

Press Release

G N Construction

June 05, 2019

Rating Assigned



Total Bank Facilities Rated*	Rs. 13.00 Cr.
Long Term Rating	ACUITE BB/Outlook: Stable
Long Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 13.00 crore bank facilities of G N Construction (GNC). The outlook is '**Stable**'.

GNC, a Chhattisgarh-based partnership firm was established in 2006 and promoted by Mr. Rishikant Singh, Mr. Pradeep Singh and Mr. Prakash Mishra. GNC has been involved in the area of bauxite loading and transportation for over a decade now and carries out these activities for Hindalco Industries Ltd. and Bharat Aluminium Company Ltd. It is one of the mining contractual firm executing various project of excavation and transportation of bauxite. The firm is also in the business of logistic and bauxite handling and ancillary activities relating to the mineral.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of GNC to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management along with proximity to raw materials

The firm was promoted and managed by Mr. Rishikant Singh, Mr. Pradeep Singh and Mr. Prakash Mishra. The promoter has extensive experience of more than two decades in this line of business through his previous stints. Acuite believes that the firm will continue to benefit from its experienced management.

The key area of operation is located at Ambikapur in Chhattisgarh, a bauxite hub of India which ensures regular supply of raw materials and easy reach to customers. The firm enjoys easy connectivity to road & rail leading to better lead-time and facilitates delivery of products in a timely manner. Presence in the bauxite abundant region results in benefits derived from easy availability of raw material at better price, at cheaper cost and lower logistic expenditure.

• Moderate financial risk profile

GNC has moderate financial risk profile marked by tangible net worth of Rs. 13.99 crore as on 31st March, 2018 as against Rs. 10.83 crore as on 31st March, 2017. The gearing stood moderate at 1.09 times as on 31st March, 2018 as against 1.35 times as on 31st March, 2017 mainly due to improvement in networth. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.45 times as on 31st March, 2018 as against 1.52 times as on 31st March, 2017. The total debt of Rs. 15.28 crore consist of long term debt obligation outstanding at Rs. 2.99 crore, current portion of long term debt (CPLTD) of Rs. 0.16 crore and short term debt of Rs. 12.13 crore as on 31 March 2018. Interest Coverage Ratio (ICR) stood comfortable at 3.15 times for FY 2018 as against 6.08 times in FY2017 due to increase in finance cost. Debt Service Coverage Ratio (DSCR) stood moderate at 2.87 times for FY 2018 as against 3.90 times in FY2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.26 times as on 31st March, 2018 as against 0.32 times as on 31st March, 2017.

Weaknesses

• Working capital intensive nature of operations

The firm's working capital operations are intensive in nature marked by Gross Current Asset (GCA) of 107 days in FY2018 compared to 109 days in FY2017. The GCA days are dominated mainly on account of debtor days of 88 days in FY2018 compared to 87 days in FY2017 mainly because of delayed and skewed payment structure. The inventory days stood comfortable at 19 days for FY2018 as compared to 23 days in FY2017 majorly because of fixed execution targets monthly and quarterly. It also consists of the other current asset component of Rs. 1.10 crore as on March 31, 2018. The working capital intensity is further reflected from fully utilized bank limit.

• Customer concentration risk

The firm faces high customer concentration and geographic concentration risk. The only two customers that are catered to are Hindalco Industries Ltd. and Bharat Aluminium Company Ltd. accounting for 100 percent of its operating revenue in the last three year period. The high customer concentration renders the revenue growth and profitability susceptible to the growth plans, procurement and credit policies of its key customers.

• Capital withdrawal risk

The financial profile of GNC is susceptible to the inherent risk of capital withdrawal owing to the partnership constitution of the firm. The partners of the firm have withdrawn funds from the business in FY2018 for personal use to the extent of Rs.0.18 crore.

Liquidity Position

GNC's liquidity profile is moderate liquidity marked by moderate net cash accruals as against its maturing debt obligations. The firm generated cash accruals of Rs.2.26-4.63 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs. 0.16-0.51 crore over the same period. The bank limit of the company remains fully utilized. The company maintained unencumbered cash and bank balances of Rs.0.19 crore as on March 31, 2018. The current ratio of the company stood healthy at 1.60 times as on March 31st 2018. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual as compared to the long term debt repayments over the medium term.

Outlook: Stable

Acuite believes that GNC will maintain a 'Stable' outlook over the medium term from its promoters' industry experience. The outlook may be revised to 'Positive' in case of significant improvement in working capital management along with maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' in case of any stretch in its working capital management leading to deterioration of financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	90.78	68.68	67.40
EBITDA	Rs. Cr.	5.84	5.54	2.71
PAT	Rs. Cr.	3.01	3.88	1.72
EBITDA Margin	(%)	6.43	8.07	4.01
PAT Margin	(%)	3.31	5.65	2.55
ROCE	(%)	17.76	26.43	40.63
Total Debt/Tangible Net Worth	Times	1.09	1.35	0.72
PBDIT/Interest	Times	3.15	6.08	5.88
Total Debt/PBDIT	Times	2.62	2.65	1.65
Gross Current Assets (Days)	Days	107	109	51

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>
- Service sector Entities-<https://www.acuite.in/view-rating-criteria-8.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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB/ Stable (Assigned)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	0.70	ACUITE A4+ (Assigned)
Proposed fund based	Not Applicable	Not Applicable	Not Applicable	0.30	ACUITE BB/ Stable (Assigned)

Contacts

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