Press Release

PVR CONSTRUCTIONS

January 22, 2020

Rating Assigned

Total Bank Facilities Rated*	Rs. 30.00 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)** on the Rs. 30.00 crore bank facilities of PVR CONSTRUCTIONS (PVR). The outlook is '**Stable**'.

Established in 2015, PVR Constructions is a proprietorship firm engaged in electrical, civil and mechanical contract works for government as well as private sector. The day to day operations are managed by its proprietor, Mr. P. V. Ramana. Firm has its presence in Karnataka, Andhra Pradesh and Telangana. It majorly caters to private sector companies like Welspun, Greenco, Hero Future, to name a few.

Analytical Approach
Acuité has considered the standalone business and financial risk profiles of PVR to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

PVR commenced operations from 2015. The firm is promoted by its proprietor, Mr. Ramana who has an experience of over two decades in the civil construction industry. The extensive experience has enabled the firm forge healthy relationships with suppliers. The firm caters to reputed clientele such as Welspun, Greenco, Hero Future, and government authorities of states like Karnataka, Telangana and Andhra Pradesh to name a few. Further, the experience of the management has also envisaged in healthy order book position of ~Rs.535.82 crore giving a revenue visibility in near to medium term.
Acuité believes that the firm will continue to benefit from its experienced management and established relationships with customers and suppliers.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by moderate net worth and debt protection measures and low gearing. The net worth of the firm is moderate at Rs.19.68 crore as on 31 March 2019 as against Rs.14.77 crore as on 31 March 2018. The gearing (debt to equity) of the firm stood low at 0.23 times as on March 31 2019 as against 0.60 times as on March 31 2018. Total debt of Rs.4.62 crore consists of term loan of Rs.2.46 crore and unsecured loans from financial institutions of Rs.2.16 crore as on 31 March 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood high at 5.58 times as on 31 March 2019 as against 7.92 times as on 31 March 2018. Further, Interest Coverage Ratio (ICR) stood at 8.41 times in FY2019 as against 193.21 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 1.63 times as on 31 March 2019 as against 0.97 times as on 31 March 2018. Debt Service Coverage Ratio (DSCR) stood at 8.41 times in FY2019 as against 193.21 times in FY2018.
Acuité believes the financial risk profile of the firm will improve in near to medium term on back of healthy net cash accruals and order book.

Weaknesses

• Moderate scale of operations and modest profitability

The firm has reported sharp decline in revenue marked by operating income of Rs.166.42 crore in FY2019 as against operating income of Rs.214.79 crore in FY2018. Though profitability has been marginally increasing, it has stood at lower levels marked by operating margin of 4.50 per cent in FY2019 as against 3.95 per cent in FY2018 and 3.85 per cent in FY2017.

Acuité believes that the scale of operation is expected to improve in near term at the back of order book of Rs.535.82 crore which is to be executed by FY2020-21.

• Intensive working capital operations

The working capital of PVR is intensive in nature marked by high Gross Current Asset (GCA) days of 125 for FY2019 as against 149 in the previous year. Debtor days stood high at 79 for FY2019 as against 107 for FY2018. However, the firm does not have working capital facility.

Acuité believes the ability of the firm to efficiently manage its working capital requirements will remain the key rating sensitivity.

• Competitive and fragmented industry along with tender based business

The firm is engaged in civil construction business. The particular sector is marked by the presence of various mid to big size players. The firm might face intense competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of biding of contracts. However, this risk is mitigated to an extent as management operating in this industry for last two decades.

Major business is bagged through open tenders. Hence the revenue earned is directly dependent upon the quantum of contracts bagged and executed during the year. Risk become more pronounced as tendering is based on minimum amount of biding of contracts. Firm has to do tendering on competitive prices; this may affect the profitability of the firm.

Rating Sensitivity

• Significant improvement in revenues and margins.
• Deterioration in working capital management leading to higher reliance on external borrowing.

Material Covenants

None.

Liquidity Position: Stretched

PVR has comfortable liquidity marked by healthy net cash accruals. The firm generated cash accruals of Rs.7.52 crore in FY2019 as against Rs.8.55 crore in FY2018 and Rs.7.05 crore in FY2017. The firm's working capital operations are intensive as marked by high gross current asset (GCA) days of 125 in FY2019. However, the firm does not have working capital facility. It is managing its working capital through own funds and by stretching creditor days. The firm maintains unencumbered cash and bank balances of Rs.7.34 crore as on March 31, 2019. The current ratio of the firm stands at 1.07 times as on March 31, 2019.

Outlook: Stable

Acuité believes that the company will maintain 'Stable' outlook over the medium term on back of experience of its management. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in company's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of significant 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.	166.42	214.79	184.84
EBITDA	Rs. Cr.	7.49	8.49	7.11
PAT	Rs. Cr.	6.36	8.13	6.82
EBITDA Margin	(%)	4.50	3.95	3.85
PAT Margin	(%)	3.82	3.78	3.69
ROCE	(%)	30.83	50.25	154.08
Total Debt/Tangible Net Worth	Times	0.23	0.60	0.04
PBDIT/Interest	Times	8.41	193.21	88.79
Total Debt/PBDIT	Times	0.54	1.02	0.05
Gross Current Assets (Days)	Days	125	149	87

Status of non-cooperation with previous CRA (if applicable)
None
Any other information
None

Applicable Criteria
• Default Recognition - https://www.acuite.in/view-rating-criteria-17.htm
• 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

Rating History (Upto last three years)
None.

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B+/Stable (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	28.00	ACUITE A4 (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in Saurabh Rane Analyst - Rating Operations Tel: 02249294034 saurabh.rane@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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