

Press Release

Sona Builders

April 06, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.00	ACUITE BB+ Stable Reaffirmed	-
Bank Loan Ratings	35.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	37.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite 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'.

Rationale for Rating Reaffirmation

The rating is reaffirmed on account of consistent business performance and financial risk profile of Sona Builders. The Firm has an orderbook of Rs. 417.69 Cr in hand as on January, 2022 out of which Rs. 169.79 Cr remains to be executed over the medium term. The financial risk profile of the Firm is above average, marked by low gearing and comfortable debt protection metrics. The overall gearing of the Firm stood at Rs.0.95 times as on March 31, 2021 and the interest coverage stood at 3.02 times for FY2021. The operations remain working capital efficient marked by GCA days of 80 days as on March 31, 2021.

About the Company

Gujarat based, Sona Builders was incorporated in 1980. The firm led by its 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

Acuite 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 have more than four

decade of experience in the civil construction industry. Constituted in 1980, SB has over the years developed its execution capabilities in undertaking civil construction contracts. As on January, 2022, the firm has an healthy orderbook worth Rs. 417.70 Cr, out of which the unexecuted portion stands at Rs.169.79 Cr providing medium term revenue visibility. Presently, its projects are ongoing in the states of Madhya Pradesh, Delhi, Gujarat and Rajasthan mainly for indian railways and their respective state municipal corporations. Acuite believes that the firm will continue to benefit from its partners' extensive experience and established track record in the aforementioned industry.

- **Moderate Financial risk profile**

The firm has a moderate financial risk profile marked by moderate net worth, low gearing and comfortable debt protection metrics. The tangible net worth stood at Rs.19.24 crore as on March 31, 2021 as against Rs.19.65 crore as on March 31, 2020. The decline is on account of withdrawal of capital by partners of Rs.7.62 Cr. The Firm's total debt of Rs.18.19 crore as on March 31, 2021 (Rs.14.59 crore as on March 31, 2020) includes term loan of Rs.0.63 crore, short term borrowings of Rs.1.99 crore and unsecured loans from directors and promoters of Rs.15.57 crore (Rs.13.28 Cr in FY). The company's overall gearing stood moderate at 0.95 times as on March 31, 2021 as against 0.74 times as on March 31, 2020. The adjusted debt to equity ratio stood at 0.14 times as on March 31, 2021 as against 0.07 times as on March 31, 2020. The total outside liabilities to tangible net worth ratio stood at around 2.30 times as on March 31, 2021 as against 2.26 times as on March 31, 2020. On account of increase in debt in FY2021, slight moderation is registered in overall debt protection metrics as the interest coverage ratio (ICR) of the firm stood at 4.56 times as on March 31, 2021 as against 3.50 times as on March 31, 2020. The debt service coverage ratio (DSCR) stood at 3.31 times for FY2021 as against 2.52 in FY2020. The net cash accruals to total debt stood at 0.44 times as on March 31, 2021 as against 0.37 times as on March 31, 2020.

Acuite believes that firm will maintain its moderate financial risk profile over the medium term, however, capital withdrawal by partners will be a key rating monitorable.

- **Efficient Working Capital Management**

The firm's efficiency in working capital management saw a moderation, as its Gross Current Assets (GCA) days rose to 80 days as on March 31, 2021 as against 41 days as on March 31, 2020. The elongation is driven by higher inventory days. SB's inventory days stood at 38 days as on March 31, 2021 as against 3 days as on March 31, 2020. The debtor days have remained in line as they stood at 17 days as on March 31, 2021 as against 19 days in FY2020. The creditor days stood at 41 days as on March 31, 2021 as against 32 days as on March 31, 2020. The fund based working capital limits remain utilised at an average of ~40 percent for last 6 months ending January, 2022.

Weaknesses

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

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

- **Inherent risk of capital withdrawal in a partnership firm**

SB is susceptible to the inherent risk of capital withdrawal given its constitution as a partnership firm. The partners have withdrawn capital of Rs. 7.62 Cr in FY2021 and Rs.1.04 Cr in

FY2020. Any further significant withdrawal of capital will have a negative bearing on the financial risk profile of the firm.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability margins.
- Significant withdrawal of capital by partners
- Elongation of working capital cycle

Material covenants

None

Liquidity Position: Adequate

The company generated Net Cash Accruals (NCA) of Rs.7.98 Cr in FY2021 and Rs.5.47 Cr in FY2020 as against its maturing debt obligations of Rs. 0.85 Cr during the same period. The net cash accruals of the company are expected to remain in the range of Rs.6-7 Cr Cr. for the FY2022-2023 period against debt repayment obligations of ~ Rs. 0.20-0.30 Cr for the same period. The average utilisation of fund based working capital limits remained at approximately 40 percent for the trailing 6 month period until January, 2022. The company maintained unencumbered cash and bank balances of Rs.3.14 crore as on March 31,2021 as against 2.62 crore in the previous year. The current ratio of the company stood at 1.53 times as on March 31, 2021 as against 1.55 times in the previous year. Acuite believes the liquidity is like to remain adequate over the medium term on account of healthy cash accruals against low repayment obligations.

Outlook: Stable

Acuite believes that SB's outlook will remain 'Stable' over the medium term considering its long track record of operations, experienced management, moderate financial risk profile and efficient working capital management. 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 further withdrawal of capital by partners or elongation in its working capital cycle.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	80.52	105.45
PAT	Rs. Cr.	7.21	4.58
PAT Margin	(%)	8.95	4.34
Total Debt/Tangible Net Worth	Times	0.95	0.74
PBDIT/Interest	Times	4.56	3.50

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>
- Application Of 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
20 Apr 2021	Cash Credit	Long Term	2.00	ACUITE BB+ Stable (Reaffirmed)
	Bank Guarantee	Short Term	35.00	ACUITE A4+ (Reaffirmed)
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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A4+ Reaffirmed
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB+ Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Simran Kesharwani Management Trainee-Rating Operations Tel: 022-49294065 simran.kesharwani@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

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