

Press Release

S K M Buildcon

November 06, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 09.00 Cr.
Long Term Rating	ACUITE B+/Stable (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE B+**' (read as **ACUITE B plus**) on the Rs.9.00 crore of bank facilities of SKM Buildcon. The outlook is '**Stable**'.

Raipur based, SKM Buildcon (SKM) was established in 2005 as a partnership firm by Mr. Suresh Kumar Mrigani and Mr. Ravi Mrigani. The firm is engaged in civil construction work and caters mainly to the Raipur Development Authority, Nagar Nigam Birgaon, Chhattisgarh Police Housing Board, among others.

Analytical Approach:

Acuite has considered the standalone business and financial risk profile of SKM while arriving at the rating.

Key Rating Drivers:

Strengths

Experienced management

The partners of SKM, Mr. Suresh Kumar Mrigani and Mr. Ravi Mrigani have extensive experience of 15 years in the construction and infrastructure industry. Acuite believes that the firm will continue to benefit from its promoters' extensive industry experience and healthy relationship with customers over the near term.

Healthy profitability

The operating profitability margin of the firm stood healthy at 9.60 per cent in FY20 (Prov.) as against of 10.61 per cent in the previous year. The marginal decline in operating profitability of the firm has been on account of increase in job work expenses during the period.

The net profit margin of the firm stood comfortable at 2.70 per cent in FY20 (Prov.) as compared to 2.68 per cent in the previous year.

Weaknesses

Below average financial risk profile

The financial risk profile of the firm is marked by low net worth, high gearing and moderate debt protection metrics. The net worth of the firm stood low at Rs.5.77 crore in FY 2020 (Prov.) as compared to Rs 1.77 crore in FY2019. This improvement in networth is mainly due to the retention of current year profit and infusion of fresh capital by the partners of Rs.3.45 crore during the period. The gearing of the firm stood high at 2.26 times as on March 31, 2020 (Prov.) when compared to 7.47 times as on March 31, 2019. Moreover, this improvement in gearing is mainly on account of improvement in networth of the firm during the period. Interest coverage ratio (ICR) is moderate and stood at 1.59 times in FY2020 (Prov.) as against 1.47 times in FY 2019. The net cash accruals to total debt (NCA/TD) stood low at 0.06 times in FY2020 as compared to 0.07 times in the previous year. Going forward, Acuite believes the financial risk profile of the firm will remain below average backed by no major debt-funded capex plan over the medium term and moderate net cash accruals.

Moderate scale of operation

The revenue of the firm stood moderate at Rs.20.35 crore in FY2020 (Prov.) as compared to Rs.26.05 crore in the previous year. The revenue of the firm has declined mainly on account of lower execution of construction work during the period. Currently, the firm has achieved Rs.8.00 crore till 30th September 2020 (Provisional). Moreover, the firm has a healthy unexecuted order book of Rs.94.98 crore as on September 2020 imparting revenue visibility over the medium term.

Rating Sensitivity

- Scaling up of operations while maintaining their profitability margin.
- Deterioration in the capital structure.

Material Covenant

None

Liquidity Position: Stretched

The firm has stretched liquidity marked by high Gross Current Asset (GCA) days at 535 days in FY2020 (Prov.) as compared to 429 days in the previous year. The bank limit is fully utilised by the firm for the last six months ended in September 2020. The current ratio of the firm stood moderate at 1.46 times as on March 31, 2020 (Prov.). However, the liquidity of the firm supported by the net cash accruals in FY2020 (Prov.) of Rs.0.72 crore as against nil yearly debt obligations. The cash accruals of the firm are estimated to remain in the range of around Rs. 0.52 crore to Rs. 1.56 crore during 2021-23 against Rs.0.34 crore repayment obligations in FY2022 and Rs. 0.68 crore in FY2023, respectively. Moreover, the firm has availed of loan moratorium till August 2020 for CC and also availed covid emergency fund of Rs.2.70 crore. The said loan is to be repaid over a period of 4 years, including 1 year of the moratorium. Hence, Acuite believes that this short term funding will further ease the liquidity position of the firm. Acuite believes that the liquidity of the firm is likely to remain stretched over the medium term on account of low cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuite believes SKM will continue to benefit over the medium term from its long track record of operation. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenues while achieving sustained improvement in profit margins and financial risk profile. Conversely, the outlook may be revised to 'Negative' in case the firm fails to achieve the expected revenues, or in case of further deterioration in the financial risk profile and liquidity position of the firm.

About the Rated Entity - Key Financials

	Unit	FY20 (Prov.)	FY19 (Actual)
Operating Income	Rs. Cr.	20.35	26.05
PAT	Rs. Cr.	0.55	0.70
PAT Margin	(%)	2.70	2.68
Total Debt/Tangible Net Worth	Times	2.26	7.47
PBDIT/Interest	Times	1.59	1.47

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

None

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings / Outlook
20-Dec-2019	Cash Credit	Long Term	9.00	ACUITE B+ (Indicative)
11-Oct-2018	Cash Credit	Long Term	9.00	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. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE B+/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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