

Press Release

Swastik Constructions

December 14, 2020

Rating Assigned



Total Bank Facilities Rated*	Rs.10.00 Cr.
Long Term Rating	ACUITE BB+/ Outlook: Stable (Assigned)
Short term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.10.00 crore bank facilities of Swastik Constructions (SC). The outlook is '**Stable**'.

Maharashtra based, Swastik Constructions (SC) was established as a partnership firm in 2004. The firm is specialized in water management infrastructure development. SC is engaged in development in various areas such as process designing, installation, civil constructions, commissioning and operation & maintenance services like Water Supply Schemes, Lift Irrigation Schemes, wastewater treatment and distribution.

The firm is currently executing projects in Maharashtra and Karnataka. The major clients include Karnataka Irrigation Development Corporation (KIDC), Nagpur Municipal Corporation (NMC), City and Industrial Development Corporation of Maharashtra (CIDCO), Public Works Department of Maharashtra and Karnataka, to name a few.

Analytical Approach

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

Key Rating Drivers

Strengths

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

SC was established in 2004. The current partners of the firm are Mr. Hemant Shah, Mrs. Anita Shah and Mr. Parth Shah. Mr. Hemant Shah has a total experience of more than two and a half decades in the water treatment industry. The experience of the partners has helped the firm to get stable orders. On the back of the stable orders in hand, the revenues have seen a compound annual growth rate (CAGR) of about 99.29 per cent over the past three years through FY2020 at Rs.66.30 crore (Provisional) in FY2020. SC has an unexecuted order book position of about Rs.260.90 crore as on 01 July 2020 which shows adequate revenue visibility.

Acuite believes that the firm will continue to benefit through the promoters' industry experience and established track record of operations.

- **Moderate financial risk profile**

The firm has moderate financial risk profile marked by modest net worth, low gearing and strong debt protection metrics. The net worth stood at Rs.17.43 crore (Prov) as on 31 March, 2020 as against Rs.17.09 crore on 31 March, 2019 on account of modest accretion to partners' capital.

The firm has followed a conservative financial policy in the past; the same is reflected through its gearing levels of 0.07 times as on March 31, 2019. The gearing remained stable at 0.02 times (Prov) as on March 31, 2020. Total outside liabilities to tangible net worth (TOL/TNW) stood at 0.98 times (Prov) as on 31 March 2020 as against 0.63 times as on 31 March 2019.

The firm, on the other hand, generated cash accruals of Rs.6.48 crore (Prov) in FY2020 as against Rs.2.25 crore in FY2019. The profitability levels, coupled with debt levels, have led to healthy debt protection measures. The NCA/TD ratio improved to 19.40 times (Prov) in FY2020 as compared to 1.91 times in FY2019.

Acuite believes that the financial risk profile of the firm is likely to remain moderate over the medium term, on account of low gearing and strong debt protection metrics.

Weaknesses

• Intensive working capital management

The firm's working capital management is intensive marked by its gross current asset (GCA) days of around 140 days (Prov) in FY2020 as against 241 days in FY2019. This is primarily on account of the large amount of funds that have to be maintained as security deposits and retention money with the Principal. The firm has maintained an inventory holding period of 21 days (Prov) as on 31 March, 2020 as against 3 days as on 31 March, 2019. The debtor days remained around 11 (Prov) in FY2020 as against 39 days in FY2019. Acuite expects the working capital management of the firm to remain intensive over the medium term.

• Competitive and fragmented industry

The firm is engaged in bidding for tenders. The particular sector is marked by the presence of several mid to big size players. The firm faces intense competition from the other players in the sector. Risk becomes more pronounced as tendering is based on a minimum amount of bidding of contracts. The firm acquires tenders on competitive prices; this may affect the profitability. There are uncertainties attached with the allotment of tenders. It poses a risk related to fluctuations in the business of the group.

However, this risk is mitigated to an extent as management has been operating in this environment for more than two decades and there is relatively lesser regional competition.

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.6.48 crore (Prov) for FY2020, with debt repayment obligations of Rs.0.10 crore (Prov) for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.7.35 crore to Rs.9.19 crore during FY2021-23 against debt repayment obligations of Rs.0.24 crore in the same period. The firm's working capital operations are intensive, marked by GCA of 140 days (Prov) for FY2020. The average bank limit utilization over the past seven months ended July 2020 remained low at around ~30.41 percent. The current ratio stood at 1.60 times (Prov) as on 31 March, 2020. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy cash accruals against its debt repayments over the medium term.

Rating Sensitivities

- Scaling up of operations
- Stretch in working capital cycle leading to increased reliance on working capital borrowings

Outlook: Stable

Acuite believes that SDPL will maintain a 'Stable' outlook over the medium term, owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' in case the company registers healthy growth in its revenue while sustaining the profitability and improvement in the capital structure. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in its revenues or volatility in its profitability or any significant stretch in its working capital management leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	66.30	29.82
PAT	Rs. Cr.	5.78	1.77
PAT Margin	(%)	8.72	5.92
Total Debt/Tangible Net Worth	Times	0.02	0.07
PBDIT/Interest	Times	163.04	33.63

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>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.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
Overdraft	Not Applicable	Not Applicable	Not Applicable	2.00*	ACUITE BB+/ Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE A4+ (Assigned)
Proposed Facilities	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4+ (Assigned)

*Includes sub-limit of Rs.2.00 crore as Letter of Credit (100% interchangeability)

Contacts

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About Acuité Ratings & Research:

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