

## Press Release

### Sona Builders

September 14, 2022



## Rating Downgraded & Withdrawn and Reaffirmed & Withdra....

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Bank Loan Ratings	2.00	ACUITE BB   Downgraded & Withdrawn	-
Bank Loan Ratings	35.00	-	ACUITE A4+   Reaffirmed & Withdrawn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Total Withdrawn Quantum (Rs.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

## Rating Rationale

Acuite has downgraded and withdrawn the long-term rating to '**ACUITE BB**' (read as **ACUITE double B**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and reaffirmed and withdrawn the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.37 Cr. bank facilities of Sona Builders. The rating is being withdrawn on account of the request received from the company and the NOC received from the banker as per Acuite's policy on withdrawal of ratings.

### Reason for Rating Downgrade

The rating downgrade is on account of deterioration in the operating performance of the firm, marked by declining operating income, fluctuating operating margins and elongated working capital cycle. The Firm's operating income stood at Rs. 75.71 Cr in FY2022 (Prov.) as against Rs.80.52 Cr in FY2021 and Rs.105.45 Cr in FY2020. The operating margin fluctuated between 3.86 to 12.68 percent in the last three years ended FY2022 (Prov.). The working capital cycle elongated during the year, marked by increase in gross current asset days to 292 days as on March 31, 2022 (Prov.) as against 80 days in FY2021 and 41 days in FY2020.

### 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 business and financial risk profiles of Sona Builders to arrive at this 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.

The Firm's projects are ongoing in the states of Madhya Pradesh, Delhi, Gujarat and Rajasthan mainly for indian railways and their respective state municipal corporations.

Acuité believes that the firm will continue to benefit from its partners' extensive experience and long track record in the aforementioned industry.

#### > **Moderate financial risk profile**

The Firm has above average financial risk profile marked by moderate net worth, low gearing and comfortable debt protection measures. The tangible net worth stood at Rs.26.20 crore as on March 31, 2022(prov) as against Rs.24.58 crore as on March 31, 2021. The Firm's total debt of Rs.13.94 crore as on March 31, 2022(prov) includes term loan of Rs.0.26 crore, unsecured loans from directors and promoters of Rs.12.65 crore and short term debt of Rs.1.02 cr. The Firm's overall gearing stood moderate at 0.53 times as on March 31, 2022(prov) as against Rs.0.74 times as on March 31, 2021. The adjusted debt to equity ratio stood at 0.05 times as on March 31, 2022(prov) as against 0.11 times as on March 31, 2021. The total outside liabilities to tangible net worth ratio stood at around 1.58 times as on March 31, 2022(prov) as against 1.80 times as on March 31, 2021. On account of decrease in debt in FY2022, there is an improvement in overall debt protection metrics as the interest coverage ratio (ICR) of the firm stood at 3.45 times as on 31 March, 2022(prov) as against 3.02 times in FY2021. The debt service coverage ratio (DSCR) stood at 3.45 times for FY2022(prov) as against 2.48 in FY2021. The net cash accruals to total debt stood at 0.29 times as on March 31, 2022(prov) as against 0.44 times in FY2021.

#### **Weaknesses**

##### > **Working capital management**

The Firm's working capital cycle elongated this year, marked by gross current asset days (GCA) of 292 days as on March 31, 2022 (Prov) as against 80 days as on March 31, 2021. The company's inventory days remained in line as they stood at 39 days as on March 31, 2022(prov) as against 38 days as on March 31, 2021. The debtors days stood at 24 days as on March 31, 2022(prov) as against 17 days as on March 31, 2021. The elongation in GCA days is primarily because of increase in other current assets which includes retention money. The Firm's creditor days stood at 217 days as on March 31, 2022(prov) as against 189 days as on March 31, 2021.

##### > **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.2.05 Cr in FY2022 (Prov.) and Rs. 7.62 Cr in FY2021. Any further significant withdrawal of capital will have a negative bearing on the financial risk profile of the firm.

#### **Rating Sensitivities**

- Deterioration in scale of operations along with profitability margins.
- Further elongation of working capital cycle

#### **Material covenants**

None

### Liquidity Position: Adequate

The company generated net cash accruals (NCA) of Rs.4.06 Cr in FY2022 and Rs.7.98 Cr in FY2021 against maturing debt obligations of Rs.0.85 to 1 Cr. 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.1.06 crore as on March 31, 2022(Prov). The current ratio of the company stood at 2.13 times as on March 31, 2022(Prov) as against 1.53 times in the previous year.

### Outlook: Not Applicable

### Other Factors affecting Rating

None

### Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	75.71	80.52
PAT	Rs. Cr.	3.67	7.21
PAT Margin	(%)	4.85	8.95
Total Debt/Tangible Net Worth	Times	0.53	0.74
PBDIT/Interest	Times	3.45	3.02

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

Crisil vide its press release dated June 16, 2021 has declared Sona Builders as 'Issuer Not Co-operating'

### Any other information

None

### Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Manufacturing Entities: <https://www.acuite.in/view-rating-criteria-59.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
06 Apr 2022	Cash Credit	Long Term	2.00	ACUITE BB+   Stable (Reaffirmed)
	Bank Guarantee	Short Term	35.00	ACUITE A4+ (Reaffirmed)
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 & Withdrawn
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BB   Downgraded & Withdrawn

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### About Acuité Ratings & Research

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