

Press Release

The Trinity Group

July 12, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.22.00 Cr.
Long Term Rating	ACUITE BB/Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short-term rating of '**ACUITE A4+ (read as ACUITE A four plus)**' on the Rs. 22.00 crore bank facilities of The Trinity Group (TTG). The outlook is '**Stable**'.

The Trinity Group (TTG) was established in 2000 as a partnership firm. The firm is a class I civil contractor and has its registered office located at Hubli (Karnataka). TTG is engaged in civil construction of buildings and road works for clients in the state of Karnataka. The clientele of the firm includes Karnataka Housing Board (KHB), Karnataka Public Works Department (PWD), Karnataka Industrial Area Development Board (KIADB), Rail India Technical and Economic Service (RITES), Jindal Steel works, Akshay Patra (ISCON) and National Highway Authority of India.

Key Rating Drivers

Strengths:

- Experienced promoters and established relationships with Karnataka Govt:**

The Trinity Group is a partnership firm started by Mr. Sanjeev R Naik and Mr. Praveen R Naik in 2000. Both the partners have more than a decade of experience in the civil construction industry and they look after the day to day activities of the firm. Due to established track record in the construction industry, the promoters have established relations with its customers which has benefitted in terms of bagging new orders in competitive bidding model. TTG has an unexecuted order book of Rs.146.00 crore in hand as on March 31, 2018 which is to be executed over the next 24 months which provides revenue visibility over the medium term.

- Average financial profile:**

The financial profile is marked by healthy capital structure of the firm. Debt-equity ratio of the firm is healthy at below 0.15 times for the last three years through March 31, 2018 (Provisional). This is owing to absence of any major debt funded capex and repayments of existing loans. Gearing is expected to remain healthy under 0.20 times over the medium term supported by absence of any capex plans. TTG's improving net cash accruals and moderate debt levels has led to healthy debt protection metrics marked by net cash accruals to total debt (NCA/TD) and interest coverage ratio of 3.82 times and 5.19 times respectively in FY2018 (Provisional). Acuité believes that the financial risk profile is expected to be comfortable in the absence of significant debt-funded capex plans and moderate accretion to reserves.

- Comfortable working capital cycle**

The firm has comfortable working capital cycle on account of comfortable collection days and creditor days. The firm receives the payment from its customers within a week from the date of bill raised. Furthermore, it enjoys healthy credit of about 60 days from its suppliers. Also, the firm does not hold inventory for more than a week. Due to the above said factors, the working capital of the firm remains comfortable. The average utilisation of the bank overdraft facility was 90-95 percent for the last six month ended May 31, 2018.

Weaknesses:

- **Modest scale of operations along with fluctuating total operating income**

Despite the long track record, the scale of operations is modest marked by total operating income of Rs.60.29 crore in FY2018 (Provisional). Furthermore, the total operating income of the firm is seen fluctuating during the past 3-year period. The revenue decreased from Rs.46.77 crore in FY16 to Rs.26.54 crore in FY17. However, they are at modest levels of Rs.60.29 crore within the civil construction industry. Further, domestic civil construction industry remains highly competitive with numerous contractors, leading to high competition that restricts the firm's pricing flexibility besides tender based system.

- **Geographic and customer concentration in revenue**

The firm is a contractor for various departments of state government of Karnataka. This makes TTG's revenue growth dependent on regional impetus on infrastructure development. TTG participates in tenders for work orders from departments of government of Karnataka such as Karnataka Housing Board (KHB), Karnataka Public Works Department (PWD), Karnataka Industrial Area Development Board (KIADB). The geographic presence of these customers is restricted to various districts of Karnataka which reflect high geographical concentration risk along with customer concentration risk. The firm also remains vulnerable to cyclical in the construction industry, but the risk is mitigated by the longstanding relationship and presence in the segment.

Analytical Approach

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

Outlook: Stable

Acuité believes that TTG will maintain 'Stable' outlook and continue to benefit from the extensive experience of its promoters and the healthy order-book position. The outlook may be revised to 'Positive' if the firm is able to demonstrate substantial growth in revenues and healthy profitability. Conversely, the outlook may be revised to 'Negative' if there is any slowdown in order execution, or cost escalation results in lower-than-expected cash accruals; or if any major capital expenditure or stretch in the working-capital cycle, weakens liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	60.01	26.54	46.77
EBITDA	Rs. Cr.	4.37	1.99	2.75
PAT	Rs. Cr.	3.41	1.61	2.10
EBITDA Margin (%)	(%)	7.28	7.48	5.87
PAT Margin (%)	(%)	5.68	6.07	4.49
ROCE (%)	(%)	34.77	20.93	28.66
TOL/Tangible Net Worth	Times	0.43	0.69	0.75
PBDIT/Interest	Times	4.88	6.65	5.00
Gross Current Assets (Days)	Days	1	8	4

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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Sector - <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
Overdraft	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB / Stable (Assigned)
Proposed Overdraft	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB / Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	5.78	ACUITE A4+ (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	14.22	ACUITE A4+ (Assigned)

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About Acuité Ratings & Research:

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