

Press Release

Ashok Kumar Mittal

February 28, 2020



Rating Upgraded, Assigned & Reaffirmed

Total Bank Facilities Rated*	Rs.12.00 Cr. (Enhanced from Rs.7.00 crore)
Long Term Rating	ACUITE BB+ / Outlook: Stable (Upgraded from ACUITE BB / Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BB**' (read as **ACUITE double B**) on the Rs.2.50 crore bank facilities, assigned the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs.3.75 crore bank facilities and reaffirmed the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.5.75 crore bank facilities of Ashok Kumar Mittal (AKM). The outlook is '**Stable**'.

The rating upgrade is in view of consistent improvement in operating performance marked by improvement in its revenues and profitability margins while maintaining its financial risk profile.

AKM is a proprietorship concern, established by Mr. Ashok Kumar Mittal in 1985. The firm is engaged in civil construction work which includes construction of building and pool for PWD and Chhattisgarh government.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and improving business risk profile**

The operations of AKM commenced in 1985. The proprietor, Mr. Ashok Kumar Mittal has experience of more than three decades in civil construction and well supported by a second line of generation comprising Mr. Deepak Kumar Mittal. Due to established track record in the construction industry, the firm has established relations with its customers and suppliers which has benefitted in terms of new orders in competitive bidding.

AKM's operating income witnessed a compound annual growth rate (CAGR) of 23 per cent over the past three years through FY2019 at Rs.70.40 crore from Rs.59.68 crore in FY2018 and Rs.46.53 crore in FY2017. Moreover, the profitability margins have also improved marked by operating margins and PAT margins of 10.78 percent and 9.08 percent in FY2019 as against 5.72 percent and 4.04 percent in FY2018, respectively. The firm has unexecuted order book of Rs.156.42 crore as on 31 January 2020, and expected to execute by FY2022.

Acuite believes that AKM will continue to benefit from proprietor's extensive experience in the industry and its improving business risk profile over the medium term.

- **Moderate financial risk profile**

AKM's financial risk profile is healthy, marked by moderate net worth, low gearing and healthy debt protection metrics. The tangible net worth stood healthy at Rs.14.30 crore as on March 31, 2019. The net worth has grown gradually from Rs.7.21 crore as on March 31, 2017. The growth in net worth is fueled by healthy accretion to reserves. The firm has followed conservative leverage policy, reflected through its peak gearing and Total outside Liabilities to Tangible net worth (TOL/TNW) level of 0.99 times as on March 31, 2017 and 2.49 times as on March 31, 2018, respectively. The gearing and Total outside Liabilities to Tangible net worth (TOL/TNW) level improved to 0.60 times and 1.31 times as on March 31, 2019. The total debt of the firm stood at Rs.8.60 crore as on March 31, 2019. The gearing is expected to be in the range of

0.30 to 0.50 times over the medium term.

The debt protection metrics are healthy marked by interest coverage ratio stood (ICR) and debt service coverage ratio (DSCR) stood at 8.43 and 4.24 times for FY2019 as against 4.70 times and 2.41 times for FY2018, respectively. Acuite expects the financial risk profile to remain healthy over the medium term on account of healthy accretion to reserves and absence of significantly debt funded capex.

Weaknesses

- **Competitive and fragmented industry**

AKM is into the business of civil construction. This particular sector is marked by the presence of several mid to big size players. AKM faces intense competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent as management has been operating in this environment for last 35 years.

- **Capital withdrawal risk**

AKM is exposed to risk of capital withdrawal considering its partnership constitution. However, there were no significant withdrawals observed during the period understudy.

Rating Sensitivity

- Withdrawal of partner's capital will lead to weakening of financial risk profile.
- Substantial improvement in scale of operation while maintaining profitability margins over the medium term.

Material Covenants

None

Liquidity position: Adequate

Liquidity of AKM is adequate marked by sufficient net cash accruals of Rs.2.46-7.14 crore for the period of FY2017-19 against repayment obligation in the range of Rs.0.80-1.00 crore over the same period. The cash accruals of the firm are expected to remain in the range of Rs.6.81-7.69 crore for the period FY2020-22 with low repayment obligations of around Rs.0.80 over the same period. The firm's operations are well managed marked by gross current asset (GCA) days of 52 in FY2019. Working capital borrowings of the firm remains fully utilised. The firm maintains unencumbered cash and bank balances of Rs.0.07 crore as on March 31, 2019. The current ratio of the firm stood at 1.47 times as on March 31, 2019. Acuite believes that the liquidity of the firm will remain adequate over near to medium term on account of stable net cash accruals, low repayment obligations and absence of any debt funded capex plans.

Outlook: Stable

Acuite believes AKM will maintain a 'Stable' outlook in the medium term on account of its experienced management and improving business risk profile. The outlook may be revised to 'Positive' in case of substantial growth in revenues with timely execution of orders. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected revenues.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	70.40	59.68
PAT	Rs. Cr.	6.39	2.41
PAT Margin	(%)	9.08	4.04
Total Debt/Tangible Net Worth	Times	0.60	0.94
PBDIT/Interest	Times	8.43	4.70

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

Not Applicable

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 Infrastructure Sector - <https://www.acuite.in/view-rating-criteria-51.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
25-Mar-2019	Cash Credit	Long Term	2.00	ACUITE BB / Stable (Reaffirmed)
	Bank Guarantee	Short Term	5.00	ACUITE A4+ (Reaffirmed)
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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50 (Enhanced from Rs.2.00 crore)	ACUITE BB+/Stable (Upgraded from ACUITE BB / Stable)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.75 (Enhanced from Rs.5.00 crore)	ACUITE A4+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE BB+/Stable (Assigned)

Contacts

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About Acuité Ratings & Research:

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