

## Press Release

### PSA Construction

April 06, 2021

### Rating Reaffirmed



Total Bank Facilities Rated*	Rs.29.40 Cr.
Long Term Rating	ACUITE BBB-/Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.29.40 Cr bank facilities of PSA Construction (PC). The outlook is '**Stable**'.

PSA Construction is a Raipur, Chhattisgarh based partnership firm established in the year 2000. The partners of the firm are Mr. Sanjay Singhal and Mr. Rahul Bansal. The firm is registered as a Class-A contractor with PWD Chhattisgarh. The firm is engaged in construction and maintenance of roads, rails, bridges, tunnels, etc., for government departments such as Chhattisgarh Rural Road Development Agency and PWD-Chhattisgarh, to name a few and also for non-government companies like Simplex.

### Analytical Approach

Acuite has considered the 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

Established in the year 2000 as a partnership firm, PC has a long track record of operation of around two decades. The partners of the firm are Mr. Sanjay Singhal and Mr. Rahul Bansal. The partners of the firm have experience of more than two decades in the aforementioned industry. The firm is registered as a Class-A contractor with PWD Chhattisgarh. The firm is engaged in construction and maintenance of roads, rails bridges, etc., for various government as well as non-government authorities. The firm has been able to establish a long standing relationship with its client owing to extensive experience of the partners and timely execution of the project.

Acuite expects that the firm will continue to benefit from its experienced management and established track record of operation.

#### • Working Capital operation is efficient in nature

PC's working capital operation is efficient in nature as it is reflected by its gross current asset (GCA) days of around 93 days in FY2020. The debtor collection period has improved to 12 days as on March 31, 2020 as against 15 days as on March 31, 2019. As on March 31, 2020 the accumulated receivables stood at Rs.2.24Cr However, this risk is mitigated as the accumulated receivables are mainly from the State Government and Central Government bodies leading to a low counterparty risk. As on March 31, 2020 the inventory period has been elongated to 29 days as against 5 days as on March 31, 2019 on account of temporary stoppage of the ongoing projects in view of Covid-19 pandemic. The inventory holding period majorly consists of work in progress. The credit payment period stood at 105 days as on March 31, 2020 as against 44 days as on March 31, 2019. The average bank limit utilization stood moderate at around 81.88 percent for six months ended February 28, 2021, while its peak utilization was high at around 99.71 percent during the same period. The Non-fund based utilization

stood at around Rs.19.42Cr out of Rs.23.40Cr as on February, 2021.

Acuite expects the working capital management to remain moderate over the medium term on account of timely payment from the customers and to the suppliers.

#### • **Healthy Financial Risk Profile**

PC's financial risk profile is healthy marked by moderate net worth, low gearing coupled with comfortable debt protection metrics and coverage indicators. The firm's net worth stood at Rs.17.14Cr as on March 31, 2020 as against Rs.26.31Cr as on March 31, 2019. The net worth levels have been declined in FY2020 on account of withdrawal of amount of around Rs.7.00-8.00Cr by one of the friends of the partner. The firm has followed conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) of 0.90 times and 2.44 times, respectively as on March 31, 2018. The gearing continues to be low at around 0.15 times as on March 31, 2020. The total outside liabilities to tangible net worth (TOL/TNW) levels stood at 1.80 times as on March 31, 2020 as against 0.74 times as on March 31, 2019. The firm on the other hand generated cash accruals of Rs.5.32Cr in FY2020 as against Rs.7.69Cr in FY2019. PC's cash accrual over the next three years through FY2023 is estimated to remain in the range of Rs.6.00Cr to Rs.9.00Cr.

The revenue of the firm has declined by around 30.72 percent to Rs.67.01Cr in FY2020 from Rs.96.73Cr in FY2019. The decline in the operating income is due to temporary stoppage of the ongoing projects during the last quarter of FY2020 in view of Covid-19 pandemic. EBITDA in absolute term is declining over the last three years through FY2020 and stood at Rs.6.34 Cr in FY2020 as against Rs.9.59 Cr in FY2019. The PAT of the firm has declined to Rs.1.93 Cr in FY2020 from Rs.3.76 Cr in FY2019. The firm has already clocked revenues of around Rs.63.72Cr (Est.) as on December 31, 2020. It is expected that the performance of the firm will improve from FY2021 onwards as against FY2020 on account of healthy order book and strong execution capacity. The firm has unexecuted order book of Rs.252.32 Cr as on December 30, 2020 which gives revenue visibility over the medium term.

