

## Press Release

Sona Builders

D-U-N-S® Number: 67-548-1292

December 28, 2018



### Rating Assigned

Total Bank Facilities Rated*	Rs. 27.00 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. 27.00 crore bank facilities of Sona Builders (Sona). The outlook is '**Stable**'.

Sona, established in 1980 as a partnership firm, is a Gujarat-based firm promoted by Mr. Praful Patel, Mr. Mukesh Patel, Mr. Piyush Patel, Mr. Rakesh Patel and Mr. Devansh Patel. The company undertakes civil construction contracts mainly for Municipal Corporation and Indian Railways for construction of buildings and bridges. Sona is registered as a Class AA Special Category I contractor with Roads and Building Department, Government of Gujarat.

### Analytical Approach

Acuite has considered the standalone business and financial risk profile of Sona to arrive at the rating.

## Key Rating Drivers

### Strengths

#### • Efficient working capital management and adequate liquidity

The firm continues to efficiently manage its working capital requirement with Gross Current Asset (GCA) days of 70 for FY2018 as compared to 60 in the previous year. Further, the liquidity remains adequate because of comfortable cash accruals of Rs.5.24 crore as against debt repayment obligation of Rs.0.98 crore over the medium term. The average cash credit utilisation for the last six months stood at around 76.99 percent ended 31 October, 2018.

#### • Established track record of operations and experienced management

Sona has been executing civil construction contracts for around four decades. The firm is led by key partners who collectively possess more than four decades of experience in the civil construction industry.

#### • Comfortable financial risk profile

The financial risk profile is comfortable marked by tangible net worth of Rs.18.65 crore as on 31 March, 2018 as against Rs.14.02 crore in the previous year. The gearing stood at 0.78 times on 31 March, 2018 as against 0.96 times in the previous year. The total debt of Rs.11.24 crore (Provisional) includes term loan from bank of Rs.0.60 crore, unsecured loan of Rs.6.27 crore and working capital funds of Rs.4.37 crore. Interest Coverage Ratio (ICR) stood at 6.46 times (Provisional) for FY2018 as against 3.73 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.93 times (Provisional) as on 31 March, 2018 as against 1.90 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.61 times (Provisional) in FY2018 compared to 0.69 times in FY2017.

## Weaknesses

- **Profitability susceptible to fluctuations in input cost**

The input cost i.e. power cost, labour cost and raw materials - iron, steel and cement are highly volatile in nature with labour cost constituting around ~52 percent of the total revenue as the firm sub-contracts its work. Hence, any adverse movement in input costs can impact profitability. However, the firm reported EBITDA margin of 6.14 percent for FY2018 as against 5.20 percent in the previous year.

- **High dependence on government orders, mitigated by established relations and efficient liaisoning**

Sona does civil construction work mainly for government which indicates that the firm's revenues are highly dependent on number and value of tenders floated by the Government authorities. Moreover, any further delays in the project execution of current projects along with the delayed receipt from the authorities and site related issues are likely to result in higher working capital requirements. However, this risk is mitigated, as Sona has established relations with the respective departments which resulted in timely realisations and winning of tenders at regular intervals.

## Outlook: Stable

Acuite believes that the outlook on Sona's rated facilities will remain 'Stable' over the medium term on account of its promoter's extensive experience and established operational track record. The outlook may be revised to 'Positive' in case of significant growth in revenue and profitability while effectively managing its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in net cash accruals, deterioration in the financial and liquidity profile due to higher than envisaged working capital requirements.

## About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	96.12	92.88	81.57
EBITDA	Rs. Cr.	5.90	4.83	3.02
PAT	Rs. Cr.	4.41	4.00	2.60
EBITDA Margin	(%)	6.14	5.20	3.71
PAT Margin	(%)	4.59	4.30	3.19
ROCE	(%)	20.75	24.91	42.80
Total Debt/Tangible Net Worth	Times	0.78	0.96	1.04
PBDIT/Interest	Times	3.80	3.79	3.41
Total Debt/PBDIT	Times	2.04	2.13	2.16
Gross Current Assets (Days)	Days	70	60	36

## 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	2.00	ACUITE BB+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A4+

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**About Acuité Ratings & Research:**

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