

Press Release

Shelke Construction

May 06, 2020



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 60.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Revised from ACUITE BB+; Indicative)
Short Term Rating	ACUITE A4+ (Revised from ACUITE A4+; Indicative)

* Refer Annexure for details

Rating Rationale

Acuité has revised its long-term rating to '**ACUITE BB+**' (**read as ACUITE double B plus**) and the short term rating to '**ACUITE A4+**' (**read as ACUITE A four plus**) 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.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

The proprietor Mr. Babanrao Shelke has an experience of over two decades in the construction business. 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. 102.29 crore in FY2019 as against Rs. 84.77 crore in FY2018. Moreover, the firm has an unexecuted order book position of Rs. 743.26 crore as on 29 Feb 2019, 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. 34.73 crore as on 31 March 2019 as against Rs. 26.11 crore as on 31 March 2018. The gearing stood at 0.98 times as on 31 March 2019 as against 1.33 times as on 31 March 2018. The debt of Rs. 34.08 crore mainly consists of term loans of Rs. 17.19 crore, unsecured loan of Rs. 0.96 crore and working capital borrowings of Rs. 15.93 crore as on 31 March 2019. Interest Coverage Ratio (ICR) stood at 4.22 times for FY 2019 as against 5.11 times in FY2018. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.24 times as on 31st March, 2019 as against 1.72 times as on 31st March, 2018. 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 139 days for 9MFY20 compared to 73 days in FY2019. The GCA days is mainly dominated by high inventory days of 75 days in 9MFY20 and high creditor days of 87 days in 9MFY20. The working capital limits were fully utilised for the past six months ended March 2020. Acuité believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

- **Proprietorship nature of the firm**

The firm is exposed to the risk associated with the proprietorship nature of the firm including capital withdrawal risk that could adversely affect the capital structure limiting financial flexibility.

- **Geographic and concentration risk**

The firm majorly undertakes orders from govt. majorly in the Maharashtra region exposing the firm to significant geographic concentration risk associated with its operations. Any change in awarding the contracts will have a significant negative impact on overall operations of the firm.

- **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 this sector, which can impact its profitability and operations going forward. 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.

Liquidity Position: Adequate

The company has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company had cash accruals of Rs.10.89 crore in FY2019, while the maturing debt obligations were Rs.5.89 crore during the same period. The cash accruals are estimated to remain around Rs.10.00-15.00 crore during 2020-21. The company's operations are heavily working capital intensive as marked by gross current asset (GCA) days of 139 in 9MFY20. This has led to increased reliance on working capital borrowings, the cash credit limit remains fully utilized during the last 6 months period ended March 2020. The firm in current year has availed additional working capital facilities to fulfill its working capital requirements. The current ratio stood at 1.43 times as on March 31, 2019. Acuité believes that efficient working capital management with enhanced working capital facilities will keep the liquidity profile of SC's adequate over the medium term.

Rating Sensitivities

- Improvement, sustainability and healthy growth of revenues and profitability margins.
- Deterioration in the working capital cycle leading to stress on the liquidity position.

Material Covenants

None

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	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	102.29	84.77
PAT	Rs. Cr.	8.54	8.79
PAT Margin	(%)	8.35	10.37
Total Debt/Tangible Net Worth	Times	0.98	1.33
PBDIT/Interest	Times	4.22	5.11

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

CRISIL, vide its press release dated February 19, 2020 had denoted the rating of Shelke Construction as 'CRISIL B/Stable/ CRISIL A4; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CRISIL B+/Stable/CRISIL A4' vide its press release dated August 11, 2017.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities- <https://www.acuite.in/view-rating-criteria-51.htm>

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument
<https://www.acuite.in/view-rating-criteria-55.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 BB+/Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BB+/Stable
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE BB+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A4+
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A4+
Proposed bank facility	Not Applicable	Not Applicable	Not Applicable	23.00	ACUITE A4+ (Withdrawn)

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About Acuité Ratings & Research:

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