delays on account of labour shortage and social distancing on the site (as per government of India's advisory). Acuite believes that, the business model of JC will remain a key monitorable over the medium term.

Rating Sensitivities

- Improvement in the scale of operations while maintaining profitability levels
- Large, debt-funded capital expenditure, weakening the financial risk profile.
- Improvement in the working capital cycle and capital structure

Material covenants

None

Liquidity Position: Stretched

JC has stretched liquidity marked by moderate net cash accruals to its maturing debt obligations. The JC generated cash accruals of Rs.1.50 to 2.00 crore during the last three years through 2018-FY2020 (provisional), while its maturing debt obligations were in the range of Rs.0.75-1.20 crore over the same period. The cash accruals of the JC are estimated to remain around Rs.1.40-2.00 crore during 2021-23 while their repayment obligations are estimated to be around Rs. 0.80-1.25 crore during the same period. The JC's operations are moderate working capital intensive as marked by increased gross current asset (GCA) days of 112 in FY 2020 (provisional). The working capital limit has remained extensively utilised at 99 percent on an average over the 6 months ending May 2020. The current ratio stands weak at 1.07 times as on March 31, 2020 (provisional). Acuite believes that the liquidity of the JC is likely to remain stretch over the medium term.

Outlook: Stable

Acuite believes that JC will maintain a 'Stable' outlook over the medium term from its promoter's industry experience. The outlook may be revised to 'Positive' in case of significant growth in its revenues while sustaining the profitability. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in the revenues or profitability or significant withdrawal of capital or higher than expected debt-funded capital expenditure or any stretch in its working capital operations leading to the deterioration of its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	20.27	19.69
PAT	Rs. Cr.	0.44	0.19
PAT Margin	(%)	2.15	0.96
Total Debt/Tangible Net Worth	Times	1.79	1.84
PBDIT/Interest	Times	2.83	2.81

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

JC has not cooperated with CARE Ratings Limited, which has classified the company as Issuer not cooperating, through its rating rationale dated March 16, 2020. The reason provided by CARE Ratings Limited is non-furnishing of information by JC.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities In Manufacturing Sector - <https://www.acuite.in/view-rating-criteria-59.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
29-Aug-2019	Cash Credit	Long Term	2.75	ACUITE BB- Issuer not co-operating*
	Bank Guarantee	Short Term	0.80	ACUITE A4+ Issuer not co-operating*
	Term Loan	Long Term	3.61	ACUITE BB- Issuer not co-operating*
	Proposed Bank Facility	Long Term	0.34	ACUITE BB- Issuer not co-operating*
	Term Loans	Long Term	1.99	ACUITE BB- Issuer not co-operating*
	Proposed Term Loans	Long Term	3.00	ACUITE BB- Issuer not co-operating*
	Proposed Cash Credit	Long Term	2.00	ACUITE BB- Issuer not co-operating*
	Proposed Bank Facility	Long Term	1.01	ACUITE BB- Issuer not co-operating*
21-June-2018	Cash Credit	Long Term	2.75	ACUITE BB-/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	0.80	ACUITE A4+ (Reaffirmed)
	Term Loan	Long Term	3.61	ACUITE BB-/ Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	0.34	ACUITE BB-/ Stable (Reaffirmed)
	Term Loans	Long Term	1.99	ACUITE BB-/ Stable (Assigned)
	Proposed Term Loans	Long Term	3.00	ACUITE BB-/ Stable (Assigned)
	Proposed Cash Credit	Long Term	2.00	ACUITE BB-/ Stable (Assigned)
	Proposed Bank Facility	Long Term	1.01	ACUITE BB-/ Stable (Assigned)
20-Feb-2018	Cash Credit	Long Term	2.75	ACUITE BB-/ Stable (Assigned)
	Bank Guarantee	Short Term	0.80	ACUITE A4+ (Assigned)
	Term Loan	Long Term	3.95	ACUITE BB-/ Stable (Assigned)

#Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs.Cr.)	Ratings
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB-/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE A4+ (Reaffirmed)
Term Loan	31-May-2018	Not Applicable	31-May-2022	2.60	ACUITE BB-/ Stable (Reaffirmed)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	0.25	ACUITE BB-/ Stable (Reaffirmed)
Term Loans	Not Available	Not Applicable	Not Available	0.95	ACUITE BB-/ Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.40	ACUITE BB-/ Stable (Reaffirmed)

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About Acuité Ratings & Research:

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