Press Release

Strongbuilt Constructions Private Limited

August 31, 2019

Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs.40.00 Cr. (Enhanced from Rs.35.00 Cr.)
Long Term Rating	ACUITE BBB- / Outlook: Stable (Upgraded from ACUITE BB/Stable)
Short Term Rating	ACUITE A3 (Upgraded from ACUITE A4+)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating to **'ACUITE BBB-' (read as ACUITE triple B minus)** from **'ACUITE BB' (read as ACUITE double B)** and short-term rating to **'ACUITE A3' (read as ACUITE A three)** from **'ACUITE A4+' (read as ACUITE A four plus)** on the Rs.35.00 crore bank facilities and assigned the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** on the Rs.5.00 crore bank facilities of Strongbuilt Constructions Private Limited (SCPL). The outlook is **'Stable'**.

The rating upgrade is in the view of growth in revenues, while sustaining the profitability margins of the company along with healthy revenue visibility and healthy financial risk profile. The revenues of the company improved to Rs.108.09 crore for FY2019 (Provisional) from Rs.43.40 crore for FY2018. Further, the company has unexecuted order book position of ~Rs.637.43 crore as on 31 March, 2019 providing revenue visibility over the medium term. Acuité believes that going ahead the company will sustain the growth in revenues and profitability margins over the medium term.

Mumbai-based, Strongbuilt Constructions Private Limited (SCPL) was incorporated in 2011. The company promoted by Mr. Rashmeet Singh Kohli and Mr. Kevin Singh Kohli is engaged in undertaking EPC (engineering, procurement and construction) contracts for real estate industry.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

  The promoters, Mr. Rashmeet Singh Kohli and Mr. Kevin Singh Kohli, have more than a decade of experience in construction industry through the sister concern, Skyway RMC Plants Private Limited. The promoters are backed by team of experienced professionals from the construction industry. The extensive experience of the promoters is reflected through the established relationship with its customers. SCPL is currently executing projects for various reputed clientele in the real estate industry such as Hiranandani, Rustomjee among others.

  SCPL registered an operating income of Rs.108.09 crore in FY2019 (Provisional) as against Rs.43.40 crore in FY2018. Further, the company is currently having as unexecuted order book of ~Rs.637.43 crore as on 31 March, 2019, which gives the revenue visibility over the medium term.

  Acuité believes that SCPL will continue to benefit from the promoter's established presence in the industry and its improving business risk profile over the medium term.

- **Healthy financial risk profile**

  SCPL's financial risk profile is healthy, marked by a moderate net worth, low gearing and healthy debt protection metrics.

  SCPL's net worth is moderate estimated at around Rs.19.87 crore as on March 31, 2019 (provisional). The net worth levels have seen significant improvement over the last three years through FY 2019 on account of healthy accretion to reserves during the same period. The net worth also includes unsecured loans of Rs.5.99 crore as on 31 March 2019, which is considered as quasi equity as it is subordinated to bank debt.

The company has followed a conservative financial policy in the past; the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.64 times and 2.89 times as on March 31, 2019 (provisional). The leverage levels have marginally increased to around Rs.12.66 crore as on 31 March, 2019 (provisional) as the company has incurred capex of around Rs.5.6 crore in FY2019 to support its increasing scale of operations.

The healthy profitability levels coupled with moderate debt levels has led to healthy debt protection measures. The Interest Coverage Ratio (ICR) and the Debt Service Coverage Ratio (DSCR) for FY2019 (provisional) was healthy at 6.59 times and 3.95 times, respectively.

Acuité expects the financial risk profile to remain healthy over the medium term in absence of major debt funded capex plans.

Weaknesses

- **Working capital intensive operations**

SCPL's operations are working capital intensive in nature as reflected by its gross current asset (GCA) days of around 224 days FY2019 (provisional). The GCA is mainly dominated by inventory of 112 days for FY2019 (provisional) as against 133 days for FY2018. The inventory majorly consists of work in progress and raw material as company maintains inventory of steel and concrete blocks for around 40-45 days. The average receivable cycle stood in the range of 90-120 days for past three years ended 2019. SCPL's working capital limits over the last six months period was utilized at an average of 95 per cent, while the peak utilisation was high at around 100 per cent during the same period.

Acuité expects the operations of the company to remain working capital intensive on account of the high inventory levels maintained by the company and extended credit period offered to its customers.

- **Exposed to cyclicality in the construction and real estate industries**

SCPL's derives its entire revenues by undertaking civil engineering and construction projects for various real estate developers making it exposed to vagaries in the construction and real estate industries. Acuité believes that any further slowdown in the industry could have an impact on the revenues and profitability of the company.

- **Competitive and fragmented industry**

SCPL operates in a highly competitive and fragmented industry characterized by large number of unorganised players affecting its bargaining power with its customers.

Liquidity position

SCPL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.0 crore to Rs.7.0 crore during the last three years through FY2017-19 (Provisional), while its maturing debt obligation was in the range of Rs. 0.6 crore to Rs.1.0 crore. The company has intensive working capital operations as marked by low gross current asset (GCA) days of 224 in FY2019 (Provisional). The reliance on working capital borrowings is high; the cash credit limit in the company remains utilized at ~95 per cent during the last 6 months period ended July 2019. The current ratio stood at 1.41 times as on 31 March, 2019 (Provisional).

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals as against its repayment obligations over the medium term.

Outlook: Stable

Acuité believes that SCPL will maintain a 'Stable' business risk profile over the medium term on the back of experienced management and healthy order book position. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile or liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	108.09	43.40	23.64
EBITDA	Rs. Cr.	11.77	4.78	2.43
PAT	Rs. Cr.	6.96	3.08	1.57
EBITDA Margin	(%)	10.89	11.01	10.29
PAT Margin	(%)	6.43	7.09	6.65
ROCE	(%)	44.16	38.01	58.14
Total Debt/Tangible Net Worth	Times	0.64	0.35	0.30
PBDIT/Interest	Times	6.59	15.76	24.78
Total Debt/PBDIT	Times	1.07	0.95	0.54
Gross Current Assets (Days)	Days	224	263	141

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

None

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
09-July-2018	Cash Credit	Long term	2.50	ACUITE BB/Stable (Assigned)
	Bank Guarantee	Short Term	7.50	ACUITE A4+ (Assigned)
	Proposed Bank facility	Short Term	25.00	ACUITE A4+ (Assigned)

*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	2.50	ACUITE BBB-/Stable (Upgraded from ACUITE BB/Stable)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	17.50 (Enhanced from Rs.7.50 crore)	ACUITE A3 (Upgraded from ACUITE A4+)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	14.97	ACUITE A3 (Upgraded from ACUITE A4+)
Proposed Bank facility	Not Applicable	Not Applicable	Not Applicable	0.03 (Revised from Rs.25.00 crore)	ACUITE A3 (Upgraded from ACUITE A4+)

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Avadhoot Mane Senior Analyst - Rating Operations Tel: 022-49294051 avadhoot.mane@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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