

Press Release

Sree Rama Constructions

June 11, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 10.00 Cr.
Long Term Rating	ACUITE B+ / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE B+** (**read as ACUITE B plus**) and short term rating of '**ACUITE A4** (**read as ACUITE A four**) to the Rs. 10.00 crore bank facilities of Sree Rama Constructions (SRC). The outlook is '**Stable**'.

SRC is a partnership firm established in 1997 by Mr. Govardhan Reddy and others. The Hyderabad-based civil construction firm undertakes civil contracts, mainly, for Telangana and Andhra Pradesh government. The firm is registered as Special Category contractor. The firm, mainly, undertakes contracts for roads, bridges, power and irrigation.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

SRC is engaged in the civil construction industry for more than two decades. Further, the Partners collectively possess more than two decades of experience in the civil construction industry.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by tangible net worth of Rs.4.67 crore as on 31 March, 2018 as against Rs.5.56 crore in the previous year. The gearing stood at 0.52 times on 31 March, 2018 as against 0.20 times in the previous year. The interest coverage ratio (ICR) stood at 8.70 times for FY2018 and 4.27 times for FY2017. The debt service coverage ratio (DSCR) stood at 3.10 times for FY2018 and 1.36 times for FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 0.57 times as on 31 March, 2018 as against 0.33 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.54 times in FY2018 compared to 1.17 times in FY2017. Going forward, Acuité expects the firm to maintain its financial risk profile in the absence of major debt funded capex plan.

Weaknesses

- **Declining revenue trend**

SRC reported operating income of Rs.11.90 crore for FY2018 as against Rs.12.30 crore for FY2017 and Rs.30.57 crore for FY2016. The decline in its revenue is mainly on account of tender based nature of operations which makes it vulnerable to order cyclical. The firm had low order book due to intense competition faced by organised as well as unorganised players. Further, the firm executes civil construction contracts mainly in Telangana, thereby exposing the firm to geographic concentration risk. Currently, the firm has unexecuted order book position of Rs.16.00 crore which is expected to be executed over the next 6 months. Hence, the order book position provides moderate revenue visibility over the medium term.

• **Working capital intensive operations**

The operations are working capital intensive evident from the Gross Current Assets (GCA) of 124 days for FY2018 as against 108 days for FY2017. This is mainly on account of high debtor days of 64 and inventory days of 60 as on 31 March, 2018. Further, the average cash credit limit utilisation stood at ~80-90 percent.

• **Profitability susceptible to fluctuations in input cost**

The input cost i.e. power cost, labour cost and raw materials - iron, steel and cement cost are highly volatile in nature with labour cost constituting around ~58 percent of the total revenue as the firm subcontracts its work. Hence, any adverse movement in input costs can impact profitability. However, the firm reported EBITDA margin of 12.34 percent for FY2018 as against 13.67 percent in the previous year.

Liquidity Position

SRC has moderate liquidity marked by moderate net cash accruals with no debt repayment obligations. The firm generated cash accruals of Rs.1.32 to 2.43 crore during the last three years through 2016-18. The cash accruals of the firm are estimated to remain around Rs.1.73 to 1.87 crore during 2019-21. The firm's operations are working capital intensive as marked by gross current asset (GCA) days of 124 in FY 2018. This has led to higher reliance on working capital borrowings, the cash credit limit in the firm remains utilized at ~80-90 percent during the last 6 months period ended January 2019. The current ratio of the firm stand moderate at 1.77 times as on March 31, 2018. The firm is not likely to incur capex over the medium term. Acuite believes that the liquidity of the firm is likely to remain moderate over the medium term on account of moderate cash accrual and no major repayments over the medium term.

Outlook: Stable

Acuité believes that the outlook on SRC's rated facilities will remain 'Stable' over the medium term on account of its established operational track record and extensive experience in the civil construction industry. The outlook may be revised to 'Positive' in case of significant growth in revenue and profitability while effectively managing its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in net cash accruals or deterioration in the financial and liquidity profile due to higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	11.90	12.30	30.57
EBITDA	Rs. Cr.	1.47	1.68	2.59
PAT	Rs. Cr.	0.83	0.73	1.76
EBITDA Margin	(%)	12.34	13.67	8.47
PAT Margin	(%)	6.98	5.95	5.77
ROCE	(%)	14.54	14.35	43.18
Total Debt/Tangible Net Worth	Times	0.52	0.20	0.63
PBDIT/Interest	Times	8.70	4.27	12.69
Total Debt/PBDIT	Times	1.62	0.65	1.34
Gross Current Assets (Days)	Days	124	108	63

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)

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
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	3.24	ACUITE B+ / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	6.57	ACUITE A4
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	0.19	ACUITE A4

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Aishwarya Phalke Senior Analyst - Rating Operations Tel: 022-49294054 aishwarya.phalke@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.