

## Press Release

### Prasoon Constructions

January 08, 2021



### Rating Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs. 10.00 crore
<b>Long Term Rating</b>	ACUITE BB-/ 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 minus**) and the short term rating of '**ACUITE A4**' (**read as ACUITE A four**) on the Rs.10.00 crore bank facilities of Prasoon Constructions. The outlook is '**Stable**'.

#### Rationale for rating reaffirmed

The rating reaffirmation is on account of experienced management and reputed clientele of the firm. The rating action also reflects declining profitability margins, average financial risk profile and working capital intensive nature of operations. Owing to experienced management and continuous orders from reputed customers, the firm has reported an operating income Rs. 22.74 Cr in FY2020 as against Rs. 18.18 Cr in FY2019. However, there is a sharp decline in operating margins since 2018 from 17.98 per cent to 15.61 per cent in FY2019 to 13.66 per cent in FY2020.

Furthermore, the financial risk profile is average marked by average net worth of Rs. 3.68 crore and gearing of 1.78 times as on March 31, 2020. In addition to this, there are instances of withdrawal of capital by the partners. However, the coverage indicators stood moderate marked by interest coverage ratio of 3.12 times for FY2020 and debt service coverage ratio of 1.84 times for FY2020. Gross current assets (GCA) are intensive at about 128 days. The rating derives comfort from adequate liquidity position of PC as evident from moderate net cash accruals of Rs. 2.13 Cr in FY2020 as against maturing debt obligation of Rs. 0.23 Cr to be met in the same period.

#### About the firm

Prasoon Constructions (hereinafter referred to as PC) is a Telangana based partnership firm established in the year 2011 by Mr. Gopal Reddy, Mr. Praveen Reddy and Mr. Naveen Reddy. It is engaged in execution of civil works such as roads, bridges, dams and canals, among others. The firm primarily caters to government agencies like Roads & Buildings Department and Panchayat Raj Department of Telangana.

#### Analytical Approach

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

#### Key Rating Drivers

##### Strengths

- **Experienced management**

Established in the year 2011, PC is engaged in the construction of roads and bridges in the state of Telangana. The partners possess about a decade of experience in the aforementioned industry. The top management is ably supported by well experienced technical team. Acuité believes that the firm will benefit from the experience of the management in the said industry.

- **Reputed clientele**

The firm is catering to a set of reputed clients such as Roads & Buildings Department of Telangana and

Panchayat Raj Department of Telangana. The firm is expected to continue to leverage its long standing relationships with reputed clients and suppliers.

### Weaknesses

- **Average financial risk profile**

The firm has average financial risk profile marked by below-average net worth & moderate debt protection metrics.

The net worth of the firm stood low at Rs. 3.68 crore as on March 31, 2020 as against Rs. 3.02 crore in the previous year. The improvement in net worth is constrained due to instances of withdrawal of capital by the partners in the past.

PC is following moderately aggressive financial policy, the same is reflected through its peak gearing and total outside liabilities to total net worth (TOL/TNW) of 2.94 times as on March 31, 2018 and 3.69 times as on March 31, 2019. The total debt of Rs. 6.55 crore as on March 31, 2020 comprised of outside debt of Rs. 0.23 crore, working capital borrowings to the extent of Rs. 5.50 crore and unsecured loans from partners and relatives of Rs. 0.83 crore.

Moderate profitability levels have led to moderate debt protection metrics of PC marked by interest coverage ratio stood at 3.12 times for FY2020 as against 2.44 in FY2019 and debt-service-coverage ratio of 1.84 times for FY2020 as against 1.72 times for FY2019. Total outside liabilities to total net worth (TOL/TNW) stood at 2.79 times as on FY2020 vis-à-vis 3.69 times as on FY2019. Debt-EBITDA has improved from 3.02 in FY2019 to 2.09 in FY2020. Acuité believes that the financial risk profile of PC will continue to remain average on account of low net worth. Further, withdrawal of capital by partners will be a key rating sensitivity.

- **Profitability susceptible to fluctuations in raw material cost**

The raw material cost are highly volatile in nature and constitutes around 78.79 per cent of the total revenue. Any adverse movement in raw material costs can impact profitability. The firm's EBITDA margin shows volatility with 13.66 per cent in FY2020 as against 15.61 per cent in FY2019 and 17.98 per cent in FY2018.

- **Working capital intensive operations**

PC has intensive working capital requirements marked by gross current assets (GCA) of 128 days for FY2020 improved from 172 days for FY2019. The improvement is majorly on account of improvement in inventory holding of 10 days as on 31 March 2020 as against 68 days in the previous year. Further, debtors stood at 71 days as on 31 March 2020 as against 75 days in previous year. The creditors' payment period is 51 days as on 31 March 2020. Current Ratio stood low at 0.95 times as on 31 March 2020.

Acuité believes that the working capital operations of the PC will continue to remain intensive over the medium term on account of level of inventory to be maintained and the credit given to its customers.

- **Highly competitive and fragmented industry**

The firm is engaged in civil works which is a highly competitive and fragmented sector marked by the presence of several mid to big size players. Risk becomes 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.

### Rating Sensitivity

- Significant scaling-up of operations.
- Substantial improvement in working capital management.
- Further withdrawal of capital by partners.

### Material Covenants

None

### Liquidity position: Adequate

The firm has an adequate liquidity profile marked by healthy net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs. 2.13 crore for FY2020, while maturing debt obligations were Rs. 0.23 crore for the same period. The cash accruals of the firm are estimated to remain around Rs. 2.13 crore to Rs. 2.68 crore during FY2021 to FY2023. The firm's working capital operations are intensive marked by Gross Current Asset (GCA) of 128 days for FY2020. PC maintains unencumbered cash and bank balances of Rs. 0.92 crore as on 31 March, 2020. The working capital limits of PC remains utilized to the extent of 45.95 per cent in the last

seven months ending October, 2020. The current ratio stood low at 0.95 times as on 31 March, 2020. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy cash accruals against debt repayments over the medium term

#### **Outlook: Stable**

Acuité believes that PC will continue to benefit from experienced management & well-established relations with its customers. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in its revenue and profitability while improving its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or in case of deterioration in the firm's financial risk profile or any further withdrawals of capital by the partners.

#### **About the Rated Entity - Key Financials**

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	22.74	18.18
PAT	Rs. Cr.	1.45	0.95
PAT Margin	(%)	6.39	5.21
Total Debt/Tangible Net Worth	Times	1.78	2.87
PBDIT/Interest	Times	3.12	2.44

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

None

#### **Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <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 (Up to last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
16-March-2020	Cash Credit	Long term	7.00	ACUITE BB- (Downgraded & Indicative)
	Bank Guarantee	Short Term	3.00	ACUITE A4 (Downgraded & Indicative)
07-January-2019	Cash Credit	Long term	7.00	ACUITE BB/Stable (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A4+ (Assigned)

#### **\*Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BB-/Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A4 (Reaffirmed)

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### About Acuité Ratings & Research:

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