

Press Release

R Selvaraj

October 23, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 6.00 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. 6.00 crore bank facilities of R SELVARAJ. The outlook is '**Stable**'.

R Selvaraj (RS) is a Salem-based proprietorship firm established in 1990 by Mr. R Selvaraj. The firm is engaged in execution of civil contracting works such as buildings, bridges, petrol pumps and other works for clients such as Indian Railways (Southern Railways), Indian Oil Corporation Limited and Bharat Petroleum Corporation Limited among others.

Analytical Approach

Acuité has taken standalone view of business and financial risk profile of RS to arrive at the rating.

Key Rating Drivers

Strengths

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

Established in 1990, R Selvaraj is a Tamil Nadu-based proprietorship firm engaged in civil construction in the district of Salem. The firm has a track record of over a decade in the undertaking tender based contract from the Indian Railways, Indian Oil Corporation Limited and Bharat Petroleum Corporation Limited. Acuité believes that the firm will continue to benefit through the proprietor's extensive industry experience over the medium term.

Weaknesses

- **Below average financial risk profile**

RS's financial risk profile is marked by its modest net worth, high gearing and moderate debt protection measures. The net worth improved to Rs. 1.57 crore as on 31 March, 2019 (Provisional) as against Rs.1.29 crore in the previous year. The firm's gearing stood high at 3.36 times as on 31 March, 2019 (Provisional) as against 3.35 times in the previous year. The total debt of Rs. 5.26 crore consists of Rs. 4.55 crore of short term debt obligations, term loan of Rs.0.10 crore and Rs. 0.60 crore of unsecured loans from relatives. The interest coverage ratio and NCA/TD stood at 1.61 times and 0.06 times in FY2019 (Provisional) as against 1.94 times and 0.07 in the previous year. Acuité believes that the financial risk profile will continue to remain below average on account of high gearing and moderate debt protection matrices.

- **Working capital intensive operations**

RS's operations are working capital intensive as evident from Gross Current Assets (GCA) of 437 days as on March 31, 2019 (Provisional) as against 296 days as on March 31, 2018. The receivable days are reported at 199 days in FY2019 as against 67 days in FY2018. The surge in receivable days is on account of delay in payments from one of its client Indian railways. RS's inventory days stood at 2 days in FY2019 (Provisional) and 35 days in FY2018. RS's creditors were high at about 145 days as on March 31, 2019 (Provisional) (FY2018:57 days). Intensive working capital operations has led to full utilisation of over draft limits over the past twelve months ended September, 2019. Acuité believes that the operations are expected to be working capital intensive and working capital limits shall be utilised to full extent over the medium term.

• **Modest scale and Tender based nature of operations**

The scale of operations is modest with revenue of Rs. 7.70 crore in FY19 (Provisional) compared to Rs. 8.13 crore in FY2018. Going forward, the scale of operation is likely to remain modest with confirmed orders in hand of Rs. 10.64 crore as on October 2019. The revenues of RS are generated through tender based orders floated by Indian Railways coupled with the increasing competition in the industry. The revenue has direct impact on successful bidding of order and competitive pricing provided to surpass competition from other players in the industry.

Rating Sensitivity Factors

- Timely execution of orders in hand and improvement in order book.
- Any delays in realisation from debtors leading to further stretch in liquidity.

Material Covenants

None

Liquidity Position: Stretched

Liquidity of RS is stretched marked high GCA days. The firm's working capital operations are intensive as marked by high Gross Current Asset (GCA) days of 437 days in FY2019 (Provisional). RS reported cash accruals in the range of Rs. 0.30-0.34 crores over the past three years through FY2019 (provisional) against which there are no repayment obligations. RS's cash accruals are estimated to remain around Rs.0.45 – 0.86 crores during 2020-22, while its repayment obligations are nil; which gives additional cushion for the incremental working capital requirements. Acuité believes that the liquidity of the firm is likely to remain stretched over the medium term on account of high GCA days.

Outlook: Stable

Acuité believes that the outlook on RS's rated facilities will remain 'Stable' over the medium term on account of its promoters' extensive experience and established operational track record. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	7.70	8.13	6.14
EBITDA	Rs. Cr.	0.86	0.66	0.44
PAT	Rs. Cr.	0.31	0.30	0.26
EBITDA Margin	(%)	11.17	8.13	7.21
PAT Margin	(%)	4.02	3.72	4.27
ROCE	(%)	13.61	15.62	18.36
Total Debt/Tangible Net Worth	Times	3.36	3.55	1.53
PBDIT/Interest	Times	1.61	1.94	2.62
Total Debt/PBDIT	Times	5.92	6.64	3.22
Gross Current Assets (Days)	Days	437	296	145

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

None

Any other information

Not applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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
Overdraft	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE B+ / Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 (Assigned)

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About Acuité Ratings & Research:

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