

## Press Release

### Sree Rama Constructions

June 11, 2019

### Rating Assigned



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

Acuite 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

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**About Acuité Ratings & Research:**

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