

Press Release

Ashok Kumar Mittal

March 25, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 7.00 crore bank facilities of Ashok Kumar Mittal (AKM). The outlook assigned is '**Stable**'.

AKM was established in 1985 as a proprietorship concern by Mr. Ashok Kr. Mittal. The ownership changed to his son, Mr. Deepak Kumar Mittal in 2002; who currently manages the day to day operations of the firm. The firm is engaged in providing civil construction service for Public Works Department (PWD), South Eastern Coalfields Limited (SECL) and Irrigation department to the Chhattisgarh government.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Ashok Kumar Mittal to arrive at this rating.

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

The firm was established in 1995 and has, since inception, been able to establish comfortable relationships with their key customers including PWD. AKM is promoted by Mr. Deepak Kumar Mittal who also manages the day to day operations of the company. He has an experience of around 18 years in the same line of business. The promoter's extensive experience is also reflected through the healthy revenue growth over the last 4 years through 2017-18. The company's revenue grew at a CAGR of 30 percent to Rs.59.68 crore over the aforementioned period.

AKM's order book position remains healthy at Rs.150.00 crore as on February, 2019 to be completed by June, 2020. Hence, the healthy order book provides modest revenue visibility for the company over the medium term. AKM caters to reputed clientele such as PWD (Chhattisgarh), South Eastern Coalfields Limited (SECL) and Irrigation department (Chhattisgarh government) to name a few. Hence, the entire revenue is generated from State Government and Central Government, thus providing low counter party risk. The company, however, is exposed to delay in realisation of receivables.

Acuité believes that the company will continue to benefit through the promoter's extensive industry experience over the medium term.

- **Moderate financial risk profile**

AKM's financial risk profile is marked by its average net worth, low gearing and healthy debt protection measures. The net worth increased to Rs.8.91 crore as on 31 March, 2018 as against Rs.7.21 crore in the previous year on account of increasing revenue, leading to higher accretion to reserves. The company's gearing is estimated to be low at 0.94 times as on 31 March, 2018 as against 0.99 times in the previous year. The company has followed a conservative financial policy in the past, as reflected by its peak gearing of around 0.99 times as on March 31, 2017. The total debt of Rs.8.41 crore consists of long term debt of Rs.3.72 crore, Rs.2.68 crore of unsecured loans from promoter and

relatives and Rs.2.01 crore of short term debt obligations. The healthy revenue growth coupled with moderate profitability levels has resulted in healthy net cash accruals of Rs.3.13 crore during 2016-18, while the debt levels have remained low at around Rs.8.41 crore during the same period, leading to healthy debt protection measures. The interest coverage ratio stood at 4.71 times in FY18 as against 4.14 times in the previous year. NCA/TD ratio stood at 0.37 times in FY18. Acuité believes that the financial risk profile will continue to remain moderate on account of healthy cash accruals and minimal reliance on debt.

- **Moderate working capital nature of operations**

The working capital operations of AKM are moderate reflected by Gross Current Assets (GCA) which stood at 51 days, driven by debtors of 29 days and inventory of 4 days, as on March 31, 2018. Inventory is expected to be around similar levels over the medium term. Working capital requirement is funded through bank lines that have been 100 percent utilised over the six months through January 2019. Creditors stood at 59 days as on March 31, 2018 as against 41 days as on March 31, 2017. Acuité believes that the working capital operations of AKM are likely to remain moderate over the medium term.

Weaknesses

- **Modest scale of operations**

The scale of operations is modest despite the firm being in business for more than two decades. The firm has reported operating income of Rs.59.68 crore for FY2018 as against Rs.46.53 crore in the previous year. The operations are tender based. As a result, the profit margins are vulnerable to order cyclical. Further, the firm has reported revenues of Rs.60.00 crore for FY2019 (10M).

- **Profitability susceptible to fluctuations in input cost**

The input cost i.e. power cost, labour cost and raw materials - iron, steel and cement are highly volatile in nature which constitutes around ~93 percent of the total revenue as the company sub-contracts its work. Hence, any adverse movement in input costs can impact profitability. However, the company reported EBITDA margin of 5.74 percent for FY2018 as against 6.04 percent in the previous year.

Outlook: Stable

Acuité believes that the outlook on AKM's rated facilities will remain 'Stable' over the medium term on account of its promoter's extensive experience, moderate financial risk profile and established operational track record. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Liquidity position

AKM has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.71 to Rs. 3.13 crore during the last three years through 2017 - 18, while its maturing debt obligations were in the range of Rs.0.40 to Rs. 0.95 crore over the same period. The cash accruals of the company are estimated to remain at around Rs.4.16 - Rs.5.28 crore during 2019-21. The company's working capital operations are moderate as marked by Gross Current Asset (GCA) days of 51 in FY 2018. The company maintains unencumbered cash and bank balances of Rs.0.10 crore as on March 31, 2018. The current ratio of the company stood below average at 0.71 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual while its maturing debt obligations are estimated to be in the range of Rs.0.50 to Rs. 0.90 crore.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	59.68	46.53	31.15
EBITDA	Rs. Cr.	3.43	2.81	1.69
PAT	Rs. Cr.	2.42	1.87	1.22
EBITDA Margin	(%)	5.74	6.04	5.42
PAT Margin	(%)	4.05	4.02	3.92
ROCE	(%)	20.61	21.03	16.84

Total Debt/Tangible Net Worth	Times	0.94	0.99	0.87
PBDIT/Interest	Times	4.71	4.14	4.66
Total Debt/PBDIT	Times	2.12	2.20	2.34
Gross Current Assets (Days)	Days	51	19	26

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.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
24-Feb-2018	Cash Credit	Long Term	2.00	ACUITE BB / Stable (Assigned)
	Bank Guarantee	Short Term	5.00	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	2.00	ACUITE BB / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Reaffirmed)

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