

Press Release

Strongbuilt Constructions Private Limited

August 02, 2022



Rating Reaffirmed and Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	32.50	-	ACUITE A4+ Reaffirmed
Bank Loan Ratings	7.50	ACUITE BB+ Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	40.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded its long term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BB**' (read as **ACUITE double B**) and reaffirmed its short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.40.00 crore bank facilities of Strongbuilt Constructions Private Limited (SCPL). The outlook is 'Stable'.

Reason for rating upgrade

The rating upgradation takes into consideration the established market position of the company in the construction segment along with reputed customer base, moderate financial risk profile and adequate liquidity position. However the rating is constrained by the modest scale of operations and working capital intensive operations of the company.

About the Company

Mumbai-based, Strongbuilt Constructions Private Limited (SCPL) was incorporated in 2011. The directors of the company are Mr. Rashmeet Singh Kohli, Mr. Kevin Singh Kohli and Mr. Jagpreet Singh Kohli and the company is engaged in undertaking EPC (engineering, procurement, and construction) contracts of constructing shell and core for real estate industry.

Analytical Approach

Acuite 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 the construction industry through the sister concern, Skyway RMC Plants Private Limited. The promoters are backed by a team of experienced professionals from the construction industry. SCPL is currently executing projects for various reputed clientele in the real estate industry such as Hiranandani, Rustomjee, Ekta World among others.

Acuité expects SCPL to continue to benefit from the promoters' ability to leverage their relationship with well-established clients.

Augmentation in business risk profile

The company has recorded an operating income of Rs.55.14 crores in FY2022 as against Rs.12.82 crores in FY2021. The revenue of the company was affected in the FY2021 as the operations got affected by the covid pandemic wherein labour was not easily available. However, with resumption of the activities, the company witnessed improvement in the revenue for the FY22. The company has an order book of Rs.79.51 crore as on April 2022. The operating margin of the company declined to 15.09 percent in FY2022 as against 26.14 percent in FY2021, margins of the company varies with the different projects execution. The PAT margin of the company increased and stood at 8.06 percent in FY2022 as against 3.05 percent in FY2021.

Acuité believes that the business risk profile of the company will continue to improve on account of long standing relationships with the customers.

Moderate financial risk profile

The financial risk profile of the company stood moderate marked by moderate net worth, healthy gearing and debt protection metrics. The tangible net worth stood at Rs.19.74 crore as on 31 March, 2022 as against Rs.15.29 crore as on 31 March 2021. The increase in the networth is due to the accretion of profits in reserves. The total debt of the company stood at Rs.15.58 crore which includes Rs.3.96 crore of long term debt, Rs.7.89 crore unsecured loans from directors and Rs.2.81 crore of short term debt as on 31 March, 2022. The gearing (debt-equity) improved and stood at 0.79 times as on 31 March, 2022 as compared to 1.65 times as on 31 March, 2021. Interest Coverage Ratio stood healthy at 5.37 times for FY2022 as against 1.89 times for FY2021. Debt Service Coverage Ratio (DSCR) stood at 2.80 times in FY2022 as against 1.13 times in FY2021. Total outside Liabilities/Total Net Worth (TOL/TNW) stood at 1.95 times as on 31 March, 2022 as against 2.71 times on 31 March, 2021.

Acuité believes that the financial risk profile to improve in near term mainly due to improvement in the debt profile.

Weaknesses

Working capital intensive operations

The working capital management of the company is intensive marked by GCA days of 239 days in FY2022 as against 1042 days in FY2021. The debtor days stood at 89 days in FY2022 as against 94 days in FY2021. The inventory days improved and stood at 152 days for FY 2022 as against 1177 days for FY 2021. Inventory mainly includes raw materials and WIP. Raw materials majorly includes the steel stock and cement blocks and WIP mainly includes slabs which are not yet completed or not yet verified. The creditors days stood at 232 days in FY2022 as against 1010 days in FY21. The high level of GCA days is on account of the high inventory days. The company reliance on working capital borrowings is on a higher side marked by average utilization of working capital limits of ~86 percent during the last six months period ended June' 2022.

Acuité believes that the operations of the company to remain working capital intensive in medium term on account of the high inventory levels maintained by the company.

Exposed to cyclicity in the construction and real estate industry

SCPL's derives its entire revenues by undertaking 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.

Rating Sensitivities

Improvement in the scale of operations and the profitability margins
Deterioration in the working capital cycle

Material covenants

None

Liquidity position: Adequate

The company has an adequate liquidity position marked by sufficient net cash accruals against its maturing debt obligations. The company generated cash accruals of Rs.5.56 crore in FY22 compared against maturing debt obligations of Rs.0.97 crore over the same period. The cash accruals of the company are estimated to remain around Rs.7.88-Rs.10.39 crore during 2023-25 period while its matured debt obligations is estimated to be in the range of Rs.0.97-Rs.1.24 crore during the same period. The company reliance on working capital borrowings is on a higher side marked by average utilization of working capital limits of ~86 percent during the last six months period ended June' 2022. The company maintains unencumbered cash and bank balances of Rs.0.29 crore as on March 31, 2022 and the current ratio also stood moderate at 1.44 times as on March 31, 2022.

Outlook: Stable

Acuité believes that SCPL will maintain a 'Stable' business risk profile over the medium term on the back of experienced management and a good 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 a decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile or liquidity position.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	55.14	12.82
PAT	Rs. Cr.	4.45	0.39
PAT Margin	(%)	8.06	3.05
Total Debt/Tangible Net Worth	Times	0.79	1.65
PBDIT/Interest	Times	5.37	1.89

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

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
14 Feb 2022	Proposed Bank Facility	Short Term	0.03	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	5.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Bank Guarantee	Short Term	14.97	ACUITE A4+ (Issuer not co-operating*)
	Bank Guarantee	Short Term	17.50	ACUITE A4+ (Issuer not co-operating*)
	Cash Credit	Long Term	2.50	ACUITE BB (Downgraded and Issuer not co-operating*)
02 Dec 2020	Cash Credit	Long Term	2.50	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
	Proposed Bank Facility	Short Term	0.03	ACUITE A4+ (Downgraded from ACUITE A3)
	Bank Guarantee	Short Term	17.50	ACUITE A4+ (Downgraded from ACUITE A3)
	Bank Guarantee	Short Term	14.97	ACUITE A4+ (Downgraded from ACUITE A3)
	Cash Credit	Long Term	5.00	ACUITE BB+ Stable (Downgraded from ACUITE BBB- Stable)
31 Aug 2019	Proposed Bank Facility	Short Term	0.03	ACUITE A3 (Upgraded from ACUITE A4+)
	Bank Guarantee	Short Term	14.97	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	5.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	17.50	ACUITE A3 (Upgraded from ACUITE A4+)
	Cash Credit	Long Term	2.50	ACUITE BBB- Stable (Upgraded from ACUITE BB Stable)
09 Jul 2018	Bank Guarantee	Short Term	7.50	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Short Term	25.00	ACUITE A4+ (Assigned)
	Cash Credit	Long Term	2.50	ACUITE BB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	17.50	ACUITE A4+ Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE BB+ Stable Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BB+ Stable Upgraded
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+ Reaffirmed

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About Acuité Ratings & Research

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