

## Press Release

### Sheth Construction Company

September 25, 2019

#### Rating Reaffirmed



<b>Total Bank Facilities Rated*</b>	Rs. 48.00 Cr.
<b>Long Term Rating</b>	ACUITE BBB- / Outlook: Stable
<b>Short Term Rating</b>	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.48.00 crore bank facilities of SHETH CONSTRUCTION COMPANY (SCC). The outlook is '**Stable**'.

Established in 1975, SCC is a Mumbai-based partnership firm promoted by Mr. Shashikant Khimchand 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.

#### Analytical Approach

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

#### 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 promoted by Mr. Shashikant Khimchand Sheth, who possesses more than three decades of experience in the civil construction industry. Before promoting SCC, the promoter was an Assistant Engineer at Municipal Corporation of Greater Mumbai (MCGM). He was later joined by Mrs. Usha Kirtikant Sheth and Mr. Pankaj Rasiklal Sheth as partners in the firm. The revenues have seen a compound annual growth rate (CAGR) of about ~33 per cent over the past four years through Rs. 34.31 crore in FY2016 to Rs. 81.02 crore in FY2019 (Provisional). The promoters' extensive experience is also reflected through the healthy order book position at Rs. 290.93 crore as on 31 July, 2019 to be executed in next 36 months. Hence, the healthy order book provides modest revenue visibility for the firm over the medium term.

Acuite believes that SCC will benefit from experienced management, which will help the firm to maintain long-standing relations with its customer such as MCGM and SMC and suppliers.

##### • Moderate financial risk profile

SCC's financial risk profile is moderate, marked by a moderate network, low gearing and above average debt protection metrics. The net worth of the firm stood moderate at Rs.22.44 crore as on March 31, 2019 (Provisional). The gearing (debt-equity) stood low at 0.66 times as on March 31, 2019 (Provisional) against 0.62 times as on March 31, 2018. The total debt outstanding of Rs.14.90 crore as on 31 March, 2019 (Provisional) consists of term loan of Rs. 0.33 crore, working capital borrowing of Rs. 6.87 crore and unsecured loan from promoters of Rs. 6.87 crore. The leverage and coverage indicators continue to remain moderate marked by Interest Coverage Ratio (ICR) and Debt Service Coverage Ratio (DSCR). ICR stood moderate at 4.17 times and DSCR stood at 3.74 times in FY2019 (Provisional). Total outside liabilities to tangible net worth has remained improved to 2.09 times as on 31 March, 2019 (Provisional) as against 2.16 times as on 31 March, 2018. Acuite believes that the financial risk profile will continue to remain moderate on account of improved cash accruals and growth in revenue.

## Weaknesses

### • Working capital intensive operations

SCC has working capital intensive operations due to requirement of various deposits mainly for bank guarantee. The firm's Gross Current Assets (GCA) stood at 208 days in FY2019 (Provisional) as against 152 days in FY2018, while the collection period stood at 115 days during FY2019 (Provisional) against 122 days in FY2018. Further, working capital is supported by high creditors of 111 days in FY2019 (Provisional). Acuite believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

### • High dependence on government orders, mitigated by established relations and efficient liaison

SCC does civil construction work mainly for Municipal Corporation of Greater Mumbai (MCGM) and Surat Municipal Corporation (SMC), which 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 realisations and winning of tenders at regular intervals.

## Rating Sensitivities

- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile
- Substantial improvement in scale of operation (~Rs.110.00-130.00 crore), while maintaining profitability margin of around 12-13 percent over the medium term.

## Liquidity position: Adequate

The firm has adequate liquidity marked by its moderate net cash accruals as compared to its maturing debt obligations. The firm generated cash accruals of Rs. 6.8 crore - Rs. 7.3 crore during the last three years through 2017-19 (Provisional); while the maturing debt obligations were in the range of Rs. 0.3 crore - Rs. 0.4 crore over the same period. The cash accruals are estimated to be in the range of Rs. 7.0 crore - Rs. 8.5 crore during 2019-21, while its repayment obligations at Rs. 0.3 crore over the same period. The firm maintains cash and bank balances of Rs. 0.18 crore as on March 31, 2019 (Provisional). The current ratio stood healthy at 1.89 times as on March 31, 2019 (Provisional). Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of moderate cash accrual over the medium term.

## Outlook: Stable

Acuite believes that SCC will maintain 'Stable' outlook over the medium term from its promoters' experience in the industry and moderate financial risk profile. The outlook may be revised to 'Positive' in case the firm is able to register healthy revenues and sustain its profitability. Conversely, the outlook may be revised to 'Negative' in case of significant decline in the firm's revenue, profit margins and working capital cycle.

## About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	81.02	78.85	67.52
EBITDA	Rs. Cr.	8.77	7.71	8.57
PAT	Rs. Cr.	6.65	6.27	6.16
EBITDA Margin	(%)	10.82	9.78	12.69
PAT Margin	(%)	8.20	7.95	9.12
ROCE	(%)	26.76	27.86	36.54
Total Debt/Tangible Net Worth	Times	0.66	0.62	0.62
PBDIT/Interest	Times	4.17	5.83	3.73
Total Debt/PBDIT	Times	1.55	1.34	1.06
Gross Current Assets (Days)	Days	195	152	79

**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
26-Aug-2019	Cash Credit	Long Term	6.00	ACUITE BBB-/Stable (Indicative)
	Proposed Cash Credit	Long Term	2.00	ACUITE BBB-/Stable (Indicative)
	Bank Guarantee	Short Term	28.00	ACUITE A3 (Indicative)
	Proposed Bank Guarantee	Short Term	12.00	ACUITE A3 (Indicative)
07-Dec-2018	Cash Credit	Long Term	6.00	ACUITE BBB-/Stable (Assigned)
	Proposed Cash Credit	Long Term	2.00	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	28.00	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	12.00	ACUITE A3 (Assigned)
05-Jun-2018	Cash Credit	Long Term	6.00	ACUITE BBB-/Stable (Assigned)
	Proposed Cash Credit	Long Term	2.00	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	28.00	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	12.00	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	8.00	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	ACUITE A3 (Reaffirmed)

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### About Acuité Ratings & Research:

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