

Press Release

N Swarna Electrical And Contractors

June 13, 2019



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 21.50 Cr. (Enhanced from Rs.14.00 crore)
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed 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**) on the Rs. 14.00 crore bank facilities of N Swarna Electrical And Contractors. The outlook is '**Stable**'.

Acuité has assigned short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 7.50 crore bank facilities of N Swarna Electrical And Contractors.

N Swarna Electrical and Contractors (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 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, top management is supported by the 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 to be 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 networth. 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. Healthy fin risk indicators are owing to moderate reliance on working capital borrowings and its modest scale of operations. Its 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 0.25 times in FY2018 respectively. The firm reported net cash accruals (NCA) of Rs.1.06 crore in FY2018. Cash accruals are expected about Rs.4 crore, against the repayment obligations of about Rs.0.50-0.60 crore. Acuité believes that with moderate accruals and routine capex of about Rs.0.50-1 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 increased new orders in FY2018-FY2019. As on 31 March, 2019, the firm has executable orders of Rs.142 crore in hand to be 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. Debtors 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 company 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 its client's concentration of its projects.

Liquidity

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.1.06 crore for FY2018. The cash accruals of the firm are estimated to remain at around Rs.4 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's 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 may be revised to 'Positive' in case of higher than-expected growth in its revenues while maintaining its 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 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.	0.79	1.33	1.76
EBITDA Margin	(%)	11.64	8.59	8.14
PAT Margin	(%)	4.33	4.59	4.59
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)

None

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
20-May-2019	Over Draft	Long Term	INR 1.50	ACUITE BB- / Stable (Reaffirmed)
	Bank Guarantee	Short Term	INR 12.50	ACUITE A4+ (Reaffirmed)

***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 (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.50	ACUITE A4+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.50	ACUITE A4+ (Assigned)

Contacts

Analytical	Rating Desk
Srihari Adari Head - Corporate and Infrastructure Sector Ratings Tel: 040-40042327 srihari.adari@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Naveen Papisetty Analyst - Rating Operations Tel: 040-40055480 naveen.papisetty@acuiteratings.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 6,000 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.