



**Press Release**  
**SWASTIK CONSTRUCTIONS**  
**June 02, 2023**  
**Rating Reaffirmed**

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	1.00	ACUITE BBB-   Stable   Reaffirmed	-
Bank Loan Ratings	9.00	-	ACUITE A3   Reaffirmed
<b>Total Outstanding Quantum (Rs. Cr)</b>	10.00	-	-

**Rating Rationale**

Acuite has reaffirmed the long-term rating of '**Acuite BBB-**' (read as '**Acuite triple B minus**') and the short-term rating of '**Acuite A3**' (read as '**Acuite A three**') on the Rs. 10.00 Cr. bank facilities of Swastik Constructions (SC). The outlook is '**Stable**'.

**Rationale for rating reaffirmation**

The rating reaffirmation takes into account the estimated increase in SC's revenue in FY2023 and a healthy financial risk profile. The rating also draws comfort from the firm's experienced management and established track record of operations. The rating is, however, constrained by the firm's modest net worth, decline in profitability margins, moderately working capital-intensive operations, and presence in a highly competitive and fragmented industry. Going forward, SC's ability to maintain its scale of operations while improving its profitability margins and to improve and maintain an efficient working capital cycle will remain a key rating sensitivity factor.

**About the Company**

SC, established in 2004, is a Maharashtra-based partnership firm specialising in water management infrastructure development. The firm is engaged in development in various areas such as process design, installation, civil construction, commissioning, and operation and maintenance services like water supply schemes, lift irrigation schemes, wastewater treatment, and distribution. The firm is currently executing projects in Maharashtra, Karnataka, and Uttarakhand. The major clients include Karnataka Irrigation Development Corporation (KIDC), Nagpur Municipal Corporation (NMC), City and Industrial Development Corporation of Maharashtra (CIDCO), and the Public Works Department (PWD) of Maharashtra, Karnataka, and Uttarakhand, 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 has an operational track record of nearly two decades. The firm is promoted by Mr. Hemant Shah, who has extensive experience spanning over two decades in the water and irrigation contracting segment. He is supported by his wife, Mrs. Anita Shah, and his son, Mr.

Parth Shah, as partners in SC. The partners are supported by a team of experienced professionals in managing the day-to-day operations of SC. The extensive experience of the management has helped SC maintain a stable order flow from KIDC, NMC, CIDCO, and PWD of Maharashtra and Karnataka, to name a few. The firm works primarily on government contracts.

Acuité believes that SC will continue to benefit from its experienced management and established track record of operations.

### **Healthy financial risk profile, albeit modest net worth**

The financial risk profile of SC is healthy, marked by low gearing and healthy debt protection metrics. The tangible net worth of the firm, however, declined to Rs. 16 crore as of March 31, 2022, as against Rs. 22 crore as of March 31, 2021, due to capital withdrawals made by the partners worth Rs. 6 crore towards the purchase of immovable properties, which are further offered as collateral security to the lenders against the enhanced working capital limits. The gearing (debt-equity) stood lower, albeit increased to 0.51 times as of March 31, 2022, as against 0.01 times as of March 31, 2021. The increase in gearing is due to an increase in the overall debt availed by the firm from the banks in the form of enhanced working capital limits as well as an increase in the unsecured loans from directors. Apart from this, the firm has availed additional term loans in FY2023 worth Rs. 6.81 crore towards the purchase of equipment and the execution of new orders received during the year. The gearing is, however, expected to remain low over the medium term despite the increase in the overall debt profile. The total debt of Rs. 8.24 crore as of March 31, 2022, consists of long-term bank borrowings of Rs. 0.20 crore, short-term bank borrowings of Rs. 7.66 crore, and unsecured loans from directors of Rs. 0.38 crore. The total debt is estimated to stand at Rs. 8.75 crore as of March 31, 2023.

The interest coverage ratio and DSCR stood at 11.71 times and 10.65 times for FY2022, respectively, as compared to 9.39 times and 8.73 times for FY2021. The ratio of net cash accruals to total debt stood lower at 1.04 times for FY2022 as against 28.48 times for FY2021. The total outside liabilities to tangibles stood high at 3.09 times for FY2022 as against 1.05 times for FY2021. The debt-to-EBITDA ratio stood at 0.88 times for FY2022 as against 0.03 times for FY2021.

Acuité believes that SC's financial risk profile will remain healthy over the medium term due to its stable operating performance, low debt levels relative to its moderate tangible net worth, and healthy debt protection metrics.

### **Increase in revenue, albeit moderation in profitability, and a healthy order book position**

SC reported an increase in its revenues of Rs. 173 crore for FY2023 (estimated) against Rs. 100 crore in FY2022 and Rs. 106 crore in FY2021. This is primarily on account of receiving new orders worth Rs. 690 crore, especially during Q2 and Q3 of FY2023, which has led to a healthy unexecuted order book position of Rs. 664 crore available with the firm as of March 31, 2023. The marginal de-growth, however, in the revenue of FY2022 is due to the pending realisation of certain billed amounts at the end of the year.

