

Press Release

PSA Construction

November 11, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs. 12.50 crore
Long Term Rating	ACUITE BBB-/ Outlook: 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 minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A3**) on the Rs. 12.50 crore bank facilities of PSA Construction. The outlook is '**Stable**'.

Incorporated in the year 2000, PSA Construction is a Raipur-based partnership firm, Chhattisgarh. The firm was established by Mr. Sanjay Singhal and Mr. Rajesh Singhal. The firm is engaged in construction and maintenance of roads, rails, bridges, tunnels, ports and runways for government departments such as Chhattisgarh Rural Road Development Agency (CGRRDA) and Public Works Department (PWD), Chhattisgarh, to name a few. It is registered as a Class-A contractor with PWD, Chhattisgarh.

Analytical Approach

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

Key Rating Drivers

Strengths

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

PSA Construction is beheaded by Mr. Sanjay Singhal, who has an experience of around two decades in the aforementioned industry. The same has helped the firm in establishing healthy relationships with its customers and suppliers. The key customers of the firm include reputed names like PWD Chhattisgarh. Further, the key suppliers of the firm include ACC Limited, Ultratech Cement Limited, Indian Oil Corporation Limited, etc. amongst others with no major concentration in its revenue profile. On the back of the stable and repeated orders by the key customers- PWD Chhattisgarh, the revenues withstands to be at Rs.96.73 crores in FY2019. PSA Construction has an unexecuted order book position of about Rs.198.72 crores, which is expected to be executed by April 2021 resulting in healthy revenue visibility over the medium term.

- **Efficient Working Capital Management**

PSA Construction's working capital is efficiently managed as reflected by its gross current asset (GCA) days of around 53 days for FY2019. The firm maintains inventory of around 5 days. PSA Construction extends a credit period of around 54 days to its customers and realizes payments within 15 days. As a result, the reliance on working capital limits is low, leading to low utilization of its bank lines at an average of ~55 per cent over the last twelve months through August 2019. While the peak utilization is also moderate at around 58 per cent during the same period. Acuité expects the working capital management to remain efficient over the medium term on account of the lean inventory levels maintained by the firm.

- **Healthy financial risk profile**

PSA Construction's financial risk profile is healthy, marked by a moderate net worth, low gearing and healthy debt protection metrics.

PSA Construction's net worth is healthy estimated at around Rs.26.31 crores as on March 31, 2019 as against of Rs. 13.56 crore in FY2018. The net worth levels have seen significant improvement over the last three years through FY 2019 on account of equity infusion of Rs.12.75 crore by the promoters and healthy accretion to reserves during the same period.

The firm has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 1.36 and 3.77 times as on March 31, 2017. The gearing levels continue to remain low at around 0.29 times as on March 31, 2019. PSA Construction's healthy cash accruals to the tune of about Rs. 7.70 crores have supported in minimizing the reliance on external debt leading to healthy gearing and debt levels of 0.29 times and Rs. 2.20 crores as on March 31, 2019. PSA Construction's cash accruals over the next two years through 2021 are estimated to remain in the range of Rs. 8.94 crores to Rs. 10.19 crore against repayment obligations ranging from Rs. 1.89 crore to Rs. 2.40 crore during the same period. As a result, the gearing is however expected to be remain low around 0.08 times as on March 31, 2021 on back of absence of any major debt funded capex plan.

Weaknesses

- **Modest scale of operations due to tender based nature of business**

The operations of PSA Construction are considered to be at moderate level despite the firm being in the construction business for around two decades. The firm has achieved operating income of Rs. 96.73 crore in FY2019 as compared to Rs. 101.39 crore in FY2018. Being a civil contractor, the revenue of PSA construction depends on the number of successful bids and the tenders being released in the financial year.

- **Highly competitive and fragmented nature of industry**

The firm is operating in a highly competitive and fragmented industry with large number of organized and unorganized players present in the market which limits the bargaining power of the firm. However the risk is mitigated to an extent on account of established track record of operations and experienced management.

Rating sensitivity factor

- Decline in revenue profile by more than 25 per cent.
- Deterioration in financial risk profile.

Material Covenants

None

Liquidity position: Adequate

The firm has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs. 7.70 crore in FY2019 as against maturing debt obligations of around Rs. 2.20 crore during the same period. The cash accruals of the firm is estimated to remain around Rs. 8.94 crore to Rs. 11.51 crore during 2020-22 against repayment obligations ranging from Rs.1.89 crore to Rs.2.40 crore during the same period. The firm's working capital operations are efficiently managed marked by gross current asset (GCA) days of 53 days for FY2019. The firm maintains unencumbered cash and bank balances of Rs. 0.29 crore as on 31 March 2019. The current ratio stands at 1.31 times as on 31 March 2019. Acuité believes that the liquidity of the firm is likely to remain healthy over the medium term on account of healthy net cash accruals to debt repayments over the medium term.

Outlook: Stable

Acuité believes that PSA Construction will continue to benefit over the medium term due to its long track record of operations and experienced management. The outlook may be revised to 'Positive', if the firm demonstrates substantial growth in its revenues and operating margins while maintaining its working capital management. Conversely, the outlook may be revised to "Negative", if firm generates lower-than-anticipated cash accruals, most likely as a result of sharp decline in operating margins thereby impacting its business risk profile and deterioration in working capital leading to higher reliance on external borrowings.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	96.73	101.39	51.76
EBITDA	Rs. Cr.	9.59	10.08	6.72
PAT	Rs. Cr.	3.76	4.26	1.65
EBITDA Margin	(%)	9.92	9.94	12.99
PAT Margin	(%)	3.89	4.21	3.19
ROCE	(%)	23.29	29.08	32.60
Total Debt/Tangible Net Worth	Times	0.29	0.90	1.36
PBDIT/Interest	Times	7.41	15.76	6.67
Total Debt/PBDIT	Times	0.70	1.08	1.78
Gross Current Assets (Days)	Days	53	47	104

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Entities in Infrastructure Sector - <https://www.acuite.in/view-rating-criteria-51.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>

*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	0.90	ACUITE BBB-/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	11.60	ACUITE A3 (Assigned)

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About Acuité Ratings & Research:

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