

Press Release

G Shankar

September 10, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 400.00 Cr.
Long Term Rating	ACUITE BBB /Stable (Assigned)
Short Term Rating	ACUITE A3+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) and the short-term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) on the Rs. 400.00 Cr. bank facilities of G Shankar (GS). The outlook is '**Stable**'.

Established in the early 1990, G Shankar is a Karnataka-based proprietorship firm promoted by Mr. G Shankar. The firm executes civil construction contracts for irrigation projects, mainly involved in excavation and aqueduct work at canals. The firm is a registered Class I contractor and executes projects for Krishna Bhagya Jala Nigam Limited, Karnataka Neeravari Nigam Limited, and Visvesvaraya Jala Nigam Limited. The firm also operates banquet halls, Shamili Inn at Ambalpadi and Shamili Shanaya at Udupi (Karnataka) that constitutes ~ about 0.1 per cent of total revenues in FY2019 (Provisional).

Analytical Approach

Acuité has considered the standalone business and financial risk profile of GS to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track record and experienced promoter**

The firm has a long execution track record of over two decades in the civil construction business. The proprietor, Mr. Gundmi Shankar, has a vast experience of more than 20 years in civil construction. The firm is a registered Class I contractor, which allows the firm to bid for large projects of Karnataka. Acuité believes that its established market presence and successful completion of the past contracts will help to secure fresh orders going forward.

- **Healthy scale of operations backed by significant order book position**

The firm has registered revenues of Rs. 920.48 crore in FY2019 (provisional) compared to Rs. 671.29 crore in FY2018, marking a growth of 37 per cent Y-o-Y. The increase in revenue is on account of healthy execution of orders. Moreover, healthy order book position provides adequate revenue visibility in the medium term. The firm has an outstanding order size of Rs 1,198 crore, which is expected to be completed in 2020-21.

- **Comfortable financial risk profile**

The firm's financial risk profile is comfortable marked by healthy net worth, comfortable gearing and debt protection metrics. The net worth of the firm stood at Rs.232.38 crore as on 31 March, 2019 (Provisional) as against Rs.166.01 crore in the previous year. The gearing improved to 0.87 times as on 31 March, 2019 (Provisional) from 1.14 times in the previous year. Total debt of Rs.202.71 crore in FY2019 consists of Rs. 20.41 crore of long term loan and Rs.182.30 crore of working capital borrowings. The debt protection metrics is healthy marked by interest coverage ratio (ICR) of 4.35 times in FY2019 (Provisional) and debt service coverage ratio (DSCR) of 3.48 times as on March 31, 2019.

Weaknesses

- **Geographical concentration risk**

The firm has high geographical-concentration risk as the firm's entire operations is based out of Karnataka. The firm has to compete with both large and small players to win tenders, thereby intensifying cut-throat competition. Moreover, the firm executes orders only for the Government of Karnataka, due to which its operations are highly dependent on the number of tenders floated in the region.

- **High utilisation of non-fund based limits**

The current non-fund based limits of bank guarantees is being almost fully utilized. Thus, the availability of adequate non-fund based limits for securing new orders would remain key rating sensitivity.

Liquidity Profile

The firm has adequate liquidity marked by net cash accruals of Rs. 59.70 crore in FY2019 (Provisional) against long term debt obligations of around Rs.5.00 crore over the same period. However, the firm has obligations of Rs.50 crore against demand promissory note to be paid in September, 2019. Though the firm has significant obligation in FY2020, Acuité believes that the firm has enough accruals to meet its obligations. The firm has moderate working capital cycle marked by gross current asset (GCA) days of 103 in FY2019 (Provisional). The current ratio stood at 1.05 times as on March 31, 2019 (Provisional) and the non-fund based limit of the firm remains utilised at 96 per cent during the last twelve months ended May, 2019.

Outlook: Stable

Acuité believes that GS will maintain 'Stable' outlook from the extensive experience of the promoter and healthy order book. The outlook may be revised to 'Positive' in case of higher-than-expected revenue and profitability, leading to a substantial increase in cash accrual. The outlook may be revised to 'Negative' in case of delay in execution of orders, or weakening of working capital management hindering the financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	671.29	533.79	272.42
EBITDA	Rs. Cr.	67.71	57.03	32.06
PAT	Rs. Cr.	29.11	27.12	23.15
EBITDA Margin	(%)	10.09	10.68	11.77
PAT Margin	(%)	4.34	5.08	8.50
ROCE	(%)	24.02	30.15	34.24
Total Debt/Tangible Net Worth	Times	1.14	0.39	0.69
PBDIT/Interest	Times	4.46	5.53	4.78
Total Debt/PBDIT	Times	2.56	0.85	2.06
Gross Current Assets (Days)	Days	85	125	228

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

None

Any other information

Not Applicable

Applicable Criteria

- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.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
Overdraft	Not Applicable	Not Applicable	Not Applicable	65.00	ACUITE BBB /Stable (Assigned)
Proposed Overdraft	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE BBB /Stable (Assigned)
Working Capital Demand Loan	Not Applicable	Not Applicable	Not Applicable	60.00	ACUITE BBB /Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	250.00	ACUITE A3+ (Assigned)

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About Acuité Ratings & Research:

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