



Press Release
SWASTIK CONSTRUCTIONS
September 18, 2023
Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	9.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	1.00	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	21.00	-	ACUITE A3 Assigned
Bank Loan Ratings	9.00	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	40.00	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of '**Acuite BBB-**' (read as '**Acuite t riple 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).

Acuite has assigned the long-term rating to '**Acuite BBB-**' (read as '**Acuite t riple B minus**') and the short-term rating to '**Acuite A3**' (read as '**Acuite A three**') on the Rs. 30.00 Cr. bank facilities of Swastik Constructions (SC).

The outlook is '**Stable**'.

Rationale for rating

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, established track record of operations and stable profitability margins. The rating is, however, constrained by the firm's modest net worth, moderately working capital-intensive operations, 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

Swastik Constructions (SC) was established as a partnership firm in 2004 is Maharashtra based firm. The firm is specialized in water management infrastructure development. SE 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. Thus, the company is specialized in providing end to end solutions for handling of water i.e., lifting the water from the source like dam etc., laying the pipelines for the same and erecting distribution systems.

The firm is currently executing projects in Maharashtra and Karnataka. Some of the major clients are Karnataka Irrigation Development Corporation (KIDC), Nagpur Municipal Corporation (NMC), City and Industrial Development Corporation of Maharashtra (CIDCO),

Public Works Department of Maharashtra, Karnataka.
Partners of Swastik Constructions are Mr. Hemant Shah, Ms. Anita Shah and Mr. Parth Shah.

Analytical Approach

Acuité 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

Financial risk profile of SC is healthy marked by low gearing and healthy debt protection metrics. The tangible net worth of the firm stood at Rs.26.82 Cr as on March 31, 2023 as against Rs.16 Cr as on 31 March, 2022 and Rs.22 Cr as on 31 March, 2021 due to capital withdrawal made by the partners worth Rs.6 Cr in FY22 towards purchasing 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 at 0.36 times as on March 31, 2023 as against 0.51 times as on 31 March, 2022 and 0.01 times as on 31 March, 2021. The increase in gearing in FY2022 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 increase in the unsecured loans from directors. Apart from this, the firm has availed additional term loans in FY2023 worth Rs.7.00 Cr towards purchasing of various equipments considering the timely execution of new orders received during the year. The gearing is however expected to remain low over the medium-term despite of marginal increase in the overall debt profile. The total debt of Rs.9.72 Cr as on 31 March, 2023 consists of long term bank borrowings of Rs.7.00 Cr, short term bank borrowings of Rs.1.38 Cr and unsecured loans from directors of Rs.1.34 Cr.

The interest coverage ratio stood at 13.78 times in FY2023 as against 11.71 times for FY2022 and 9.39 times for FY2021. The Net Cash Accruals to Total debt stood lower at 1.44 times for FY2023 as against 1.04 times for FY2022 and 28.48 times for FY2021. The Total outside liabilities to Tangible stood at 1.92 times for FY2023 as against 3.09 times for FY2022 and 1.05 times for FY2021. The Debt-EBITDA ratio stood at 0.64 times for FY2023 as against 0.88 times for FY2022 and 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. 174 crore for FY2023 against Rs. 100 crore in FY2022. This is primarily on account of receiving new orders worth Rs. 717 crore, especially during FY2022-23, which has led to a healthy unexecuted order book position of Rs. 630 crore available with the firm as of July 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.

The operating margin of the firm stood at 8.59 percent in FY2023 as against 8.98 percent in FY2022 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 at 6.87 percent in FY2023 as against 7.56 percent in FY2022 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. 630 crore available with the firm as of July 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 working capital operations of SC are moderately intensive marked by its Gross Current Assets (GCA) days of 114 days for FY2023 as against 189 days for FY2022. The high GCA days in FY2022 was on account of elongated receivable cycle which stood at 96 days in FY2022 and 23 days in FY2021. In general, the firm's major sales realisation takes place during the last quarter of the year, especially in March and at times due to delays from the various government department that the firm works for, in making the respective payments against the bills raised towards the specific work orders, the receivables therefore looks stretched. However, such bills are then realised by the month of April. Apart from this, the firm's creditors cycle also stood at 78 days in FY2023 as against 247 days in FY2022 and 43 days in FY2021 due to subsequent increase in the firm's requirement of purchasing the raw materials from its suppliers towards execution of the various orders in hand in FY2022. The average bank limit utilization for 7 months' period ended July 2023 however stood lower at ~42 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

All Covenants

Not Available

Liquidity Position

Adequate

SC has 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.9 Cr to Rs.14 Cr during FY2021 to FY2023 against its repayment obligation of around Rs.0.08 Cr-Rs.2.64 Cr during the same period. Going forward the NCA are expected in the range of Rs.15 Cr to Rs.17 Cr for period FY2024-FY2025 against its repayment obligation in the range of Rs.1.66 Cr-Rs.2.70 Cr during the same period. The working capital operations of the firm is moderately intensive marked by its gross current asset (GCA) days of 47 days for FY2023 as against 189 days for FY2022. The average bank limit utilization for 7 months' period ended July 2023 stood at ~42 percent. Current ratio stands at 1.29 times as on 31 March 2023. The firm has maintained cash & bank balance of Rs.0.16 Cr in FY2023.

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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	174.40	100.72
PAT	Rs. Cr.	11.97	7.61
PAT Margin	(%)	6.87	7.56
Total Debt/Tangible Net Worth	Times	0.36	0.51
PBDIT/Interest	Times	13.78	11.71

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>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.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.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
02 Jun 2023	Secured Overdraft	Long Term	1.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	9.00	ACUITE A3 (Reaffirmed)
07 Mar 2022	Secured Overdraft	Long Term	1.00	ACUITE BBB- Stable (Upgraded from ACUITE BB+ Stable)
	Bank Guarantee	Short Term	9.00	ACUITE A3 (Upgraded from ACUITE A4+)
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 (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	11.00	ACUITE A3 Assigned
Yes Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3 Assigned
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
HDFC Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE BBB- Stable Assigned
Yes Bank Ltd	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB- Stable Assigned

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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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