

Press Release

Shelke Construction

August 21, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs.60.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.60.00 crore bank facilities of Shelke Construction. The outlook is '**Stable**'.

Pune based Shelke Construction (SC) is a proprietorship concern established in 1993. Mr. Babanrao Shelke is the proprietor of the firm. The firm is engaged as a class 1 EPC contractor for state and central government undertaking projects for irrigation, canals, bridges, national highways and railways.

Key Rating Drivers

Strengths

• Experienced management

The proprietor, Mr. Babanrao Shelke has an experience of over two decades in the construction industry. He is well supported by his sons Mr. Nilesh, Mr. Vishal and Mr. Milind Shelke. With the promoter's extensive industry experience and timely execution of projects, the firm has been able to establish long-standing relationship with various government as well as private clients.

• Healthy order book position

SC registered an operating income of Rs. 85.64 crore in FY2018 (Provisional) as against Rs. 46.24 crore in FY2017. Moreover, the firm has an unexecuted order book position of Rs. 868.54 crore as on 01 April 2018 which gives the revenue visibility over the medium term.

• Moderate financial risk profile

SC has moderate financial risk profile marked by tangible net worth of Rs. 27.57 crore as on 31 March, 2018 (Provisional) as against Rs. 10.17 crore as on 31 March, 2017. The increase in net worth is mainly on account of capital addition by promoters. The gearing stood at 1.24 times as on 31 March 2018 (Provisional) as against 2.67 times as on 31 March, 2017. The debt of Rs. 34.11 crore mainly consists of term loans of Rs. 17.67 crore, unsecured loan of Rs. 0.53 crore and working capital borrowings of Rs. 15.91 crore as on 31 March 2018 (Provisional). Interest Coverage Ratio (ICR) stood at 5.21 times for FY 2018(Provisional) as against 3.18 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.47 times as on 31st March, 2018 (Prov.) as against 3.06 times as on 31st March, 2017. Going forward, Acuité expects the firm to maintain its financial risk profile in absence of major debt funded capex plans.

Weaknesses

• Working capital intensive operations

SC's operations are working capital intensive marked by high Gross Current Asset (GCA) of 140 days in FY2018 (Provisional) compared to 101 days in FY2017. The GCA days are mainly dominated by high debtor days of 78 days in FY2018 (Provisional). The working capital limits were fully utilised for the past six months ended May 2018. Acuité believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

• **Execution risks remain as the firm has recently won large orders**

The firm has a strong revenue visibility with an order book/FY2018 (Provisional) income level at 10.14 times. The firm is exposed to execution risks as ~74.00 percent of its orders are recent awards and are yet to start. However, the established track record and experienced management will aid the firm in execution of the large order book. Further, the firm has high dependence on these large orders for revenue booking, as top 4 orders constitute for ~70.00 percent of the pending order book position.

• **Competitive and fragmented industry**

The firm is engaged as civil contractor. The particular sector is marked by the presence of several mid to big size players. The firm faces intense competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent on account of extensive experience of the management.

Analytical Approach

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

Outlook: Stable

Acuité believes that SC will maintain a stable outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or if the financial risk profile deteriorates due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	85.64	46.24	25.20
EBITDA	Rs. Cr.	13.60	7.73	5.45
PAT	Rs. Cr.	9.04	3.95	2.67
EBITDA Margin	(%)	15.88	16.71	21.61
PAT Margin	(%)	10.56	8.55	10.60
ROCE	(%)	23.54	17.75	14.70
Total Debt/Tangible Net Worth	Times	1.24	2.67	1.84
PBDIT/Interest	Times	5.21	3.18	2.81
Total Debt/PBDIT	Times	2.50	3.44	4.06
Gross Current Assets (Days)	Days	140	101	204

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

Brickwork Ratings, vide its press release dated March 12, 2018 had denoted the rating of Shelke Construction as 'BWR B+/Stable/BWR A4; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'BWR BB-/Stable/BWR A4' vide its press release dated January 05, 2017.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BBB-/Stable
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BBB-/Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A3

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-67141111 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Avadhoot Mane Analyst - Rating Operations Tel: 022-67141138 avadhoot.mane@acuiteratings.in	

About Acuité Ratings & Research:

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