

Press Release

Sagittal Infra Project

May 30, 2019

Rating Upgraded and Assigned



| | |
|-------------------------------------|----------------------------|
| Total Bank Facilities Rated* | Rs. 10.00 Cr. |
| Long Term Rating | ACUITE BB/ Outlook: Stable |
| Short Term Rating | ACUITE A4+ |

* Refer Annexure for details

Rating Rationale

Acuite has upgraded long-term rating to 'ACUITE BB' (read as ACUITE double B) from 'ACUITE BB-' (read as ACUITE double B minus) on the Rs. 5.50 crore bank facilities of Sagittal Infra Project (SIP). The outlook is 'Stable'.

Also, Acuite has assigned short-term rating of 'ACUITE A4+' (read as ACUITE A four plus) on the Rs. 4.50 crore bank facilities of SIP.

The rating revision is in view of higher than expected growth in revenues during FY2018 which is expected to be sustained over near to medium term. Acuite expects that SIP will be able to exhibit improved operating metrics.

Established in 2012, SIP is an Andhra Pradesh-based partnership firm that undertakes civil construction contracts (mining, irrigation, railway projects). The firm executes contracts for water resource department of Andhra Pradesh. The firm was promoted by Mr. K Krishna Kishore and Mr. C.H Dasaradha Ram.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced promoters**

SIP was established in 2012. The firm was promoted by Mr. K Krishna Kishore, Mr. C.H Dasaradha Ram, Mr. C H. Ganeswara Rao and others. The promoters have experience of more than six years in the civil construction and real estate sectors. Further, the firm also has an experienced and qualified second tier management.

- **Healthy order book position**

SIP has healthy order book position with unexecuted orders in hand of approximately Rs. 251.89 crore (exclusion of escalation amount) as on 31 March 2019, providing revenue visibility for the medium term.

- **Comfortable financial risk profile**

The financial risk profile is comfortable marked by total tangible net worth of Rs.11.12 crore (Provisional) as on 31 March, 2019 as against Rs. 6.44 crore in the previous year. The gearing stood at 0.94 times (Provisional) as on 31 March, 2019 as against 0.90 times in the previous year. The total debt of Rs.10.45 crore (Provisional) as on 31 March, 2019 includes long term borrowings of Rs.3.00 crore, interest bearing unsecured loan from related parties of Rs. 1.95 crore and short term borrowings of Rs.5.50 crore. The coverage indicators are comfortable as the interest coverage ratio (ICR) stood at 5.20 times (Provisional) for FY2019. This mainly on account of improvement in the profitability of the firm. The net cash accruals to total debt (NCA/TD) stood at 0.64 times (Provisional) in FY2019.

Weaknesses

• High dependence on the government

Since SIP deals largely with government organizations, the nature of business is tender based. Any delay in project execution or receipts is likely to result in higher working capital requirement. However, this risk is mitigated owing to the established relations of the firm with government departments.

• Competitive and fragmented industry

SIP is exposed to intense competition from organised and unorganised players in the industry.

Liquidity Position:

SIP has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.89-6.69 crore during the four years through 2016-19. The cash accruals of the firm are estimated to remain around Rs.6.95-8.17 crore during 2020-22, while its repayment obligations are estimated to be around Rs.3.00 crore. However, the reliance on working capital borrowings are high as the cash credit limit is fully utilised. The firm maintains unencumbered cash and bank balances of Rs.0.06 crore (Provisional) as on March 31, 2019. The current ratio of the firm stood moderate at 1.34 times (Provisional) as on March 31, 2019. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuite believes that SIP will maintain a Stable outlook over the medium term owing to its experienced management and healthy orders in hand. The outlook may be revised to 'Positive' in case the firm registers more than expected growth in revenue while achieving improvement in profitability with successful sourcing and execution of projects. Conversely, the outlook may be revised to 'Negative' in case of delays in project execution leading to low profitability or lengthening of working capital cycle.

About the Rated Entity - Key Financials

| | Unit | FY19 (Provisional) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 82.83 | 72.52 | 53.26 |
| EBITDA | Rs. Cr. | 8.25 | 6.65 | 2.42 |
| PAT | Rs. Cr. | 5.28 | 4.05 | 0.54 |
| EBITDA Margin | (%) | 9.96 | 9.17 | 4.55 |
| PAT Margin | (%) | 6.38 | 5.58 | 1.02 |
| ROCE | (%) | 40.70 | 39.93 | 14.42 |
| Total Debt/Tangible Net Worth | Times | 0.94 | 0.90 | 3.26 |
| PBDIT/Interest | Times | 5.20 | 4.95 | 3.54 |
| Total Debt/PBDIT | Times | 1.26 | 0.87 | 4.67 |
| Gross Current Assets (Days) | Days | 93 | 98 | 47 |

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Entities in Infrastructure Sector- <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 |
|-------------|---------------------------------|-----------|------------------|-------------------------------|
| 16-Mar-2018 | Secured Overdraft | Long Term | 5.50 | 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/Outlook |
|------------------------|------------------|----------------|----------------|-----------------------------|------------------------------|
| Secured Overdraft | Not Applicable | Not Applicable | Not Applicable | 5.50 | ACUITE BB/ Stable (Upgraded) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 4.50 | ACUITE A4+ (Assigned) |

Contacts

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About Acuite Ratings & Research:

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