

Press Release

S S Construction

September 16, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 22.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.22.00 crore bank facilities of S S CONSTRUCTION (SSC). The outlook is '**Stable**'.

S S Construction (SSC), a Maharashtra-based partnership firm incorporated in 2004 is promoted by Mr. Balasaheb More and Mr. Avinash Jagtap. The firm undertakes civil construction contracts for the Maharashtra Government for construction of canals, dams, barrages and also undertakes industrial project contracts for private sector companies. The firm is registered with Public Works Department of Government of Maharashtra as Class I-A.

Analytical Approach

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

Key Rating Drivers

Strengths

• Experienced management

SSC is promoted by Mr. Balasaheb More and Mr. Avinash Jagtap, the promoters of the firm, who have been engaged in the same industry for more than two decades. Mr. Balasaheb More and Mr. Avinash Jagtap look after the day-to-day operations of the firm. The senior management team is ably supported by a strong line of mid-level managers. The extensive experience of the promoters is reflected through the established relationship with its customers. On the back of the stable orders in hand, the revenues have seen a compound annual growth rate (CAGR) of about ~8.16 per cent over the past four years through FY2019 at Rs.90.08 crore (Provisional) in FY2019. SSC has an unexecuted order book position of about Rs.157.57 crore as on 31 March, 2019 (1.75 times of FY2019 revenues) shows adequate revenue visibility.

• Moderate financial risk profile

SSC's financial risk profile is moderate, marked by a moderate network, low gearing and healthy debt protection metrics.

SSC's network is moderate estimated at around Rs.29.43 crore (Provisional) as on March 31, 2019. The network levels have seen significant improvement over the last four years through FY2019 on account of healthy accretion to reserves during the same period.

The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing levels of 0.96 times (Provisional) as on March 31, 2016. The leverage levels have marginally deteriorated to around 0.35 times (Provisional) as on March 31, 2019. SSC's moderate cash accruals to the tune of about Rs.9.97 crore have supported in minimizing the reliance on external debt lead to moderate gearing and debt levels of 0.35 times and Rs. 10.33 crore (Provisional) as on March 31, 2019. SSC's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs.10.68 crore - Rs.11.43 crore, which are comfortable to service its repayment obligations and incremental working capital requirements. As a result, the gearing, however, is expected to be moderate at around ~0.20 times as on March 31, 2021 on back of healthy accretion to reserves.

The revenues of the company remained moderate and increased by around ~5.00 per cent to

Rs.90.08 crore during FY2019, while its operating margins increased significantly to 12.41 per cent in FY2019 from 9.16 per cent in FY2018. The healthy profitability levels coupled with moderate debt levels has led to healthy debt protection measures. The NCA/TD and interest coverage ratio for FY2019 were healthy at 0.97 per cent and 8.73 times, respectively.

Acuite expects the financial risk profile to remain moderate over the medium term on account of healthy accretion to reserves and absence of major debt funded capex plan.

Weaknesses

• Profitability susceptible to fluctuations in raw material prices

The prices of main raw materials i.e. iron, steel and cement are highly volatile in nature. Further, the raw material cost constitutes around ~50 per cent of total sales. Hence, any adverse movement in raw material prices can adversely impact the profitability and operations of the firm. However, the firm reported EBITDA margin of 12.41 per cent (Provisional) for FY2019 as against 9.16 per cent in the previous year.

• Competitive and fragmented industry

SSC is engaged as an EPC contractor. This particular sector is marked by the presence of several mid to large sized players. The firm faces intense competition from the other players in the sectors. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts. Acuite believes that the firm is well positioned on account of its longstanding relationship with well-established players in the infrastructure industry, long track-record and experience of its promoters spanning nearing two decades.

Liquidity Position

The firm has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.4.08 crore – Rs. 9.97 crore during the last four years through 2016-19, while its maturing debt obligations were in the range of Rs.0.16 crore – Rs. 0.41 crore over the same period. The firm's operations are working capital intensive as marked by gross current asset (GCA) days of 172 in FY 2019. This has led to moderate reliance on working capital borrowings, the cash credit limit of the company remains utilised at ~70.00 per cent during the last 6 months' period ended August 2019. The company maintains unencumbered cash and bank balances of Rs.0.08 crore as on March 31, 2019. The current ratio of the company stood healthy at 2.43 times as on March 31, 2019. The company is not likely to incur any capex over the medium term. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuite believes that SSC's outlook will remain 'Stable' over the medium term on account of extensive experience of the partners and established operational track record. The outlook may be revised to 'Positive' in case of significant growth in revenue and profitability while effectively managing its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in net cash accruals, deterioration in the financial and liquidity profile due to higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	90.08	86.36	57.39
EBITDA	Rs. Cr.	11.18	7.91	4.55
PAT	Rs. Cr.	9.39	7.01	3.76
EBITDA Margin	(%)	12.41	9.16	7.92
PAT Margin	(%)	10.42	8.12	6.55
ROCE	(%)	30.79	33.71	29.69
Total Debt/Tangible Net Worth	Times	0.35	0.36	0.21
PBDIT/Interest	Times	8.73	13.02	7.29
Total Debt/PBDIT	Times	0.92	0.98	0.58
Gross Current Assets (Days)	Days	172	131	139

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-17.htm>
- Infrastructure Entities -<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
12-Jul-2019	Cash Credit	Long Term	7.00	ACUITE BBB-(Indicative)
	Proposed Cash Credit	Long Term	3.00	ACUITE BBB-(Indicative)
	Bank Guarantee	Short Term	9.50	ACUITE A3 (Indicative)
	Proposed Bank Guarantee	Short Term	2.50	ACUITE A3 (Indicative)
03-May-2018	Cash Credit	Long Term	7.00	ACUITE BBB-/Stable (Assigned)
	Proposed Cash Credit	Long Term	3.00	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	9.50	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	2.50	ACUITE A3 (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	7.00	ACUITE BBB-/Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A3 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE A3 (Reaffirmed)

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