

Press Release
Sheth Construction Company
September 01, 2023
Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Loan Ratings	8.00	ACUITE BB+ Stable Reaffirmed	-
Bank Loan Ratings	40.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	48.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.48.00 Cr bank facilities of Sheth Construction Company (SCC). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation of SCC takes into account the firm's experienced partners with an established track record of operations and moderate financial risk profile. The partners' extensive experience is also reflected through the healthy order book position of the firm of Rs.288 crore as on June 30, 2023 to be executed in the next 24 to 36 months. The rating is however constrained by the firm's working capital-intensive nature of operations and stagnating revenue over the last three years despite of its healthy order book. The firm generated revenue which remained stagnant in the range of Rs.50 Cr to Rs.60 Cr over the last three years. Going forward, the ability of the firm to improve its scale of operations and maintain profitability margins along with improving and maintaining an efficient working capital cycle will remain a key rating sensitivity factor.

About the Company

SCC established in the year 1975 is a Mumbai based partnership firm that 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. The firm is promoted by Mr. Shashikant Sheth, Mrs. Usha Sheth, Mr. Pankaj Sheth, Mr. Ashish Sheth, Mr. Pratik Sheth, Mr. Miral Sheth and Mr. Abhay Sheth. SCC is registered as a Class IA contractor with MCGM and Class AA contractor with SMC.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of SCC to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and established track record of operations

SCC has been executing civil construction contracts in Mumbai and Surat for more than four decades. The promoter, Mr. Shashikant Khimchand Sheth, 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 Sheth, Mr. Pankaj Sheth, Mr. Ashish Sheth, Mr. Pratik Sheth, Mr. Miral Sheth and Mr. Abhay Sheth as partners in the firm. The partners' extensive experience is also reflected through the healthy order book position of the firm of Rs.288 crore as of June 30th, 2023 to be executed in the next 24 to 36 months.

Acuité believes that the partners' extensive experience will help the firm to maintain long-standing relations with its customers such as MCGM & SMC and suppliers and is expected to support its business risk profile over the medium term.

Moderate financial risk profile

Financial risk profile of SCC is moderate marked by moderate network, low gearing and moderate debt protection metrics. The tangible network of the firm stood improved at Rs.22 Cr as on 31 March, 2023 (Provisional) as against Rs.16 Cr as on 31 March, 2022 due to accretion of profits to partners capital. The gearing (debt-equity) stood improved at 0.87 times as on 31 March, 2023 (Provisional) as against 1.31 times as on 31 March, 2022. The gearing of the firm is further expected to improve and remain low over the medium-term in the absence of any debt funded capex plan. The total debt of Rs.19 Cr as on 31 March, 2023 (Provisional) consists of long term bank borrowings of Rs.1 Cr, unsecured loans from partners of Rs.10 Cr and short term bank borrowings of Rs.8 Cr.

The interest coverage ratio and DSCR stood moderated at 3.52 times and 2.82 times for FY2023 (Provisional) as against 4.24 times and 3.28 times for FY2022. The Net Cash Accruals to Total debt stood at 0.31 times for FY2023 (Provisional) as against 0.27 times for FY2022. The Total outside liabilities to Tangible net worth stood improved at 1.95 times for FY2023 (Provisional) as against 2.94 times for FY2022. The Debt-EBITDA ratio stood improved at 2.31 times for FY2023 (Provisional) as against 2.79 times for FY2022.

Acuité believes that financial risk profile of SCC is expected to improve further and likely to remain moderate over the medium term.

Weaknesses

Stagnating revenue albeit improvement in profitability

SCC generated revenue of Rs.57 Cr in FY2023 (Provisional) as against Rs.53 Cr in FY2022 which remained stagnant in the range of Rs.50 Cr to Rs.60 Cr over the last three years despite of its healthy order book of more than Rs.200 Cr. This is on account of delays in initiating a few of the high value work orders which remained affected during the year due to site clearances and various other permissions required from the respective authorities.

The operating margin of the firm stood moderated at 13.11 percent in FY2023 (Provisional) as against 13.63 percent in FY2022 on account of increase in the cost of raw materials, employee cost and other administrative expenses during the year. On the other hand, the net profit margin of the firm also stood moderated at 9.45 percent in FY2023 (Provisional) as against 9.97 percent in FY2022 due to an increase in the interest cost during the year.

