

Press Release

PSA Construction

August 12, 2022

Rating Upgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	23.40	-	ACUITE A3 Upgraded
Bank Loan Ratings	6.00	ACUITE BBB- Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	29.40	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) and short term rating to '**ACUITE A3**' (read as **ACUITE A three**) from **ACUITE A4+** (read as **ACUITE A four plus**) on the Rs.29.40 Cr bank facilities of PSA Construction (PC). The outlook is '**Stable**'.

Rationale for upgrade

The rating upgrade is on account of consistent business and financial performance of PC since the last review. The Firm's operating income stood at Rs.73.21 Cr in FY22(prov.) as against Rs.49.55 crore in FY2021 and Rs.67.01 crore in FY2020. The financial risk profile continues to remain moderate marked by its moderate net worth, low gearing and moderate debt protection measures. Going forward, elongation in working capital cycle thereby adversely affecting the liquidity position of the Firm will remain a key rating monitorable.

About the Company

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.

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.

Acuité expects that the firm will continue to benefit from its experienced management and established track record of operations

Moderate Financial Risk Profile

PSA has moderate financial risk profile marked by its moderate net worth, low gearing and moderate debt protection measures. The net worth increased to Rs. 20.80 crores as on March 31, 2022(prov.) as against Rs.16.90 crore as on March 31, 2021 and Rs.17.14 as on March 31, 2020. The company's gearing stood low at 0.67 times as on March 31, 2022(prov.) as against 0.39 times in the March 31, 2021 and 0.15 times March 31, 2020. The total debt of Rs.13.90 crore as on March 31, 2022(prov.) consists of long term debt of Rs.5.50 crore, unsecured loans from promoters of Rs.2.95 crore and Rs.5.45 crore of short term debt obligations. The interest coverage ratio stood at 5.61 times in FY2022(prov.) as against 5.77 times in the previous year 2021 and 10.72 times in FY2020. The NCA to TD ratio stood at 0.43 times in FY2022(prov.) as against 0.66 times in FY2021 and 2.03 times in FY2020.

The firm's revenue stood at Rs.73.21 Cr in FY22(prov.) as against Rs.49.55 crore in FY2021 and Rs.67.01 in FY2020. The operating margins ranged between 9-11 percent in the last three years ended FY2022 (Prov.). As on June 2022, the company had a confirmed order book of Rs. 275.97 Cr out of which the unexecuted orderbook value stood at Rs.184.27 Cr, thus, providing revenue visibility over the medium term.

Acuité believes the financial risk profile of the firm will continue to remain moderate in absence of any major debt funded capex plan and healthy orderbook.

Weaknesses

Working capital intensive nature of operations

The operations of PC are working capital intensive reflected by Gross Current Assets (GCA) of 109 days as on March 31, 2022(Prov.) as against 189 days as on March 31, 2021 and 93 days as on March 31, 2020. The GCA days are primarily driven by other current assets and inventory days. The other current assets primarily include retention money deposits which are generally released post the execution of the contracts. The inventory days stood at 40 days as on March 31, 2022(prov.) as against 43 days as on March 31, 2021 and 29 days as on March 31, 2020. The debtor days stood low at 11 days as on March 31, 2022(prov.) as against 7 days as on March 31, 2021 and 12 days as on March 31, 2020. The creditor days stood at 6 days as on March 31, 2022(prov.) as against 141 days as on March 31, 2021 and 148 days as on March 31, 2020. The average utilisation of fund based facilities stood at ~72.39 percent for the last twelve months June 2022, while the average bank limit utilisation of its non-fund based facilities (Bank Guarantee) stood ~ 87.13 percent for same period.

Acuité believes elongation of working capital cycle over the medium term will remain a key rating monitorable.

Geographical Concentration Risk and Tender based nature of business

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, thus,

faces intense competition from other players. Further, 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 monitoring factor.

Inherent risk of capital withdrawal in a partnership firm

The Firm is susceptible to the inherent risk of capital withdrawal given its constitution as a partnership. Any significant withdrawal from the partner's capital will have a negative bearing on the financial risk profile of the firm.

Rating Sensitivities

- Significant and sustained growth in the scale of operation while maintaining the profitability margin and capital structure
- Elongation in working capital cycle

Material covenants

None

Liquidity Position: Adequate

The firm's liquidity profile is adequate marked by moderate net cash accruals against maturing debt obligations. PSA generated cash accruals of Rs.5.18 crores during the period FY2021-22 (prov.). The cash accruals of PC are estimated to remain in the range of around Rs.6.00- 8.00 crore during FY2023-24 against repayment obligations of Rs.1.23 crore for the same period. The GCA days of the Firm stood at 109 days as on March 31, 2022 (Prov.). The average utilisation of fund based facilities stood at ~72.39 percent for the last twelve months June 2022, while the average bank limit utilisation of its non-fund based facilities (Bank Guarantee) stood at ~87.13 percent for the same period. The unencumbered cash and bank balance stood at Rs.0.35 Cr as on March 31, 2022 (Prov.) Acuité believes that the liquidity of the Firm is likely to remain adequate over the medium term on account of moderate cash accruals against repayment obligations.

Outlook: Stable

Acuité 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 moderate financial risk profile. The outlook may be revised to 'Positive', if the firm registers higher than expected growth in its revenue while maintaining its operating margins and capital structure or significant reduction in working capital cycle. 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.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	73.21	49.55
PAT	Rs. Cr.	2.68	1.44
PAT Margin	(%)	3.66	2.91
Total Debt/Tangible Net Worth	Times	0.67	0.39
PBDIT/Interest	Times	5.61	5.77

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
27 Jun 2022	Bank Guarantee	Short Term	23.40	ACUITE A4+ (Downgraded and Issuer not co-operating*)
	Cash Credit	Long Term	6.00	ACUITE BB+ (Downgraded and Issuer not co-operating*)
06 Apr 2021	Cash Credit	Long Term	6.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	23.40	ACUITE A3 (Reaffirmed)
28 Nov 2019	Bank Guarantee	Short Term	28.50	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	0.90	ACUITE BBB- Stable (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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	23.40	ACUITE A3 Upgraded (from ACUITE A4+)
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB- Stable Upgraded (from ACUITE BB+)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Vaishnavi Deshpande Analyst-Rating Operations Tel: 022-49294065 vaishnavi.deshpande@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research

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