

Press Release

Sona Builders

January 24, 2020

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.37.00 crore (Enhanced from Rs.27 crore)
Long Term Rating	ACUITE BB+ / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the 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**) on the Rs.37.00 crore bank facilities of SONA BUILDERS (Sona). The outlook is '**Stable**'.

Gujarat based, Sona Builders was incorporated in 1980. The firm led by the partners, Mr. Mukesh Patel and his family members is undertaking civil construction work mainly for Indian Railways and Municipal Corporation for construction of buildings and bridges. The firm is registered as a Class AA Special Category I contractor with Roads and Building Department, Government of Gujarat.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Long track record of operations and experienced management**

The partners, Mr. Mukesh Patel and his family members collectively has more than four decade of experience in the civil construction industry. The firm, over a period of time, has developed its execution capabilities in undertaking civil construction contracts. Presently, the firm has ongoing projects in Uttar Pradesh, Delhi, Gujarat, Rajasthan and Silvasa. The firm has executed projects for Indian railways and Municipal Corporation.

Acuité believes that firm's operations will benefit from the partner's extensive experience and established track record in the aforementioned industry.

- **Above average financial risk profile**

Sona has above average financial risk profile marked by healthy net worth, low gearing and healthy debt protection matrix. The net worth stood at Rs.16.12 crore as on March 31, 2019, which has witnessed sequential improvement from Rs.12.76 crore as on March 31, 2018 and Rs.9.18 crore as on March 31, 2017. The accretion to net worth was mainly on account of steady operating profitability leading to higher accretion to reserves. Sona has followed a moderate financial policy in the past as reflected by its peak gearing of 1.46 times over the last three years through 2017-19. The gearing of the firm stood at 1.01 times, as on March 31, 2019. The total outside liabilities to tangible net worth ratio also stood at around 2.67 times as on March 31, 2019. The firm's total debt of Rs.16.35 crore as on March 31, 2019 (Rs.14.55 crore as on March 31, 2018) includes term loans (current and non-current portion) of Rs.2.56 crore, unsecured loans from relatives Rs.12.42 crore and working capital borrowings of Rs.1.36 crore. The firm has recorded fluctuating revenue coupled with healthy operating margin, resulting in healthy debt protection metrics. The interest coverage ratio (ICR) of the firm stood healthy at around 3.31 times as on 31 March, 2019 and the net cash accruals to total debt stood moderate at 0.32 times as on March 31, 2019. The debt service coverage ratio (DSCR) stood at 2.31 times for FY2019. The firm's annual net cash accruals (PAT + Depreciation) were ~Rs.5.23 crore for FY2019 as against which it had annual repayment obligations is of ~Rs.0.98 crore.

Acuite believes that firm will maintain above average financial risk profile on the back of sustenance of its

profitability margins and moderate financial policy.

- **Efficient working capital management albeit deterioration**

The firm continues to efficiently manage its working capital requirement albeit deteriorated with Gross Current Asset (GCA) days of 75 for FY2019 as compared to 47 days in the previous year. The GCA days remains efficiently managed on account of quick receivables within 15 days from raising invoice to government department. The inventory holding period stood around one month. The working capital cycle draws comfort from the high credit period extended by suppliers. The average cash credit utilisation stood very low for the last ten months for the period ended 30 November, 2019.

Weaknesses

- **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.

Rating Sensitivity

- Improvement in scale of operations
- Sustenance of profitability

Material Covenants

None

Liquidity Position: Adequate

Sona has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.4.63-5.24 crore during the last three years through 2017-19, while its maturing debt obligations were in the range of Rs.0.64-0.98 crore over the same period. The cash accruals of the firm are estimated to remain around Rs.5.57-6.98 crore during 2020-22, while its repayment obligations are estimated to be around Rs.0.85 during the same period. The firm's operations are managed efficiently as marked by Gross Current Assets (GCA) of 75 days as on 31 March, 2019. The working capital borrowing utilizations are minimal during the FY2019. The current ratio of the firm stood healthy at 1.38 times as on March 31, 2019. Acuité believes that the liquidity of the firm is likely to remain healthy over the medium term on account of adequate cash accrual as against no debt repayments over the medium term.

Outlook: Stable

Acuité believes that Sona's outlook will remain stable owing to the partner's experience in the industry. The outlook may be revised to 'Positive' if the scale of operations increases substantially, while improving its profitability. Conversely, the outlook may be revised to 'Negative' in case of weakening of profitability margins or if the company registers deterioration in its financial risk profile and elongation in working capital cycle management.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	90.53	96.12
PAT	Rs. Cr.	4.33	4.41
PAT Margin	(%)	4.79	4.59
Total Debt/Tangible Net Worth	Times	1.01	1.14
PBDIT/Interest	Times	2.18	2.04

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

Not Applicable

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-51.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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-Dec-2018	Cash Credit	Long Term	2.00	ACUITE BB+/ Stable (Assigned)
	Bank Guarantee	Short Term	25.00	ACUITE A4+ (Assigned)

*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 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	35.00 (Enhanced from Rs.25.00)	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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