

Press Release

G Gokul Shetty

January 19, 2021



Rating Reaffirmed & Assigned

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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) and the short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.6.44 Cr bank facilities and assigned the long-term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.0.56 Cr bank facilities of G Gokul Shetty (GGS). The outlook is '**Stable**'.

The rating reaffirmation draws comfort on account of extensive experience of the proprietor, modest scale of operations with improvement in revenues in FY2020 and adequate liquidity position. The rating, however, continues to remain constrained on account of average financial risk profile, working capital-intensive operations, low revenue visibility in the medium term and the impact on operations in FY2021 due to global outbreak of COVID-19.

About the Firm

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

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of GGS to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management**

The proprietor, Mr. G Gokul Shetty, 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. The extensive experience of the proprietor is reflected through the established relationship with its customers and suppliers. Acuite believes that proprietors' extensive experience and healthy relationship with customers and suppliers are expected to support its business risk profile over the medium term; however, operations are expected to remain impacted in FY2021 due to the outbreak of COVID – 19.

Weaknesses

- Average financial risk profile**

GGS's financial risk profile is average marked by low net worth, deteriorating gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. Tangible net worth of the firm stood modest at Rs.3.93 Cr as on 31 March, 2020 (Provisional) against Rs.3.64 Cr as on 31 March, 2019. The gearing stood at 1.43 times as on 31 March, 2020 (Provisional) against 1.20 times as on 31 March, 2019. TOL/TNW stood at 2.36 times as on 31 March, 2020 (Provisional) against 1.37 times as on 31 March, 2019. The total debt of Rs.5.61 Cr as on 31 March, 2020 (Provisional) mainly consists of long-term debt of Rs.3.63 Cr, short-term debt of Rs.1.19 Cr and unsecured loans of Rs.0.78 Cr. Debt protection metrics of interest coverage ratio (ICR) and net cash accruals to total debt (NCA/TD) stood moderate at 4.03 times and 0.26 times respectively in FY2020 (Provisional), while DSCR stood at 2.41 times in FY2020 (Provisional). The firm has undertaken a capex in FY2021 of installing Bitumen Asphalt Mixing Plant for which the project cost is Rs.1.02 Cr. The project is funded through promoters' contribution of Rs.0.18 Cr, bank loans of Rs.0.85 Cr and unsecured loans of Rs.0.04 Cr.

Acuite believes that the financial risk profile is expected to remain at similar level in the medium term and the ability of the firm to improve its capital structure by improvement in the net worth & timely commencement of the commercial production of the capex will be critical in order to maintain a stable credit profile.

- **Working capital intensive operations**

Despite improvement, GGS's working capital operations continues to be intensive marked by Gross Current Asset days (GCA) of 112 days in FY2020 (Provisional) against 120 days in FY2019. The debtors' days were recorded at 10 days in FY2020 (Provisional) against 2 days in FY2019; which is corresponding to normal terms with the customers. The inventory days were recorded at 60 days in FY2020 (Provisional) against 103 days in FY2019. Further, the inventory holding policy followed by the firm is 15 days to cater to spot orders. However, working capital bank lines remains utilized at ~75 percent for last twelve months ended December, 2020. Acuite believes that efficient working capital management will be crucial to the firm in order to maintain a healthy financial risk profile.

- **Low revenue visibility**

The firm registered operating income of Rs.18.86 Cr in FY2020 (Provisional). For 8MFY2021, the firm has achieved a revenue of Rs.14.35 Cr. However, the firm has low unexecuted order book position of Rs.9.32 Cr as on December 2020, which provides a very low revenue visibility over the medium term.

Acuite believes that the ability of the firm to get new orders to improve the revenue visibility will be a key rating sensitivity.

- **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.

- **Tender based business**

The nature of business is tender based and the firm faces intense competition in the industry. The firm's success ratio of winning the bids is to the tune of 50 percent. The firm generates its entire revenue from government projects.

Rating Sensitivities

- Growth in revenue with sustainability of the profitability margins
- Any deterioration of its financial risk profile and liquidity
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics

Material Covenants

None

Liquidity: Adequate

GGS has an adequate liquidity position as reflected by adequate net cash accruals against moderate repayment obligations. The firm generated cash accruals of Rs.0.66 Cr-Rs.1.45 Cr during the last three years through 2018-20 against moderate repayment obligations in the range of Rs.0.27 Cr-Rs.0.30 Cr. It is expected to generate cash accruals in the range of Rs.1.15 Cr-Rs.1.33 Cr over the medium term, against repayment obligations in the range of Rs.0.32 Cr-Rs.0.60 Cr. Unencumbered cash and bank balances stood at Rs.0.97 Cr as on 31 March, 2020 (Provisional) with a current ratio of 1.65 times in the same period. Liquid investments stood at Rs.2.51 Cr as on 31 March, 2020 (Provisional). The working capital limits remains utilized at ~75 percent for last twelve months ended December, 2020.

Acuite believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

Outlook: Stable

Acuite believes that GGS will maintain a 'Stable' outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' if the firm demonstrates substantial and sustained growth in its revenues and profitability from the current levels while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower than expected growth in revenues and profitability or in case of deterioration in the financial risk profile, working capital cycle and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	18.86	8.77
PAT	Rs. Cr.	1.09	0.37
PAT Margin	(%)	5.75	4.24
Total Debt/Tangible Net Worth	Times	1.43	1.20
PBDIT/Interest	Times	4.03	2.70

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities in Infrastructure Sector - <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-Oct-2019	Secured Overdraft	Long Term	1.50	ACUITE B+/ Stable (Reaffirmed)
	Term Loan	Long Term	1.75	ACUITE B+/ Stable (Reaffirmed)
	Bank Guarantee	Short Term	3.00	ACUITE A4 (Reaffirmed)
	Proposed Bank Facility	Long Term	0.75	ACUITE B+/ Stable (Reaffirmed)
08-Aug-2018	Cash Credit	Long Term	1.50	ACUITE B+/ Stable (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A4 (Assigned)
	Term Loan	Long Term	2.50	ACUITE B+/ Stable (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)
Working Capital Term Loan	Oct-2020	7.50%	Oct-2024	0.56	ACUITE B+/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.19	ACUITE B+/ Stable (Reaffirmed)

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