

Press Release

Sheth Construction Company

June 05, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 48.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and long-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.48.00 crore bank facilities of Sheth Construction Company. The outlook is '**Stable**'.

Sheth Construction Company (SCC), established in 1975 as a partnership firm is a Mumbai-based firm promoted by Mr. Shashikant Sheth, Mrs. Usha Kirtikant Sheth and Mr. Pankaj Rasiklal Sheth. The firm undertakes civil construction contracts for Municipal Corporation of Greater Mumbai (MCGM) and Surat Municipal Corporation (SMC) for construction of roads, buildings, storm water drainage/sewerage, water supply arrangement, garden development, club/swimming pool construction, pumping station and reservoirs. SCC is registered as a Class IA contractor with MCGM and Class AA contractor with SMC.

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

SCC has been executing civil construction contracts in Mumbai and Surat for more than four decades. The firm is led by key partners, Mr. Shashikant Sheth, Mrs. Usha Kirtikant Sheth and Mr. Pankaj Rasiklal Sheth who collectively possess more than four decades of experience in the civil construction industry.

- Comfortable financial risk profile**

The financial risk profile is comfortable marked by tangible networth of Rs.20.25 crore (Provisional) as on 31 March, 2018 as against Rs.15.91 crore in the previous year. The gearing stood at 0.56 times (Provisional) on 31 March, 2018 as against 0.62 times in the previous year. The total debt of Rs.11.24 crore (Provisional) includes term loans from bank of Rs.0.60 crore, unsecured loans of Rs.6.27 crore and working capital funds of Rs.4.37 crore. The Interest Coverage Ratio (ICR) stood at 6.46 times (Provisional) for FY2018 as against 3.73 times in FY2017. The total liabilities to tangible network (TOL/TNW) stood at 1.93 times (Provisional) as on 31 March, 2018 as against 1.90 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.61 times (Provisional) in FY2018 compared to 0.69 times in FY2017.

- Improvement in revenue supported by healthy order book position**

SCC reported operating income of Rs.67.52 crore in FY2017 as compared to Rs.34.31 crore in FY2016. Further, the firm reported operating income of Rs.73.83 crore in FY2018 (Provisional). The growth in revenue is supported by healthy order book position of Rs.345.68 crore expected to be completed over the next 36 months.

Weaknesses

- 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 with labour cost constituting around ~40 percent of the total revenue as the firm sub-contracts its work. Hence, any adverse movement in input costs can impact profitability.

However, the firm reported EBITDA margin of 10.19 percent (Provisional) for FY2018 as against 12.69 percent in the previous year.

• **High dependence on government orders, mitigated by established relations and efficient liaisoning**

SCC does civil construction work mainly for Municipal Corporation of Greater Mumbai (MCGM) and Surat Municipal Corporation (SMC) and indicates that the firm's revenues are highly dependent on number and value of tenders floated by these Government authorities. Moreover, any further delays in the project execution of current projects along with the delayed receipt from the authorities and site related issues are likely to result in higher working capital requirements. However, this risk is mitigated, as SCC has established relations with the respective departments which resulted in timely realizations and winning of tenders at regular intervals.

Analytical Approach

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

Outlook: Stable

Acuite believes that the outlook on SCC will remain 'Stable' over the medium term on account of its promoter'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.	73.83	67.52	34.31
EBITDA	Rs. Cr.	7.52	8.57	5.09
PAT	Rs. Cr.	6.09	6.16	3.01
EBITDA Margin	(%)	10.19	12.69	14.82
PAT Margin	(%)	8.25	9.12	8.79
ROCE	(%)	25.65	36.54	20.12
Total Debt/Tangible Net Worth	Times	0.56	0.62	0.71
PBDIT/Interest	Times	6.46	3.73	2.98
Total Debt/PBDIT	Times	1.39	1.06	1.62
Gross Current Assets (Days)	Days	152	79	136

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

Note on complexity levels of the rated instrument

<https://www.acuite.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	6.00	ACUITE BBB- / Stable (Assigned)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB- / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A3 (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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