Despite the increase in overall revenue, the operating margin of the firm stood lower at 7.84 percent in FY2023 (estimate) against 8.98 percent in FY2022 and 8.84 percent in FY2021 on account of the increase in construction costs and other administrative expenses during the year. The operating profitability of the firm is generally range-bound between 8 and 9 percent every year. On the other hand, the net profit margin of the firm stood lower at 5.93 percent in FY2023 (estimate) against 7.56 percent in FY2022 and 7.75 percent in FY2021 on account of an increase in the interest cost and depreciation during the year caused by an increase in the amount of term loans availed from the banks towards the purchase of new equipment.

Further, the unexecuted order book of Rs. 664 crore available with the firm as of March 31, 2023, is expected to be executed over the next two to three years, which provides

adequate revenue visibility over the medium term.

Acuité believes that SC's ability to maintain its scale of operations in view of its healthy order book while improving its profitability margins will remain a key rating sensitivity factor.

## **Weaknesses**

### **Moderately working capital intensive operations**

The operations of SC are moderately working capital intensive, as marked by its Gross Current Assets (GCA) days of 189 days for FY2022, which stood moderately high as against 109 days for FY2021. This is primarily on account of its elongated receivable cycle, which stood at 96 days in FY2022 as against 23 days in FY2021. In general, the firm's significant billing takes place during the last quarter of the year, especially in March, and at times there are delays in receipt of payment from the various government departments due to which the receivables look stretched. However, such bills are generally realised by the month of April. Apart from this, the firm's credit cycle also stood elongated at 247 days in FY2022 as against 43 days in FY2021 due to the subsequent increase in the firm's requirement to purchase raw materials from its suppliers towards execution of the various orders in hand. The average bank limit utilisation for the 6-month period ended March 2023, however, stood lower at 49 percent.

Acuité believes that the ability of SC to improve and maintain an efficient working capital cycle over the medium term will remain a key rating sensitivity factor.

### **Competitive and fragmented industry and capital withdrawal risk inherent in the partnership nature of the constitution**

SC is engaged in bidding for tenders in the water and irrigation contracts segment, marked by the presence of several mid- to large-sized players; hence, 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 for contracts. The firm acquires tenders at competitive prices, which may affect its profitability. There are uncertainties attached to the allotment of tenders. However, the risk is mitigated to an extent as the management has been operating in this environment for more than two decades and there is relatively less regional competition. SC is further susceptible to the inherent risk of capital withdrawal considering the partnership constitution of the firm.

## **Rating Sensitivities**

- Ability to maintain scale of operations while improving profitability margins
- Ability to improve and maintain an efficient working capital cycle

## **Material covenants**

None

### **Liquidity position - Adequate**

SC has an adequate liquidity position, marked by sufficient net cash accruals (NCA) to its maturing debt obligations. The firm generated cash accruals in the range of Rs. 5 crore to Rs. 9 crore during FY2020 to FY2022 against its repayment obligation of around Rs. 0.08 crore during the same period. Going forward, the NCA is expected to be in the range of Rs. 12 crore to Rs. 16 crore for the period FY 2023–FY 2025, against its repayment obligation of Rs. 2 crore to Rs. 3 crore during the same period. The working capital operations of the firm are moderately intensive, as marked by its gross current asset (GCA) days of 189 for FY2022. The average bank limit utilisation for the six-month period ended March 2023 stood at 49 percent. The current ratio stands at 1.11 times as of March 31, 2022. The firm has maintained a cash and bank balance of Rs. 0.09 crore in FY2022.

Acuité believes that the liquidity of SC is likely to remain adequate over the medium term on account of sufficient cash accruals against its maturing debt obligations.

## **Outlook: Stable**

Acuité believes that SC will maintain 'Stable' outlook over the medium term on account of its experienced management and established track record of operations. The outlook may be revised to 'Positive' in case of significant and sustained growth in revenue and profitability while effectively managing its working capital cycle and keeping the debt levels moderate. Conversely, the outlook may be revised to 'Negative' in case of lower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

**Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	100.72	106.23
PAT	Rs. Cr.	7.61	8.23
PAT Margin	(%)	7.56	7.75
Total Debt/Tangible Net Worth	Times	0.51	0.01
PBDIT/Interest	Times	11.71	9.39

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

Not applicable

### Any other information

None

### Applicable Criteria

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

### Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
07 Mar 2022	Bank Guarantee	Short Term	9.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Secured Overdraft	Long Term	1.00	ACUITE BBB-   Stable (Upgraded from ACUITE BB+   Stable)
14 Dec 2020	Bank Guarantee	Short Term	7.00	ACUITE A4+ (Assigned)
	Proposed Bank Facility	Short Term	1.00	ACUITE A4+ (Assigned)
	Secured Overdraft	Long Term	2.00	ACUITE BB+   Stable (Assigned)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	9.00	ACUITE A3   Reaffirmed
HDFC Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE BBB-   Stable   Reaffirmed

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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