The firm's operating margin is high and stable in the range of 9.00-10.00 percent for the last three years under the study. The firm gets the benefit of price escalation clause in every project. The major expense for any infrastructure company is the raw material cost and the labor expense. The same is volatile in nature and can impact the profitability. However, PC mitigates this risk by way of price escalation clause in all contracts till the validity of the tenure of the contract. This helps the firm to maintain a stable operating margin of 9.00 percent on a continuous basis for last three years under the study. The operating margin and the PAT margin stood at 9.45 percent and 2.88 percent, respectively in FY2020.

The decline in the profitability level, coupled with low debt level, has led to comfortable debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at 2.03 times and 10.72 times respectively as against 1.02 times and 7.41 times in FY2019, respectively. The debt service coverage ratio stood 9.20 times in FY2020 as against 6.24 times in FY2019. The Debt-EBITDA ratio stands at 0.38times in FY2020 against 0.70times in FY2019.

Acuite believes the financial risk profile of the firm will continue to remain healthy on account of healthy revenue growth backed by healthy order book, stable operating margins, moderate cash accruals and no major debt funded capex plan in near to medium term.

#### **Weaknesses**

##### • **Tender Based nature of business**

The firm deals with government organization and quotes for the contract on tender basis. Going forward the firm's ability to successfully bid for greater number of large order will remain a key monitor able. However, the partner's experience and relationship with the clients mitigates this factor to an extent.

## • Geographical Concentration Risk

PC predominantly operates in Chhattisgarh leading to geographical concentration risk. The particular sector is marked by the presence of several mid to big size players. The firm may face intense competition from other players in this sector which can impact its profitability and operations going forward. However, this risk is mitigated to an extent on account of extensive experience of the partners in the aforementioned industry for over two decades.

## Liquidity Position: Adequate

The firm has adequate liquidity marked by moderate net cash accruals against its maturing debt obligations. The firm generated cash accruals of Rs.5.32Cr in FY2020, while the maturing debt obligations were in the range of Rs.3.00-4.00Cr for the same period. The cash accrual of the firm is estimated to remain around Rs.6.00Cr to Rs.9.00Cr during 2021-23, while its repayment obligation is estimated to be in the range of Rs.0.40Cr to Rs.1.00Cr during the same period. The firm's working capital operation is efficient in nature marked by the Gross Current Asset (GCA) days of 93 days in FY2020 as against 53 days in FY2019. The average bank limit utilization stood moderate at around 81.88 per cent for six months ended February, 2021. The firm maintains unencumbered cash and bank balances of Rs.0.18Cr as on 31 March 2020. The current ratio of the firm has declined 1.10 times as on 31 March 2020 from 1.69 times as on March 31, 2019. Also, government is providing special impetus and relaxations due to COVID-19 outbreak to EPC projects which will further enhance the liquidity position of PSA.

## Rating Sensitivities

- Significant and sustained growth in the scale of operation while maintaining the profitability margin
- Any stretch in the working capital cycle will lead to increase reliance on working capital borrowings and weakening of financial risk profile.

## Outlook: Stable

Acuite believes that the firm will maintain a stable outlook over the medium term backed by its experienced management, established track record of operation in the aforementioned industry and healthy financial risk profile. The outlook may be revised to 'Positive', if the firm registers higher than expected growth in its revenue while improving its operating margins from its current levels along with healthy financial risk profile and efficient working capital management. Conversely, the outlook may be revised to 'Negative', if the firm registers lower than expected growth in revenues and profitability or in case of deterioration in the group's financial risk profile or significant elongation in the working cycle.

## About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	67.01	96.73
PAT	Rs. Cr.	1.93	3.76
PAT Margin	(%)	2.88	3.89
Total Debt/Tangible Net Worth	Times	0.15	0.29
PBDIT/Interest	Times	10.72	7.41

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

None

### Any other information

None

### Any Material Covenants

None

### Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

### Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

### Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
28-Nov-2019	Cash Credit	Long Term	0.90	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	28.50 (Enhanced from Rs.11.60Cr)	ACUITE A3 (Reaffirmed)
11-Nov-2019	Cash Credit	Long Term	0.90	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	11.60	ACUITE A3 (Assigned)

### \*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	6.00 (Enhanced from Rs.0.90Cr)	ACUITE BBB-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	23.40 (Revised from Rs.28.50Cr)	ACUITE A3 (Reaffirmed)

## Contacts

Analytical	Rating Desk
<p>Aditya Gupta Vice President-Corporate and Infrastructure Sector Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a></p> <p>Kumar Abhisek Analyst - Rating Operations Tel: 011-49731308 <a href="mailto:kumar.abhisek@acuite.in">kumar.abhisek@acuite.in</a></p>	<p>Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a></p>

## About Acuité Ratings & Research:

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