

Press Release

N Swarna Electrical And Contractors

February 28, 2023



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	6.58	ACUITE BB- Stable Assigned	-
Bank Loan Ratings	3.67	ACUITE BB- Stable Reaffirmed	-
Bank Loan Ratings	0.62	-	ACUITE A4+ Assigned
Bank Loan Ratings	21.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	31.87	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating to '**ACUITE BB-**' (read as **ACUITE double B minus**) and short-term rating of **ACUITE A4+(read as A four plus)** to the Rs.24.67 crore bank facilities of N Swarna Electrical and Contractors (NSEC).

Acuite has assigned its long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short-term rating of **ACUITE A4+(read as A four plus)** on the Rs.7.20 crore bank facilities of N Swarna Electrical and Contractors (NSEC).

The outlook is '**Stable**'.

Rationale for rating

The rating takes into account the stable operating and financial performance of NSEC marked by improved operating income, stable operating margins and moderate financial risk profile. The revenue of the firm improved to Rs.51.66 Cr in FY2022 as against Rs.42.50 Cr in FY2021. In 9MFY2023 the firm has generated revenue of Rs.41.62 Cr. However, the rating is constrained due to the working capital intensive and tender based nature of operations of NSEC.

About the Firm

Established in 2000, N Swarna Electrical and Contractors (NSEC) is a proprietorship firm, promoted by Ms. N Swarna. The firm is engaged in executing civil works related to irrigation and electrical works for the state government of Telangana.

Analytical Approach

Acuite has taken the standalone view of the business and financial risk profile of NSEC to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and moderate order book position

The proprietor of N Swarna Electrical and Contractors, Ms. N Swarna has been in the industry for two decades. Long standing operations in the infrastructure industry helped the firm in successful bidding and completion of the work orders in stipulated time. The firm has a moderate order book position, as the unexecuted order value stood at Rs.125.43 Cr as on November 30, 2022 i.e. 2.42x of FY22 revenue. Acuité derives comfort from the long experience of the proprietor in the irrigation and electrical works for Telangana state government organisations and moderate order book position.

Moderate financial risk profile

The financial risk profile of the firm has remained moderate with average capital structure and debt protection metrics. The net worth of the firm remained at Rs.12.34 Cr and Rs.11.59 Cr as on March 31, 2022 and March 31, 2021 respectively. The gearing ratio stood at 1.00 times as on March 31, 2022 against 0.70 times in the March 31, 2021. The total debt of Rs.12.35 Cr as on March 31, 2022 consist of long-term debt of Rs.4.13 Cr, short-term debt of Rs.2.43 Cr, unsecured loan from Directors/promoters of Rs.5.31 Cr and maturing portion of long term borrowings of Rs.0.48 Cr. The debt protection metrics of the firm is comfortable marked by interest coverage ratio (ICR) of 5.88 times and debt service coverage ratio (DSCR) of 3.68 times for FY2022. Net Cash Accruals/Total Debt (NCA/TD) stood stable at 0.26 times for FY2022. Acuité believes that going forward the financial risk profile of the firm will remain above average backed by steady accruals and no major debt-funded capex plans.

Weaknesses

Working capital intensive nature of operations

The working capital-intensive nature of operations of the firm is marked by high Gross Current Asset (GCA) days of 214 days as on March 31, 2022 as against 179 days as on March 31, 2021. The reason for the increase in GCA days is mainly due to the increase in the inventory days. Inventory days stood at 106 days as on March 31, 2022 as against 72 days as on March 31, 2021. Subsequently, the debtor's period stood at 52 days as on March 31, 2022 as against 69 days as on March 31, 2021 respectively. The average bank limit utilization in the last twelve months ended November 2022 remained at 98.70 percent for fund based and 76.80 percent for non-fund based facilities.

Tender based nature of operations

Tender based operations limit pricing flexibility in an intensely competitive industry. Revenue and profitability depend entirely on the ability to win tenders. Entities in this segment face intense competition, thus requiring them to bid aggressively to procure contracts; this restricts the operating margin to a moderate level. Also, given the cyclicity inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical. Acuité believes that the firm's business profile and financial profile can be adversely impacted on account of presence of stiff competition, and has inherent risk of susceptibility to tender based operations.

Rating Sensitivities

- Substantial improvement in scale of operations while maintaining profitability margins over the medium term.
- Any deterioration in working capital cycle and liquidity profile of the firm.

Material covenants

None

Liquidity Position :

Adequate

The firm's liquidity position is adequate marked by moderate net cash accruals against its repayment obligations. The firm has generated adequate net cash accruals to service its debt obligations. The net cash accruals (NCA) stood at Rs.3.18 Cr against the repayment of

Rs.0.48 Cr for the same period and expected to generate cash accruals in the range of Rs.3.66-4.48 Cr. against current portion of long term debt (CPLTD) of Rs.0.56-0.59 Cr. over the medium term. The gross current asset days stood at 214 days as on March 31, 2022. The average bank limit utilization in the last twelve months ended November 2022 remained at 98.70 percent for fund based and 76.80 percent for non-fund based facilities. The current ratio of the firm stands moderate at 1.79 times as on March 31, 2022. The firm has cash and bank balances of Rs.0.19 Cr as on March 31, 2022. Acuité believes that NSEC's liquidity will remain adequate over the medium term backed by moderate net cash accruals against repayment obligations.

Outlook: Stable

Acuité believes the outlook on N Swarna Electrical and Contractors will remain stable over the medium term backed by experience of the proprietor and moderate order book position. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins and working capital management. Conversely, the outlook may be revised to 'Negative' in case of a deterioration in the firm's financial risk profile and liquidity position or further deterioration in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	51.66	42.50
PAT	Rs. Cr.	2.20	2.02
PAT Margin	(%)	4.26	4.76
Total Debt/Tangible Net Worth	Times	1.00	0.70
PBDIT/Interest	Times	5.88	5.61

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

None

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
13 Feb 2023	Bank Guarantee	Short Term	7.50	ACUITE A4+ (Reaffirmed)
	Working Capital Demand Loan	Long Term	1.25	ACUITE BB- Stable (Reaffirmed)
	Secured Overdraft	Long Term	2.42	ACUITE BB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	13.50	ACUITE A4+ (Reaffirmed)
02 Dec 2021	Working Capital Demand Loan	Long Term	1.25	ACUITE BB- Stable (Assigned)
	Bank Guarantee	Short Term	7.50	ACUITE A4+ (Reaffirmed)
	Secured Overdraft	Long Term	2.42	ACUITE BB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	13.50	ACUITE A4+ (Reaffirmed)
03 Sep 2020	Bank Guarantee	Short Term	12.50	ACUITE A4+ (Reaffirmed)
	Bank Guarantee	Short Term	7.50	ACUITE A4+ (Reaffirmed)
	Secured Overdraft	Long Term	1.50	ACUITE BB- Stable (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	13.50	ACUITE A4+ Reaffirmed
Indian Overseas Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	7.50	ACUITE A4+ Reaffirmed
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	0.62	ACUITE A4+ Assigned
Indian Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	2.42	ACUITE BB- Stable Reaffirmed
Indian Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	6.58	ACUITE BB- Stable Assigned
Indian Bank	Not Applicable	Working Capital Demand Loan (WC DL)	Not available	Not available	Not available	Simple	1.25	ACUITE BB- Stable Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Thejaswini P V Senior Analyst-Rating Operations Tel: 022-49294065 thejaswini.pv@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, 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. Ratings assigned by Acuité 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. Ratings assigned by Acuité 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.