

Press Release

S K Mehta & Company

May 15, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 16.70 Cr.
Long Term Rating	SMERA B+/ Outlook: Stable
Short Term Rating	SMERA A4

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long term rating of '**SMERA B+**' (read as **SMERA B plus**) and short term rating of '**SMERA A4**' (read as **SMERA A four**) on the Rs.16.70 crore bank facilities of S K Mehta & Company. The outlook is '**Stable**'.

S K Mehta & Company (SKMC), established in 1974 is a Maharashtra based partnership firm promoted by Mr. Ashwin Mehta, Mr. Arvind Mehta, Mr. Ashish Mehta and Mrs. Pramila Mehta. SKMC is registered as Class I-A contractor specialised in infrastructure works and executing construction of road works for state P.W.D., National Highway, PardhanMantri/ Mukhya Mantri Sadak Yojana and Zilla Parishad in Maharashtra (Nagpur, Bhandara, Gondia, Gadchiroli and Chandrapur districts).

Key rating drivers

Strengths:

Established track record of operations and experienced management:

SKMC has been engaged in the civil construction industry for more than four decades. Further, the Partners collectively possess more than four decades of experience in the civil construction industry.

Moderate financial risk profile: The financial risk profile is moderate marked by tangible net worth of Rs.11.24 crore as on 31 March, 2017 as against Rs.10.31 crore in the previous year. The gearing stood at 1.13 times on 31 March, 2017 as against 0.70 times in the previous year. The total debt of Rs.12.69 crore includes term loan from bank of Rs.4.12 crore, unsecured loan of Rs.0.81 crore and working capital funds of Rs.7.76 crore. The Interest Coverage Ratio (ICR) stood at 3.07 times for FY2017 as against 3.01 times in FY2016. The total liabilities to tangible net worth (TOL/TNW) stood at 1.64 times as on 31 March, 2017 as against 1.12 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.27 times in FY2017 as compared to 0.42 times in FY2016. Going forward, SMERA expects the firm to maintain its financial risk profile in the absence of major debt funded capex plan.

Weaknesses:

Uneven revenue trend due to tender based operations: SKMC registered operating income of Rs.34.18 crore for FY2017 as against Rs.32.44 crore for FY2016 and Rs.38.54 crore for FY2015. The firm exhibits uneven trend in its operating income. Besides, the tender-based business makes it vulnerable to order cyclicity. The firm has reported operating income of Rs.48.32.00 crore for FY2018. SKMC has unexecuted order book position of Rs.21.13 crore to be executed by June, 2018 which provides moderate revenue visibility over the medium term.

Profitability susceptible to fluctuations in input cost: The input cost i.e. power cost, labour cost and raw materials such as iron, steel and cement are highly volatile in nature. Hence, any adverse movement in input costs can impact profitability. However, the firm reported EBITDA margin of 14.21 percent for FY2017 as against 12.46 percent in the previous year.

High dependence on government orders: SKMC does civil construction work mainly for PWD State Government, National Highway and Zilla Parishad indicating that revenues are highly dependent on number and value of tenders floated by the Government. Moreover, any further delays in the project execution of current projects along with the delayed receipt from government and site related issues are likely to result in higher working capital requirements. However, this risk is mitigated as SKMC has established relations with State Government departments which resulted in timely realisations and winning of tenders at regular intervals.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of S K Mehta & Company to arrive at the rating.

Outlook – Stable

SMERA believes that the outlook on SKMC will remain 'Stable' over the medium term on account of its partner's extensive experience 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	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	34.18	32.44	38.54
EBITDA	Rs. Cr.	4.86	4.04	4.46
PAT	Rs. Cr.	2.07	2.01	2.42
EBITDA Margin	(%)	14.21	12.46	11.57
PAT Margin	(%)	6.05	6.19	6.27
ROCE	(%)	17.94	18.94	33.32
Total Debt/Tangible Net Worth	Times	1.13	0.70	0.93
PBDIT/Interest	Times	3.07	3.01	5.21
Total Debt/PBDIT	Times	2.50	1.59	2.12
Gross Current Assets (Days)	Days	130	92	57

Status of non-cooperation with previous CRA (if applicable): None

Any other information: Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument:

<https://www.smera.in/criteria-complexity-levels.htm>

Rating History (Upto last three years): Not Applicable

*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	6.20	SMERA B+ / Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.50	SMERA A4 (Assigned)

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ABOUT SMERA

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