

## Press Release

Sona Builders

April 20, 2021



### Rating Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs. 37.00 Cr.
<b>Long Term Rating</b>	ACUITE BB+/Outlook: Stable (Reaffirmed)
<b>Short Term Rating</b>	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 to '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.37.00 Cr bank facilities of Sona Builders (SB). 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 financial and business risk profile of SB 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. This has resulted in healthy order book of around Rs.390.75 crore out of which Rs.237.05 crore is executed and Rs.153.98 crore is expected to be completed by FY2022-23. 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.

- **Comfortable financial risk profile**

SB has comfortable financial risk profile marked by healthy net worth, low gearing and healthy debt protection measures. The net worth stood at Rs.19.65 crore as on March 31, 2020, which has witnessed sequential improvement from Rs.16.12 crore as on March 31, 2019. 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 1.14 times over the last three years through 2018-20. The gearing of the firm stood at 0.74 times, as on March 31, 2020. The total outside liabilities to tangible net worth ratio also stood at around 2.26 times as on March 31, 2020. The firm's total debt of Rs.14.59 crore as on March 31, 2020 (Rs.16.35 crore as on March 31, 2019) includes term loans of Rs.1.31 crore, unsecured loans from relatives Rs.13.28 crore. The firm has recorded improved revenue coupled with moderate operating margin, resulting in healthy debt protection metrics. The interest coverage ratio (ICR) of the firm stood healthy at around 3.50 times as on 31 March, 2020 and the net cash accruals to total debt stood moderate at 0.37 times as on March 31, 2020. The debt service coverage ratio (DSCR) stood at 2.52 times for FY2020.

Acuite believes that firm will maintain above average financial risk profile on the back of sustenance of its profitability margins and moderate financial policy.

- **Comfortable working capital management**

The firm continues to efficiently manage its working capital requirement marked by Gross Current Asset (GCA) days of 64 for FY2020 as against 61 days in the previous year. The GCA days remains efficiently managed on account of quick receivables within 19 days from raising invoice to government department. The inventory holding period stood around 3 days for FY2020. The working capital cycle draws comfort from the high credit period extended by suppliers. The average cash credit utilisation stood moderate at 65 per cent for the last 6 months for the period ended March, 2021.

### 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.

### Liquidity Position: Adequate

SB has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.5.23 to 5.47 crore during the last three years through 2018-20, while its maturing debt obligation was around Rs.0.85 crore over the same period. The cash accruals of the firm are estimated to remain around Rs.5.00 to 7.00 crore during 2021-23, while its repayment obligations are estimated to be nil during the same period. The firm's operations are managed efficiently as marked by Gross Current Assets (GCA) of 63 days as on 31 March, 2020. The current ratio of the firm stood healthy at 1.55 times as on March 31, 2020.

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 SB'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.

### Rating Sensitivities

- Significant improvement in scale of operations along with profitability margins.
- Significant changes in financial risk profile and working capital operations of the firm.

### Material Covenants

None

### About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr	105.45	90.53
Profit after tax (PAT)	Rs. Cr	4.58	4.33
PAT margin	%	4.34	4.79
Total debt / Tangible Net worth	Times	0.74	1.01
PBDIT / Interest	Times	3.50	3.31

### 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 sector - <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
24-Jan-2020	Cash Credit	Long Term	2.00	ACUITE BB+/Stable (Reaffirmed)
	Bank Guarantee	Short Term	35.00	ACUITE A4+ (Reaffirmed)
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	ACUITE A4+ (Reaffirmed)

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**About Acuité Ratings & Research:**

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