

Press Release

Prasoon Constructions

D-U-N-S® Number: 86-054-1402

January 07, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 10.00 crore bank facilities of Prasoon Constructions (Prasoon). The outlook is '**Stable**'.

Prasoon is a Telangana based partnership firm established in 2011 by Mr. Gopal Reddy and family. It is engaged in executing civil works mainly in construction of roads, dams and canals, among others.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management**

The firm is promoted by Mr. Gopal Reddy and family who possess about two decades of experience in the civil and infrastructure industry. The promoters are supported by well experienced technical team. Acuité believes that the firm will benefit from the experience of the management in the industry.

- **Moderate order book and comfortable operating margins**

Revenues of the firm improved from Rs.11.33 crore in FY2017 to Rs.17.66 crore in FY2018 due to increase in work orders in FY2017-18. The company reported billed revenues of Rs.18.00 crore and unbilled revenues stood at Rs.11.00 crore from April-November 2018. Further, the firm has executable orders of Rs.33.00 crore to be completed in 12-18 months. Operating margins of the firm improved from 13.08 percent in FY2017 to 17.98 percent in FY2018 on account of better absorption of overhead costs. Sustainability of the profitability margins while growth in revenues are key rating sensitivity factors over the medium term.

Weaknesses

- **Moderate working capital intensive operations**

Operations of the firm are moderately working capital intensive marked by moderate Gross Current Assets (GCA) at 156 days in FY2018. This is mainly due to moderate inventory and debtor levels at 84 days and 46 days respectively in FY2018. Further, bank limits are fully utilised for the last six months through November 2018. Acuité believes that Prasoon's operations are expected to be working capital intensive with moderate debtors and inventory levels over the medium term.

- **Below average financial risk profile**

Financial risk profile of the firm is below average marked by moderately high gearing (debt to equity ratio), total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics.

Gearing is moderately high though improved to 2.94 times as on 31 March, 2018 as against 4.49 times as on 31 March, 2017 on account of accumulated profit and capital infusion. TOL/TNW is high at 3.15 times as on 31 March, 2018 as against 4.49 times as on 31 March, 2017. Net worth stood at Rs.3.40 crore as on 31 March, 2018 as against Rs.2.01 crore as on 31 March, 2017. Of the total debt of Rs.10.00 crore as on 31 March, 2018, long term debt constitutes Rs.1.43 crore, unsecured loan of Rs.1.57 crore and short term debt of Rs.6.99 crore. The firm has reported cash accruals of Rs.1.85 crore in FY2018; its cash accruals are expected in the range of Rs.3.00 - 4.00 crore against debt obligations of about Rs.0.40-0.50 crore over the medium term. Debt protection metrics of interest coverage ratio and net cash accruals to total debt are moderate at 2.36 times and 0.19 times respectively in FY2018. Though the financial risk profile is expected to improve on the back of moderate accruals and absence of debt-funded capex plans, however it remains below-average.

• Highly competitive and fragmented industry

The company is engaged in civil works which is mainly into road works. The particular sector is marked by the presence of several mid to big size players. The company faces competition from other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent on account of extensive experience of the management.

Outlook: Stable

Acuite believes that Prasoon will maintain a 'Stable' business risk profile over the medium term benefitting from its experienced management and moderate order book position. The outlook may be revised to 'Positive' in case the firm registers healthy growth in its revenues while sustaining the profitability margins. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	17.66	11.33	25.75
EBITDA	Rs. Cr.	3.17	1.48	2.90
PAT	Rs. Cr.	0.96	0.10	1.52
EBITDA Margin	(%)	17.98	13.08	11.25
PAT Margin	(%)	5.46	0.86	5.91
ROCE	(%)	19.06	10.80	77.14
Total Debt/Tangible Net Worth	Times	2.94	4.49	0.59
PBDIT/Interest	Times	2.36	1.84	3.08
Total Debt/PBDIT	Times	3.11	5.79	0.81
Gross Current Assets (Days)	Days	156	205	32

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

CRISIL, vide its press release dated June 25, 2018 had denoted the rating of Prasoon Constructions as 'CRISIL BB- / CRISIL A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CRISIL BB- /CRISIL A4+' vide its press release dated February 14, 2017.

Any other information

Not Applicable

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	7.00	ACUITE BB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4+

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About Acuité Ratings & Research:

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