

Press Release

Shree Balaji Tirupati Construction

May 28, 2020



Rating Assigned

Total Bank Facilities Rated*	Rs.50.00 crore
Long Term Rating	ACUITE B+/ Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuité has assigned the 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.50.00crore bank facilities of SHREE BALAJI TIRUPATI CONSTRUCTION (SBTC). The outlook is '**Stable**'.

Established in the year 2003, SBTC is an Agar (Madhya Pradesh) based proprietorship firm. The proprietor of the firm is Mr. Chandra Prakash Verma. The firm is engaged in the construction of roads and dams for the PWD and Irrigation department of Madhya Pradesh.

Analytical Approach

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

Key Rating Drivers

Strengths

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

SBTC is promoted by Mr. Chandra Prakash Verma. The proprietor of the firm is engaged in the aforementioned business for more than two decades through various entities. The key customer of the company include reputed names like PWD-Madhya Pradesh, A.K. Shivahare Infrastructure Private Limited to name a few. Further, the key suppliers of the firm include JK Cement, Wonder cement, Hindustan Coals Limited to name a few. On the back of the stable and repeated orders by the key customer-PWD Madhya Pradesh, the revenues have seen a growth of 233.46 percent over the last year. The revenue of the firm stands at Rs.48.32 crore in FY2019 as against Rs.14.49 crore in FY2018. Further, the firm has registered an operating income of Rs.27.31 crore (provisional) for FY2020 (11M). SBTC has an unexecuted order book position of about Rs.36.24 crores, which is expected to be executed by FY2021 resulting in moderate revenue visibility over the medium term.

Acuité believes that the firm will benefit from the experience of the management and established track record in the aforementioned industry.

Weaknesses

- **Average financial risk profile**

SBTC's financial risk profile is average marked by low net worth, high gearing and average debt protection metrics.

SBTC's net worth has remained low at around Rs.5.86 Crore as on March 31, 2019. The net worth levels have remained low due to modest scale of operations, which has resulted in limited accretion to reserves over the last three years through FY2019. Though, the revenue of the firm is expected to remain in the range of Rs.30.00 Crores to Rs.38.00 Crores over the medium term, the moderate operating

margins is likely to lead to limited accretion to reserves. Acuite expects the net worth to remain low in the range of Rs.6.00 Crore to Rs.8.00 Crore over the medium term.

The firm has followed an aggressive financial policy in the past, the same is reflected through its peak gearing levels of 9.11 times as on March 31, 2017. The leverage levels have improved to around 4.12 times as on March 31, 2019. The firm incurred capex of Rs.6.79 crore over the last three years to expand its scale of operation, while its incremental working capital requirement over the same period to support the increase in scale of operations has been around Rs.0.49 Crore. The firm on the other hand generated cash accruals in the range of Rs.4.83 crore over the same period. Lower accruals and accretion to reserves led to higher debt levels as on March 31, 2019. The gearing however is expected to deteriorate at around 3.97 times as on March 31, 2020.

The revenues of the firm increased by around 233.46 percent to Rs.48.32 crore during FY2019, while its operating margins remained moderate in the range 15 percent. The low profitability coupled with high gearing level has led to below average debt protection measures. The NCA/TD and interest coverage ratio for FY2019 were modest at 0.20 times and 2.76 times, respectively.

- **Modest Scale of operation due to tender based nature of operation**

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 company. However the risk is mitigated to an extent on account of established track record of operations and experienced management.

The operations of SBTC is considered to be at moderate level despite the firm being in the construction business for around two decade. The firm has achieved operating income of Rs.48.32 crore in FY2019 as compared to Rs.14.49 crore in FY2018. Further, the firm has registered an operating income of Rs.27.31 crore (provisional) for FY2020 (11M). The revenue of SBTC depends on the number of successful bids and the tenders being released in the financial year.

Rating Sensitivities

- Improvement in the scalability and profitability thereby improving the overall financial risk profile
- Stretch in working capital cycle leading to deterioration in liquidity

Material Covenants

None

Liquidity position: Adequate

The firm has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.4.83 crore in FY2019 as against maturing debt obligations of Rs.4.59 crore during the same period. The cash accruals of the company is estimated to remain around Rs.2.60 crore to Rs.3.95 crore during 2020-22 against repayment obligations of around Rs.2.85 crore during the same period. The company's working capital operations is efficient marked by the gross current asset (GCA) days of 97 days for FY2019. The firm maintains unencumbered cash and bank balances of Rs.0.22 crore as on 31 March 2019. The current ratio stands at 1.65 times as on 31 March 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate net cash accruals to its debt repayments over the medium term.

Outlook: Stable

Acuité believes that SBTC will maintain a stable outlook over the medium term backed by its experienced management and established track record in the aforementioned industry. The outlook may be revised to "Positive", if the firm demonstrates substantial and sustained growth in its revenues and operating margins from the current levels while maintaining its capital structure. 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, particularly its liquidity.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	48.32	14.49
PAT	Rs. Cr.	1.86	0.53
PAT Margin	(%)	3.85	3.65
Total Debt/Tangible Net Worth	Times	4.12	4.69
PBDIT/Interest	Times	2.76	2.37

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-52.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-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)

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
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B+/ Stable
Proposed Fund Based Facility	Not Applicable	Not Applicable	Not Applicable	42.10	ACUITE B+/ Stable
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.90	ACUITE A4

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About Acuité Ratings & Research:

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