

## Press Release

### Gadhiraju Construction Private Limited

June 29, 2018

### Rating Assigned



<b>Total Bank Facilities Rated*</b>	Rs. 15.00 Cr.
<b>Long Term Rating</b>	ACUITE BB- / Outlook: Stable
<b>Short Term Rating</b>	ACUITE A4+

\* Refer Annexure for details

### Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB-**' (read as **ACUITE BB minus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 15.00 crore bank facilities of Gadhiraju Construction Private Limited. The outlook is '**Stable**'.

Incorporated in 2010, Gadhiraju Constructions Private Limit (GCPL), a Karnataka based private limited company is engaged in civil construction, electrical and structural works for Karnataka government and private players. The company was promoted by Mr. G. Bangar Raju, Mr. G. Ravichandra Varma and Mrs. G Sushma. The directors have experience of more than one decade in civil construction business.

## Key Rating Drivers

### Strengths

#### • Experienced management

GCPL is promoted by Mr. G. Bangar Raju, Mr. G. Ravichandra Varma and Mrs. G Sushma. The promoters have experience of more than one decade in civil construction business. GCPL has forged a healthy relationship with its principal customer - Karnataka Housing Board (KHB) over a period resulting in continued business, though on tender basis. It won one major order of Rs.113.85 crores from KHB in October 2014; it has unexecuted order position of Rs.39.8 crores as of May 2018. Acuite believes that the company continues to benefit from the promoters and second tier managements experience in the civil construction business in improving its business risk profile.

#### • Comfortable financial risk profile

The financial risk profile is comfortable marked by healthy gearing (debt-to-equity) and comfortable total outside liabilities to total network (TOLTNW) though underpinned by modest net worth. Gearing is healthy at 0.57 times as on 31 March, 2018 (provisional) compared to 0.84 times in the previous year. The total debt of Rs. 3.23 crore, consists of working capital borrowings of Rs.1.84 crore, term loan of Rs.0.45 crore and unsecured borrowing of Rs.0.94 crore as on 31 March, 2018 (provisional). Also its TOLTNW is comfortable at 1.51 times as of March 31, 2018 which has improved from about 2.99 times in FY2015. Its network is though modest of Rs. 5.64 crore as on 31 March, 2018 (provisional), however its comfortable vis-à-vis its outside liabilities and debt. Debt protection metrics are healthy: interest coverage ratio (ICR) of 7.02 times in FY2018 (provisional). In FY2018, the net cash accruals to total debt (NCA/TD) stood at 0.30 times. Acuite believes that the financial risk profile is expected to be comfortable marked by healthy receivable position.

### Weaknesses

#### • Working capital intensive operations

GCPL's operations are working capital intensive which is evident from high gross current assets days of 222 days during FY2018 as compared to 186 days in FY2017. Inventory and debtors days are stand at 81 and 2 days respectively in FY 2018 as compared to 88 and 0 days in FY 2017. The high GCA days is mainly on account of high other current assets (retention money and xxx) of Rs. 7.93 crore in FY2018 (provisional) as compared to Rs. 3.93 crore in FY2017. High GCA resulted in high utilization of its bank lines at 80 per cent over 6 months through March 31, 2018. Acuite believes that the operations continue to be working capital intensive characterized by the industry nature.

#### • Modest order book, tender based business and concentration in revenues

GCPL has moderate order book position with unexecuted orders in hand of approximately Rs. 39.78 Cr as on May 26, 2018, providing revenue visibility for medium term. As informed by the management, the projects worth Rs.113.85 cr. which was granted to GCPL in October, 2014 by KHB. Out of which Rs.74.07 crores worth project have been completed as on March'2018 and remaining Rs.39.76 crore will be completed by July 2019. Further, the company will bid for another tender by July'18 for a value worth Rs 23 cr from KHB for construction of building. Further, GCPL does civil construction work mainly for KHB and indicates that the company's revenues are highly dependent on number and value of tenders floated by government authorities. Moreover, any further delays in the project execution of current projects along with the delayed receipts from the authorities and site related issues are likely to result in higher working capital requirements and modest revenues.

#### Analytical Approach

Acuite has considered the standalone business and financial risk profile of GCPL

#### Outlook: Stable

ACUITE believes that GCPL will maintain a stable outlook over the medium term owing to its experienced management and orders in hand. The outlook may be revised to 'Positive' in case company registers more than expected growth in revenues while maintaining the profitability and capital structure and diversifying the revenue concentration. Conversely, the outlook may be revised to 'Negative' in case of any stretch in the working capital cycle leading to deterioration in its liquidity.

#### About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	25.00	21.65	19.75
EBITDA	Rs. Cr.	1.92	1.70	1.87
PAT	Rs. Cr.	1.13	0.71	0.64
EBITDA Margin	(%)	7.67	7.87	9.49
PAT Margin	(%)	4.53	3.26	3.26
ROCE	(%)	18.85	18.37	24.91
Total Debt/Tangible Net Worth	Times	0.50	0.57	0.84
PBDIT/Interest	Times	7.71	7.02	7.39
Total Debt/PBDIT	Times	1.70	1.83	1.73
Gross Current Assets (Days)	Days	209	222	186

#### 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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.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. Cr.)	Ratings/Outlook
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	9.50	ACUITE A4+
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE A4+
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB- / Stable

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## About Acuité Ratings & Research:

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