Press Release

G Gokul Shetty

October 22, 2019

Rating Reaffirmed

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 reaffirmed 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 (GGS). The outlook is **'Stable'**.

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

Analytical Approach

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

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 specialization in roads, buildings and coastal works.

  Acuité believes that the company will continue to benefit through the promoter's extensive industry experience over the medium term.

- **Above average financial risk profile**

  Financial risk profile of the firm is above average 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 1.19 times as on 31 March, 2019 (Provisional) against 1.28 times as on 31 March, 2018. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt is moderate at 2.71 times and 0.15 times respectively for FY2019 (Provisional) against 2.90 times and 0.23 times in FY2018. TOL/TNW is comfortable at 1.39 times as on 31 March, 2019 (Provisional) against 1.91 times in as on 31 March, 2018, owing to less reliance on external debt and efficient working capital management. Acuité believes that, financial risk profile is expected to be above average in the absence of major debt funded capital expenditure.

Weaknesses

- **Small scale of operations**

  Despite being in operations since 2000, revenues of the firm are at small level which is in the range of Rs.10.04 crore in FY2016 to Rs.12.72 crore in FY2018. This is mainly on account of tender based nature of business. Further, the firm reported decline in revenue to Rs.8.77 crore in FY2019 (Provisional) due to low work in hand for FY2019. Currently, the firm has executable orders of ~Rs.10.00 crore, providing low revenue visibility. Acuité believes that the ability of the firm to scale up its operations will be a key monitorable.

- **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.

Rating Sensitivity

• Substantial improvement in scale of operations (~Rs.25.00-Rs.35.00), while maintaining profitability margin of around 15.00-16.50 percent over the medium term.
• Stretch in working capital cycle leading to increase in working capital borrowings.

Material Covenants

None

Liquidity position: Adequate

The firm's liquidity is adequate marked by moderate net cash accruals to its maturing debt obligations. The firm has generated cash accruals in the range of Rs.0.67-Rs.0.99 crore in the period FY2017 to FY2019 (Provisional) to repay its long-term debt obligations of Rs. 0.27-Rs.0.35 crore over the same period. The cash accruals of the firm are estimated to remain around Rs.0.8-1.0 crores during 2020-22, while its repayment obligations are expected to be Rs. 0.3 crore over the same period. The firm's operations are moderate working capital as marked by gross current asset (GCA) days of 129 in FY2019 (Provisional). The cash credit limit in GGS remains fully utilized during the last 6 months period ended September, 2019. The firm maintains cash and bank balances of Rs.0.28 crore and unencumbered balances in the form of fixed deposits of Rs.2.02 crore as on March 31, 2019 (Provisional). The current ratio of the company stood healthy at 2.21 times as on March 31, 2019 (Provisional). Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term in the absence of any significant debt funded capex.

Outlook: Stable

Acuité believes that GGS's outlook will remain 'Stable' over the medium term on back of its experienced management and above average financial risk profile. The outlook may be revised to 'Positive' in case of higher than expected growth in its revenues, while improving its working capital operations. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or stretch in its working capital management leading to deterioration of its financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	8.77	12.72	11.70
EBITDA	Rs. Cr.	1.37	1.65	1.03
PAT	Rs. Cr.	0.38	0.67	0.58
EBITDA Margin	(%)	15.61	13.01	8.84
PAT Margin	(%)	4.33	5.30	4.94
ROCE	(%)	15.09	18.98	14.04
Total Debt/Tangible Net Worth	Times	1.19	1.28	1.47
PBDIT/Interest	Times	2.71	2.90	3.07
Total Debt/PBDIT	Times	2.94	2.50	3.82
Gross Current Assets (Days)	Days	129	121	74

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

Not Applicable

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

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
• Manufacturing Entities - https://www.acuite.in/view-rating-criteria-4.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
08-Aug-2018	Cash Credit	Long Term	1.50	ACUITE B+/Stable (Assigned)
	Term Loan	Long Term	2.50	ACUITE B+/Stable (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE B+/Stable (Reaffirmed)
Term Loan	Not Applicable	Not Applicable	Not Applicable	1.75	ACUITE B+/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.75	ACUITE B+/Stable (Reaffirmed)

Contacts

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About Acuité Ratings & Research:
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