



Press Release
N Swarna Electrical And Contractors
May 28, 2024
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	11.87	ACUITE BB- Stable Reaffirmed	-
Bank Loan Ratings	20.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	31.87	-	-

Rating Rationale

Acuite has reaffirmed the 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.31.87 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 stood at Rs.52.08 Cr. in FY2023 as against Rs.51.66 Cr. in FY2022. However, the revenue of the firm is estimated to decline in FY2024 to Rs.28.78 Cr. due to slow movement in the order book position primarily due to recent change in the Government of Telangana. Further, the operating and net profit margin recorded a improvement in FY2023 and is further expected to improve in FY2024.

However, the rating is constrained due to NSEC's working capital intensive and tender based nature of operations.

About the Company

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.

Unsupported Rating

Not Applicable

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.122.28 Cr. as on as

on April 23, 2024 i.e. 2.44x of FY2023 and 4.42x of FY2024 revenue. Order book consists of 80.92% of Civil projects, 8.86% of electrical projects and 10.22% of Transportation works.

The turnover of the firm is stagnant for the last two years and stood at Rs.52.08 Cr. in FY2023 as against Rs.51.66 Cr. in FY2022. However, it is estimated to decline to Rs.28.77 Cr. in FY2024 on account of slow movement in the order book position primarily due to change in the incumbent Government of Telangana. The EBITDA margin is improving YoY and stood at 8.67 percent in FY2023 as against 7.19 percent and 6.44 percent in FY2022 and FY2021 respectively. PAT margin in the range of 4.00 -5.00 percent for the last years. The EBITDA and PAT margins are further estimated to improve in FY2024 to 12.82 percent and 3.18 percent respectively. Acuité continues to derive 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 albeit average network

The financial risk profile of the firm has remained moderate with an average network, moderate gearing levels, and debt protection metrics. The net worth of the firm remained at Rs.13.63 Cr. and Rs.12.34 Cr. as on March 31, 2023 and March 31, 2022 respectively. Total drawings for FY2023 is Rs.0.83 Cr. The gearing level moderated to 1.28 times as on March 31, 2023 as against 1.00 times as on March 31, 2022. The moderation in the gearing ratio is due to recurring capital withdrawals by the proprietor and an increase in the short-term utilisation in FY2023, resulting in a decline in the gearing ratio. The total debt of Rs.17.47 Cr. as on March 31, 2023 consists of long-term debt of Rs.3.88 Cr, Short-term debt of Rs.8.65 Cr, unsecured loan from directors/promoters of Rs.4.41 Cr. and the maturing portion of long term borrowings of Rs.0.53 Cr. The TOL/TNW stood at 2.11 times in the March 31, 2023 against 2.25 times in the March 31, 2022. Debt/EBITDA (Total debt to EBITDA) stands moderate at 3.77 times as on March 31, 2023 as against 3.22 times as on March 31, 2022

The debt protection metrics of the firm are moderate, with the Interest coverage ratio stood at 2.78 times as on March 31, 2023 as against 5.88 times as on March 31, 2022. Further, DSCR stood at 2.16 times as on March 31, 2023 as against 3.68 times as on March 31, 2022. NCA/TD (Net Cash Accruals to Total Debt) stands at 0.17 times as on March 31, 2023.

Acuité believes that going forward, the financial risk profile of the firm will remain moderate in absence of any major debt-funded capex.

Weaknesses

Working capital intensive nature of operations

The working capital operations are intensive in nature, marked by high Gross Current Asset (GCA) days of 207 days as on March 31, 2023 as against 214 days as on March 31, 2022. The high GCA days are mainly due to high debtors and moderate inventory days. Inventory days stood at 75 days as on March 31, 2023 as against 106 days as on March 31, 2022. Subsequently, the debtor's period stretched and stood at 84 days as on March 31, 2023 as against 52 days as on March 31, 2022 respectively. The payable days improved and stood at 228 days as on March 31, 2023 as against 433 days as on March 31, 2022. The average bank limit utilization in the last six months ended April 2024 remained at 94.44 percent for fund based and 68.96 percent for non-fund based facilities.

ACUITE believes the working capital operations of the firm will continue to be intensive due to the nature of the operations.

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.

Liquidity Position: Adequate

The firm has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.2.96 Cr. in FY2023 as against the repayment of Rs.0.48 Cr. for the same period and is expected to generate cash accruals in the range of Rs.2.62-2.15 Cr. against CPLTD of Rs.0.53-0.54 Cr. over the medium term. The average bank limit utilization in the last six months ended April 2024 remained at 94.44 percent for fund based and 68.96 percent for non-fund based facilities. Unencumbered cash and bank balances stood at Rs.1.03 Cr. as on March 31, 2023. The current ratio of the company stood at 1.33 times as on March 31, 2023. Acuite believes that NSEC's liquidity will remain adequate over the medium term backed by no further debt funded capex and improving accruals.

Outlook: Stable

Acuite believes that NSEC's outlook 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	52.08	51.66
PAT	Rs. Cr.	2.12	2.20
PAT Margin	(%)	4.07	4.26
Total Debt/Tangible Net Worth	Times	1.28	1.00
PBDIT/Interest	Times	2.78	5.88

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

Not Applicable

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, Acuite 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
28 Feb 2023	Bank Guarantee (BLR)	Short Term	13.50	ACUITE A4+ (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	7.50	ACUITE A4+ (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	0.62	ACUITE A4+ (Assigned)
	Secured Overdraft	Long Term	2.42	ACUITE BB- Stable (Reaffirmed)
	Secured Overdraft	Long Term	6.58	ACUITE BB- Stable (Assigned)
	Working Capital Demand Loan (WCDL)	Long Term	1.25	ACUITE BB- Stable (Reaffirmed)
13 Feb 2023	Bank Guarantee (BLR)	Short Term	13.50	ACUITE A4+ (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	7.50	ACUITE A4+ (Reaffirmed)
	Secured Overdraft	Long Term	2.42	ACUITE BB- Stable (Reaffirmed)
	Working Capital Demand Loan (WCDL)	Long Term	1.25	ACUITE BB- Stable (Reaffirmed)
02 Dec 2021	Bank Guarantee/Letter of Guarantee	Short Term	7.50	ACUITE A4+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	1.00	ACUITE A4+ (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Short Term	12.50	ACUITE A4+ (Reaffirmed)
	Secured Overdraft	Long Term	0.92	ACUITE BB- Stable (Reaffirmed)
	Secured Overdraft	Long Term	1.50	ACUITE BB- Stable (Reaffirmed)
	Working Capital Demand Loan (WCDL)	Long Term	1.25	ACUITE BB- Stable (Assigned)

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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	15.00	ACUITE A4+ Reaffirmed
Indian Overseas Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE A4+ Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.31	ACUITE BB- Stable Reaffirmed
Indian Bank	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	9.00	ACUITE BB- Stable Reaffirmed
Indian Bank	Not avl. / Not appl.	Working Capital Demand Loan (WCDL)	06 Dec 2021	Not avl. / Not appl.	31 Dec 2026	Simple	0.43	ACUITE BB- Stable Reaffirmed
Indian Bank	Not avl. / Not appl.	Working Capital Demand Loan (WCDL)	08 Jun 2020	Not avl. / Not appl.	30 Jun 2024	Simple	0.13	ACUITE BB- Stable Reaffirmed

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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.

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