

Press Release

G Gokul Shetty

August 08, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 7.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+**' (**read as ACUITE B plus**) and short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs. 7.00 crore bank facilities of G Gokul Shetty. The outlook is '**Stable**'.

G Gokul Shetty is Udupi based proprietorship firm established in 2000 by Mr. Gokul Shetty. It is engaged in construction of roads, bridges, small dams, buildings, coastal protection works and other civil work. The firm mainly operates in Karnataka region.

Key Rating Drivers

Strengths

- Experienced management**

G Gokul Shetty established the proprietorship firm in the year 2000. The promoter is a Civil Engineer and possess more than two decades of experience in the infrastructure industry. The firm builds its specialized in roads, buildings and coastal works. As a result though modest, its revenues have improved at a compound annual growth rate (CAGR) of 15.06 percent from Rs.9.25 crore in FY2015 to Rs.14.09 crore in FY2018 (Provisional). Generally, the firm participates in tender works during the second and third quarter of the financial year to build its pipeline; this resulted in low unexecuted portion of about Rs.5.86 crore as of May, 2018. Revenue profile is expected to be moderate on account of expected sea erosion protection work orders between second and third quarter of the FY2019. Further, operating margins of the firm are stable at 9-10 percent for the last three years through FY2018. Acuité believes that, the firm has benefited from its proprietor experience in the industry reflected in moderate revenue growth and stable operating margins for the last three years through FY2018.

- Moderate financial risk profile**

Financial risk profile of the firm is moderate marked by moderate gearing (debt-equity ratio), moderate debt protection metrics and comfortable total outside liabilities to total net worth (TOL/TNW). Gearing is moderate at 1.23 times as on 31 March, 2018 (Provisional) against 1.47 times as on 31 March, 2017. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt is moderate at 2.69 times and 0.24 times respectively for FY2018 (Provisional) against 3.07 times and 0.18 times in FY2017. TOL/TNW is comfortable at 1.74 times as on 31 March, 2018 (Provisional) against 1.47 times in as on 31 March, 2017, owing to less reliance on external debt and efficient working capital management. Acuité believes that, financial risk profile is expected to be moderate in the absence of major debt funded capital expenditure.

- Efficient working capital management**

Financial risk profile of the firm is moderate marked by moderate gearing (debt-equity ratio), moderate debt protection metrics and comfortable total outside liabilities to total net worth (TOL/TNW). Gearing is moderate at 1.23 times as on 31 March, 2018 (Provisional) against 1.47 times as on 31 March, 2017. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt is moderate at 2.69 times and 0.24 times respectively for FY2018 (Provisional) against 3.07 times and 0.18 times in FY2017. TOL/TNW is comfortable at 1.74 times as on 31 March, 2018 (Provisional) against 1.47 times in as on 31 March, 2017, owing to less reliance on external debt and efficient working capital management. Acuité believes that, financial risk profile is expected to be moderate

in the absence of major debt funded capital expenditure.

Weaknesses

- **Modest scale of operations**

Despite being in operations since 2000, revenues of the firm are at modest level which is in the range of Rs.9.25 crore in FY2015 to Rs.14.09 crore in FY2018 (Provisional). Further, the firm has executable orders of Rs.5.86 crore, providing modest revenue visibility. Low revenue visibility and modest scale of operations constrain the pricing flexibility and are key rating sensitivity factors in the medium term.

- **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.

Analytical Approach

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

Outlook: Stable

Acuité believes that G Gokul Shetty will maintain a 'Stable' outlook over the medium term benefitting from its Proprietor's extensive experience in the civil construction business. The outlook may be revised to 'Positive' if the firm achieves significant revenue growth while maintaining profitability margins. The outlook may be revised to 'Negative' if low cash accrual, large working capital requirement, and higher-than-expected drawings exert pressure on financial risk profile especially liquidity .

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	14.09	11.70	10.04
EBITDA	Rs. Cr.	1.54	1.03	0.91
PAT	Rs. Cr.	0.71	0.58	0.33
EBITDA Margin	(%)	10.94	8.84	9.05
PAT Margin	(%)	5.02	4.94	3.27
ROCE	(%)	17.49	14.04	14.26
Total Debt/Tangible Net Worth	Times	1.23	1.47	1.15
PBDIT/Interest	Times	2.69	3.07	2.57
Total Debt/PBDIT	Times	2.63	3.82	3.33
Gross Current Assets (Days)	Days	113	74	100

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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)

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE B+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4
Term loans	Not Applicable	Not Applicable	Not Applicable	2.50	ACUITE B+ / Stable

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About Acuité Ratings & Research:

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