



Press Release
Sheth Construction Company
July 23, 2024
Rating Reaffirmed and Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	8.00	ACUITE BB+ Reaffirmed & Withdrawn	-
Bank Loan Ratings	34.00	-	ACUITE A4+ Reaffirmed & Withdrawn
Bank Loan Ratings	6.00	-	Not Applicable Withdrawn
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	48.00	-	-

Rating Rationale

Acuite has reaffirmed and withdrawn the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on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. 42.00 Cr. bank facilities of Sheth Construction Company (SCC). Further, Acuite has withdrawn the short-term bank facility on Rs. 6.00 Cr. of Sheth Construction Company without assigning any rating as it is a proposed facility. The withdrawal is in accordance with Acuite's policy on withdrawal of rating as applicable to the respective facility / instrument. The rating is being withdrawn on account of request received from the company, and NOC (No Objection Certificate) received from the banker.

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. 129.86 crore as on June 30, 2024 to be executed in the next 24 to 36 months. Further, the revenue stood stable at Rs.54.36 Cr. in FY2024(Prov.) against Rs.58.28 Cr. in FY2023 and Rs.53.07 Cr. in FY2022. The rating is however constrained by the firm's highly intensive working capital operations and the susceptibility of profitability to volatility in raw material prices and also presence in highly fragmented and competitive industry.

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.

Unsupported Rating

Not Applicable

Analytical Approach

Acuité 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.129.86 crore as of June 30th, 2024 to be executed in the next 24 to 36 months.

Moderate Financial Risk Profile

Sheth Construction Company has a moderate financial risk profile marked by moderate net worth, low gearing and moderate debt protection metrics. SCC's net worth stood improved to Rs. 24.14 crore as of March 31, 2024(Prov) against Rs. 21.03 crore as of March 31, 2023 on account of accretion of profits to partners' capital accounts. The company's gearing stood at 1.35 times as on March 31, 2024 (Prov.) as against 1.32 times as on March 31, 2023. The company's total debt as on March 31, 2024 (Prov.) stood at Rs. 32.62 crore as compared to Rs. 27.67 crore as on March 31, 2023; comprising of long-term debt of Rs. 0.88 crore, short-term debt of Rs. 7.92 crore and Unsecured loans from promoters/directors of Rs. 23.82 crore. TOL/TNW stood at 1.97 times as on March 31, 2024 (Prov.). The interest coverage ratio of the company stood at 3.69 times in FY24 (Prov.) against 2.62 times in FY23. DSCR stood at 3.69 times in FY2024 (Prov.) against 2.05 times in FY2023.

Weaknesses

Highly Intensive Working capital operations

Sheth Construction Company has highly intensive working capital operations with average gross current asset (GCA) days standing over 339 days during FY22 to FY24. GCA days increased to 411 days in FY2024 (Prov.) against 339 days in FY2023. Inventory days stood at 8 days in FY2024 (Prov.) against 10 days in FY2023. The debtor days stood at 273 days for FY24 (Prov.) against 173 days for FY23. 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. The creditor days of the firm stood at 248 days for FY24 (Prov.) as against 190 days for FY23.

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 most of its revenue from government projects.

Rating Sensitivities

Not Applicable

Liquidity Position

Adequate

Liquidity is adequately backed by SCC's net cash accruals, which stood at Rs. 5.63 Cr. as on March 31, 2024 (Prov.), against no maturing debt repayment obligation for the same period. The cash and bank balances of the firm stood at Rs. 0.13 Cr. as on March 31, 2024 (Prov.). The current ratio stood at 3.01 times as on March 31, 2024 (Prov.). However, the working capital operations of the company are highly intensive marked by its gross current asset (GCA) days of 411 days for FY2024 (Prov.) as against 339 days for FY2023. Current ratio stands at 3.01 times as on 31 March 2024 (Prov.). The firm has maintained cash & bank balance of Rs. 0.13 Cr. in FY2024 (Prov.).

Outlook: Not Applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	54.36	58.28
PAT	Rs. Cr.	5.15	2.86
PAT Margin	(%)	9.46	4.91
Total Debt/Tangible Net Worth	Times	1.35	1.32
PBDIT/Interest	Times	3.69	2.62

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-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.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
01 Sep 2023	Bank Guarantee/Letter of Guarantee	Short Term	34.00	ACUITE A4+ (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BB+ Stable (Reaffirmed)
	Proposed Short Term Bank Facility	Short Term	6.00	ACUITE A4+ (Reaffirmed)
16 Jun 2022	Cash Credit	Long Term	8.00	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
	Proposed Short Term Bank Facility	Short Term	6.00	ACUITE A4+ (Downgraded from ACUITE A3)
	Bank Guarantee/Letter of Guarantee	Short Term	34.00	ACUITE A4+ (Downgraded from ACUITE A3)
18 Mar 2021	Cash Credit	Long Term	8.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+)
	Bank Guarantee (BLR)	Short Term	40.00	ACUITE A3 (Upgraded from ACUITE A4+)

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 avl. / Not appl.	Bank Guarantee/Letter of Guarantee	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	34.00	ACUITE A4+ Reaffirmed & Withdrawn
Bank of India	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	8.00	ACUITE BB+ Reaffirmed & Withdrawn
Not Applicable	Not avl. / Not appl.	Proposed Short Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	6.00	Not Applicable Withdrawn

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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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