

Press Release

N SWARNA ELECTRICAL and CONTRACTORS

May 20, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 14.00 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 minus**) and short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 14.00 crore bank facilities of N SWARNA ELECTRICAL AND CONTRACTORS (NSEC). The outlook is '**Stable**'.

NSEC is a Telangana Based proprietorship firm established in the year 2000. The firm is mainly engaged in executing civil works. The firm executes works mainly related to irrigation and electrical works across Telangana.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and healthy order book**

The firm is promoted by Ms. Swarna and family who possess more than two decades of experience in the industry. Further, the top management is supported by well experienced technical team. Long standing operations in the infrastructure industry helped the firm in successful bidding and completion of the work orders in stipulated time. As on March 2019, the firm has executable orders of Rs.142 crore executable in the next two years period. Acuité believes that the business risk profile of the firm is expected to be comfortable with moderate order book and experience of the management in the industry over the medium term.

- **Comfortable financial risk profile**

Financial risk profile of the firm is comfortable marked by healthy gearing (Debt-Equity) and total outside liabilities to total net worth (TOL/TNW), comfortable debt protection metrics though constrained by modest net worth. The gearing and TOL/TNW are healthy at 0.54 and 0.83 times as on 31 March, 2018 as against 0.22 and 0.28 times as on 31 March, 2017 respectively. Healthy financial risk indicators are owing to moderate reliance on working capital borrowings and its modest scale of operations. The net worth is modest at Rs.7.97 crore as on 31 March, 2018. Of the total debt of Rs.4.27 crore as on 31 March, 2018, long term debt stood at Rs.1.11 crore, unsecured loans of Rs.2.00 crore and short term debt stood at Rs.1.17 crore. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) stood comfortable at 2.61 times and 0.32 times in FY2018. The firm reported net cash accruals (NCA) of Rs.1.36 crore in FY2018. Cash accruals are expected at about Rs.4 crore, against the repayment obligations of about Rs.0.50-0.60 crore over the medium term. Acuité believes that with moderate accruals and routine capex of about Rs.0.50-1.00 crore, the financial risk profile is expected to be comfortable over the medium term.

Weaknesses

- **Modest scale of operations and client concentration risk**

Revenues of the firm are modest and declined from Rs.38.33 crore in FY2016 to Rs.28.95 crore in FY2017 and Rs.18.29 crore in FY2018 due to modest orders. However, the firm reported revenue of Rs.62 crore for FY2019 (Provisional) due to increase in new orders in FY2018-FY2019. As on 31 March, 2019, the firm had executable orders of Rs.142 crore in hand executable in the next 12-24 months. All the orders are from Irrigation CAD department and Telangana State Southern Power Distribution Company Limited (TSSPDCL), hence exposing to client concentration risk.

- **Working capital intensive operations**

Operations of the firm are working capital intensive marked by high gross current asset (GCA) of 186 days for FY 2018 as compared 80 days for FY 2017. This is mainly on account of high debtor cycle and moderate inventory days. Debtor's cycle increased to 96 days in FY2018 as against 30 days in FY2017. High GCA days led to full utilisation of its bank lines for six months through March 2019. To support its operations, the firm is stretching its creditors for more than three months as on March 31, 2018. Acuité believes that with the increase in scale of revenues, NSEC's operations continue to be working capital intensive over the medium term.

- **Competitive and fragmented industry**

NSEC is into civil works which is marked by the presence of several mid to large sized players. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts, and susceptibility to inherent cyclical in the sector. Acuité believes that NSEC revenues and margins are susceptible to the competitive bidding scenario, besides the client concentration of its projects.

Liquidity Position:

NSEC has moderate liquidity marked by moderate net cash accruals though partly constrained by high bank limit utilisation. The firm reported cash accruals of Rs.1.36 crore for FY2018. The cash accruals of the firm are estimated to remain at around Rs.4.00 crore during 2019-21, against which its repayment obligations are about Rs.0.50-0.60 crore. However, operations are working capital intensive as reflected in high GCA at 186 days in FY2018. This resulted in high utilisation of bank limits for six months through March 2019. The current ratio stood at 2.55 times as on March 31, 2018. Acuité believes that the liquidity of NSEC is likely to remain moderate over the medium term.

Outlook: Stable

Acuité believes that NSEC will maintain a 'Stable' outlook over the medium term backed by its experienced management and moderate revenue visibility. The outlook maybe revised to 'Positive' in case of higher-than-expected growth in its revenues while maintaining its profitability margins. Conversely, the outlook maybe revised to 'Negative' in case of any stretch in its working capital management or larger-than-expected debt-funded capital expenditure resulting in deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	18.29	28.95	38.33
EBITDA	Rs. Cr.	2.13	2.49	3.12
PAT	Rs. Cr.	1.09	1.90	2.63
EBITDA Margin	(%)	11.64	8.59	8.14
PAT Margin	(%)	5.97	6.56	6.86
ROCE	(%)	17.12	26.77	74.27
Total Debt/Tangible Net Worth	Times	0.54	0.22	0.16
PBDIT/Interest	Times	2.61	4.16	6.28
Total Debt/PBDIT	Times	1.94	0.73	0.36
Gross Current Assets (Days)	Days	186	80	72

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

India Ratings, vide its press release dated June 19, 2018 had denoted the rating of N Swarna Electrical and Contractors as 'IND BB- / IND A4+; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'IND BB- /IND A4+' vide its press release dated May 29, 2017

Any other information

None

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
Over Draft	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BB- / Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A4+

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About Acuité Ratings & Research:

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