Press Release

P K Construction Shimla Private Limited (PKCS)

18 June, 2020

Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 23.00 Cr.
Long Term Rating	ACUITE BBB- /Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BBB-' (read as ACUITE triple B minus)** and the short term rating of **'ACUITE A3' (read as ACUITE A three)** on the Rs. 23.00 Crore bank facilities of P.K. Construction Shimla Private Limited (PKCS). The outlook is **'Stable'**.

PKCS was incorporated in 2016 by Mr. Pramod Kumar Sood. Previously, the company was established as a proprietorship in 1984 and later it was reconstituted as a private limited company in 2016, PKCS undertakes civil construction work and development of roads and bridges for government departments in Himachal Pradesh.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of PKCS to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record of operation and experienced management**

The company was first established as a proprietorship concern in 1984 and later it was reconstituted as a private limited company in 2016. The company is promoted by Mr. Pramod Kumar Sood and his family. The promoters of PKCS has been engaged in the construction industry for more than three decades. The extensive experience of the management has helped the company in establishing healthy relations with its customers and suppliers which in turn has helped the company secure healthy order book position. PKCS has unexecuted order book of Rs.170.00 crore as on April 30, 2020. Acuité believes the company will benefit from its established presence, experienced management and its association with reputed suppliers to sustain their business in the near to medium term.

- **Healthy financial risk profile**

The company's financial risk profile have remained healthy marked by moderate net worth, low gearing and strong debt protection metrics. The tangible net worth of the company is moderate and stood at Rs.10.62 Crore as on 31 March 2019 as against Rs.6.94 Crore as on 31 March 2018. The net worth levels have seen significant improvement over the last three years through FY2019 on account of healthy accretion to reserves during the same period.

The gearing level (debt-equity) stood comfortable at 0.33 times as on 31 March 2019 as against 0.91 times as on 31 March 2018. The total debt outstanding of Rs.3.51 Crore as on 31 March 2019 consists of long term debt of Rs.0.26 Crore and working capital borrowings of Rs.3.25 Crore. The cash accruals over the next three years through 2021 are estimated to remain in the range of Rs.2.82-3.19 Crores against repayment obligations of Rs.0.10 Crore each year for the same period. As a result, the gearing is expected to remain comfortable in near term. The coverage indicators stood healthy marked by interest coverage ratio (ICR) of 5.81 times in FY2019 as against 4.64 times in FY2018. The increase in ICR is majorly on account of significant increase in EBITDA levels coupled with low interest cost in FY2019. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 1.20 times in FY2019 and 0.53 times in FY2018.

Acuité expects the financial risk profile of the company to remain healthy over the medium term on account of healthy accretion to reserves and comfortable working capital cycle leading to lower reliance on external borrowings.

Weaknesses

• Continuous decline in revenue and moderately intensive working capital operation

The company has shown a continuous decline in the revenue for the past 2 years. In FY2018, the operating income stood at Rs.70.88 crore as against Rs.62.77 crore in FY2019. In FY 2020 (provisional), the company was only able to generate a revenue of Rs.50.04 crore. The decline in revenue is majorly on account of delay in specific contracts which are high altitude projects which requires heavy machinery and specialized skilled labor.
In FY2021, the company was only able to book the total revenue of ~Rs.3.00 in the month of April and May. The COVID-19 lockdown have also played a significant role in the continuous decline in revenue. During the lockdown period, company's operation were on hold. The company expect that the lockdown will significantly affect the operations of the company in the near to medium term.

PKCS has moderately intensive working capital operations marked by GCA days of 152 days in FY2019 as against 140 days in FY2018. It was mainly due to increase in debtor days to 51 days in FY2019 as against 20 day in FY2018. Although, the average utilization of bank limits stood low at ~50 percent for the last six months ending April, 2020.

Acuité believes that the working capital requirements will continue to remain moderately intensive over the medium term on account of timely payment from the customers and to the suppliers.

• Customer concentration risk and tender based nature of business

Company's majority of revenue is contributed by a single client i.e. Public works department (H.P). PWD (H.P) contribute almost ~75-80 percent of the total revenue of the company. As of April-2020, PWD (H.P) projects contributed 70% of the total unexecuted order book.
Further, the company deals with government organizations and quotes for the contracts on tender basis. Going forward the company's ability to successfully bid for greater number of large orders remains to be seen. However, the promoters experience and relationship mitigates this factor to an extent.

Outlook: Stable

Acuité believes that the outlook on PKCS's rated facilities will remain Stable over the medium term on account of its promoter's extensive experience, moderate financial risk profile and established operational track record. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

Material Covenant

None

Rating sensitivity

- Significant decline in revenues for the past 2 years.
- Any deterioration in working capital leading to higher reliance on external borrowings

Liquidity position: Adequate

The group has adequate liquidity marked by high net cash accruals to negligible maturing debt obligations. The company generated cash accruals of Rs.4.22 Crore for FY2019 against no significant debt maturity obligation for the year. The cash accruals of the company are estimated to remain in the range of around Rs.2.82 Crore to Rs.3.19 Crore during FY2020-22 against repayment obligations of Rs.0.10 Crore each year for the same period. The company's working capital operations are moderately intensive marked by gross current asset (GCA) days of 152 days in FY2019. This has led to lower reliance on external borrowings, marked by lower bank limit utilization which stood at ~50 percent for six months ending on April, 2020. The company maintained cash and bank balances of Rs.0.68 Crore as on 31 March, 2019. The current ratio stood healthy at 1.15 times as on 31 March 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of high cash accruals against negligible maturity debt repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	62.77	70.88
PAT	Rs. Cr.	3.68	2.72
PAT Margin	(%)	5.87	3.84
Total Debt/Tangible Net Worth	Times	0.33	0.91
PBDIT/Interest	Times	5.81	4.64

Any other information
Not Applicable

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
18-March-2019	Cash Credit	Long Term	6.50	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee/ Letter of Guarantee	Short Term	12.75	ACUITE A3 (Assigned)
	Proposed	Short Term	3.75	ACUITE A3 (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	6.50	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee/ Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	12.75	ACUITE A3 (Reaffirmed)
Proposed	Not Applicable	Not Applicable	Not Applicable	3.75	ACUITE A3 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Aditya Singh Ratings Analyst - Rating Operations Tel: 011-49731303 aditya.singh@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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