

Press Release

Shrushti Contech Private Limited

D-U-N-S® Number: 67-548-1581

December 26, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 85.00 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 plus**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) to the Rs. 85.00 crore bank facilities of Shrushti Contech Private Limited (SCPL). The outlook is '**Stable**'.

Shrushti Contech Private Limited was established as a partnership firm in 2005 and later constituted as private limited company in 2013. It is engaged in infrastructure projects such as civil works, electrical works, electro-mechanical work and manufacturing and selling of PSSC poles. The day to day operations are managed by its Directors, Mr. Jampala Rajasekhar Reddy, Mr. Jampala Madhusudhan Reddy, Mr. Jampala Prasannalakshmi and Mr. Jampala Sujatha. The company has an order book of Rs.1041.22 crore, out of which, work to be executed by September, 2020 is Rs.614.54 crore.

Analytical Approach

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

Key Rating Drivers

Strengths

• Long track record of operations and experienced management

SCPL was a partnership firm established in 2005 and later constituted as private limited company in 2013. The company is promoted by its managing director, Jampala Rajasekhar Reddy along with other directors, Jampala Madhusudhan Reddy, Jampala Prasannalakshmi and Jampala Sujatha who possess experience of around two decades in civil construction industry. The extensive experience has enabled the company forge healthy relationships with customers and suppliers. Acuite believes that SCPL will continue to benefit from its experienced management and established relationships with customers.

• Healthy scale of operations and stable profitability

The company has reported healthy revenue growth with compounded annual growth rate (CAGR) of around 12.00 percent through the last three years ended 31 March, 2018. It has reported consistent revenue growth of around ~15 percent with operating income of Rs.132.02 crore in FY2018 as against operating income of Rs.114.26 crore in FY2017 and Rs.105.94 crore in FY2016. The operating margins of the company increased to 10.46 percent in FY2018 from 9.99 percent in FY2017 and 9.80 percent in FY2016.

• Moderate financial risk profile

The financial risk profile is moderate marked by moderate net worth and debt protection measures and gearing. The net worth of the company is moderate at Rs.24.18 crore as on 31 March, 2018 as against Rs.20.07 crore as on 31 March, 2017. The gearing of the company has stood moderate at 1.98 times as on March 31, 2018 as against 1.74 times as on 31 March, 2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) improved to 3.77 times as on 31 March, 2018 from 4.28 times as on 31 March, 2017. The high revenue levels coupled with stable operating margins have resulted in moderate debt protection measures. Interest Coverage Ratio (ICR) stood at 1.88 times in FY2018 as against 1.77 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.10 times as on 31 March, 2018 and the same as on 31 March, 2017. Debt Service Coverage Ratio (DSCR) stood at 1.34 times in FY2018 as against 1.32 times in FY2017. Acuite believes that the financial risk profile of SCPL will continue to remain moderate over the medium term on account of its improving scale of operations.

Weaknesses

• Intensive working capital operations

SCPL has intensive working capital operations marked by Gross Current Assets (GCA) of 280 days in FY2018 as against 290 days in FY2017. The company receives payments after 30 to 45 days of raising bill, resulting in high GCA days. The inventory and debtor levels stood at 74 days and 124 days in FY2018 as against 93 days and 105 days in FY2017, respectively. As a result, the average utilisation of bank limits stood high at 100 percent in the last six months. Acuite believes that the working capital requirements will continue to remain intensive over the medium term on account of number of orders received.

• Competitive and fragmented industry

The company 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 as the management has been operating in this industry for last three decades.

• Tender based business

Major business is bagged through open tenders. Hence, the revenue earned is directly dependent upon the quantum of contracts bagged and executed during the year. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. The company has to do tendering at competitive prices; this may affect the profitability of the firm.

Outlook: Stable

Acuite believes that SCPL will continue to benefit over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in SCPL's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	132.02	114.26	105.94
EBITDA	Rs. Cr.	13.81	11.41	10.38
PAT	Rs. Cr.	4.11	3.07	2.74
EBITDA Margin	(%)	10.46	9.99	9.80
PAT Margin	(%)	3.11	2.69	2.59
ROCE	(%)	23.66	24.69	26.19
Total Debt/Tangible Net Worth	Times	1.09	1.18	1.12
PBDIT/Interest	Times	1.88	1.77	1.81
Total Debt/PBDIT	Times	2.23	2.49	1.76
Gross Current Assets (Days)	Days	280	290	289

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BB+ / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB+ / Stable
Letter of credit**	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+
Letter of credit^	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A4+
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A4+
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A4+

^One way interchangeability from LC to BG to the extent of Rs.16.00 crore permitted within the overall NFB limit of Rs.46.00 crore.

**interchangeable to BG.

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About Acuité Ratings & Research:

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