

Press Release

Sai Datta Constructions

August 14, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BB-/ Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.20.00 crore bank facilities of Sai Datta Constructions (SDC). The outlook is 'Stable'.

Incorporated in 2008 as a partnership firm, Sai Datta Constructions (SDC) is an approved special-class contractor for executing government roads and irrigation projects in Telangana region. Based in Warangal (Telangana), the firm is promoted and managed by Mr. K. Thrirumal Reddy.

Key Rating Drivers

Strengths

- **Extensive experience of promoters in the civil construction industry**

SDC's active promoters have experience of more than two decades in the civil construction industry. SDC has been one of the approved special-class contractors for executing projects in Telangana for key principals like Irrigation & CAD dept., R&B dept. especially in Warangal, Khammam and Peddapally, among others. The long vintage of operations supported SDC's revenues to improve at a compound annual growth rate of about 9 percent over four years through FY2018 to Rs.116.81 crore in FY2018. SDC has an unexecuted order book position of Rs.83.05 crore in hand and Rs.165 crore at various stages of bidding as on May 31, 2018. The moderate orders on hand coupled with healthy strike rate in the past of about 70 percent of tenders participated is expected to provide adequate revenue visibility over the medium term. Acuite believes that the firm is expected to benefit from the vintage of the promoters, operational track record and the order book.

- **Above-average financial risk profile**

The gearing remained healthy below 0.50 times over the last 3 years ending March, 2017 due to increasing accretion to reserves. In absence of any major debt funded capex and repayment s of existing loans, the gearing is expected to remain healthy under 0.5 times over the medium term too. Total outside Liabilities to Total Net Worth (TOL/TNW) is healthy at 0.68 times in FY2018 vis-à-vis 0.84 times in FY2017. SDC'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 0.63 times and 5.84 times in FY2018 vis-à-vis 0.93 times and 8.42 times in FY2017 respectively. The above is constrained by moderate networth of Rs.27.08 crore as on March, 2018. It is expected to improve over the medium term backed by improving topline and moderate profitability margins.

Weaknesses

- Working capital intensive operations**

The operations are working capital intensive marked by high amount of work-in-progress, receivables for more than two-three months. However, SDC is following a practice of raising the bill when there is a visibility for payment from the government departments before the year end. Also, it does on basis of the government department's instruction; this results in nil receivables at balance sheet date. However, on an average the receivables are for more than two months and as the industry is working capital intensive, this resulted in high bank limit utilisation at about 100 percent. Further, there were instances of overdrawals also mitigating the financial flexibility.

- Geographic concentration in revenue**

SDC has been in the civil contract works business for more than two decades; however, almost 100 percent of its revenues are from projects executed in the State of Telangana. This makes SDC's revenue growth dependent on regional impetus on infrastructure development. Presence of over 200-300 contractors in the special category exposes SDC to intense competition and pricing pressure. The firm also remains vulnerable to cyclical in the construction industry, but the risk is mitigated by its longstanding relationship with its key principals.

- Tender nature of operations**

Since operations are tender driven, topline depends on successful bidding. This is compounded by intense competition from over 200-300 contractors in the special class category of contractors. Also, any slowdown in orders from I&CAD and R&B or cyclical in the construction industry is likely to adversely affect the SDC's business and financial risk profile. Since revenue is almost entirely tender-based, income depends on ability to bid successfully which is a key rating sensitivity factor.

Analytical Approach

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

Outlook: Stable

Acuite believes that SDC will maintain a 'Stable' outlook over the medium term based on the extensive promoters' experience and its long standing relationship with customers and suppliers. The outlook may be revised to 'Positive' in case of significant improvement in revenues while improving its liquidity and maintaining the profitability and capital structure. The outlook may be revised to 'Negative' in case of any higher-than-expected working capital requirement resulting in further stretch in its liquidity.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	116.81	107.16	105.33
EBITDA	Rs. Cr.	7.72	5.43	6.87
PAT	Rs. Cr.	5.62	5.38	5.20
EBITDA Margin	(%)	6.60	5.06	6.53
PAT Margin	(%)	4.81	5.02	4.93
ROCE	(%)	21.41	23.14	27.72
Total Debt/Tangible Net Worth	Times	0.37	0.31	0.27
PBDIT/Interest	Times	5.48	8.42	8.47
Total Debt/PBDIT	Times	1.31	0.95	0.78
Gross Current Assets (Days)	Days	71	63	34

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

None

Any other information

None

Applicable Criteria

- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-4.htm>
- Financial Ratios and Adjustments: <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-17.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB- / Stable
Secured Overdraft limit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB- / Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A4+

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About Acuité Ratings & Research:

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