For the current year FY2024, as of June 2023, the firm has an unexecuted order book of ~Rs.288 Cr which includes the new orders received worth Rs.52 Cr during Q1 FY2024. The entire order book is expected to be executed by the firm over the next two to three years which provides adequate revenue visibility over the medium term, however the top five orders itself contribute ~71 percent of the revenue and hence timely completion of the work orders without any significant delays will remain key monitorable.

Acuité believes that ability of SCC to improve its scale of operations and maintain profitability margins will remain a key rating sensitivity factor.

Working capital intensive operations

The working capital operations of SCC are intensive marked by its Gross Current Assets (GCA) of 233 days for FY2023 (Provisional) which stood improved as against 267 days for FY2022. The inventory cycle of the firm stood at similar level of 18 days for FY2023 (Provisional) and for

FY2022 whereas the receivables cycle which though remains elongated however recorded an improvement in FY2023 (Provisional) of 195 days as against 226 days for FY2022. Majority of the work is executed by the firm during the third and fourth quarter of the year due to which the firm generates higher revenue during the last quarter of the year and in addition to this, the retention money which are held in various contracts also forms a part of the overall receivables due to which the receivables cycle of the firm generally remains higher. However, the average bank limit utilization for 6 months' period ended June 2023 stood moderate at ~66 percent. Further, the creditors cycle of the firm stood at 214 days in FY2023 (Provisional) as against 390 days in FY2022.

Acuité believes that the ability of SCC to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

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 realizations and winning of tenders at regular intervals.

Highly competitive and fragmented industry

The firm operates in a highly fragmented and competitive civil construction industry with large number of players executing small and mid-sized projects, because of low entry barriers. Further, the contracts are awarded through competitive bidding or tender process leading to pressure on the volume of the work or winning number of projects, pricing and profitability of the firm.

Tender based business

The nature of business is tender based and the firm faces intense competition in the industry. The firm's success ratio of winning the bids is to the tune of 40-50 percent. The firm generates its entire revenue from government projects.

Rating Sensitivities

- Ability to improve scale of operations and maintain profitability margins
- Ability to improve and maintain an efficient working capital cycle

All Covenants

Not applicable

Liquidity Position - Adequate

SCC has adequate liquidity position marked by sufficient net cash accruals (NCA) to its maturing debt obligations. The firm generated cash accruals of ~Rs.6 Cr during FY2021 to FY2023 (Provisional) against its debt repayment obligation in the range of Rs.0.53 Cr to Rs.0.63 Cr during the same period. Going forward, the NCA are expected in the range of Rs.7 Cr to Rs.9 Cr for the period FY2024-FY2025 against its debt repayment obligation in the range of Rs.0.22 Cr to Rs.0.36 Cr during the same period. The working capital operations of the firm are however intensive marked by its gross current asset (GCA) days of 233 days for FY2023. Current ratio stands at 1.89 times as on 31 March 2023 (Provisional). The firm has maintained cash & bank balance of Rs.0.31 Cr in FY2023 (Provisional).

Acuité believes that liquidity of SCC is likely to remain adequate over the medium term on account of sufficient cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that SCC will maintain 'Stable' outlook over the medium term on account of its experienced management with an established track record of operations. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	57.01	53.07
PAT	Rs. Cr.	5.39	5.29
PAT Margin	(%)	9.45	9.97
Total Debt/Tangible Net Worth	Times	0.87	1.31
PBDIT/Interest	Times	3.52	4.24

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

Not applicable

Any other information

None

Applicable Criteria

- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
16 Jun 2022	Cash Credit	Long Term	8.00	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
	Bank Guarantee	Short Term	34.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Proposed Bank Facility	Short Term	6.00	ACUITE A4+ (Downgraded from ACUITE A3)
18 Mar 2021	Bank Guarantee	Short Term	40.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	8.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
10 Dec 2020	Bank Guarantee	Short Term	40.00	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	8.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	34.00	ACUITE A4+ Reaffirmed
Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BB+ Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE A4+ Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Nilesh Soni Senior Analyst-Rating Operations Tel: 022-49294065 nilesh.soni@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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