

Press Release

JMC Constructions Private Limited

August 26, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 172.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B 'minus'**) and short term rating of '**ACUITE A3**' (read as **ACUITE A 'three'**) to the Rs.172.00 crore bank facilities of JMC Constructions Private Limited (JMC). The outlook is '**Stable**'.

The rating takes into account JMC's moderate business risk profile marked by experienced promoters, healthy order book position, and continuous growth in the scale of operations. The rating also factors the above-average financial risk profile marked by a moderate network, low gearing and improving debt protection metrics. These strengths are, however, partially constrained by the working capital operations marked by moderate GCA days, moderate geographical concentration and competitive and inherent risk of susceptibility to tender based operations.

About the Company

Established in 1977 and based in Chittoor (Andhra Pradesh), JMC Constructions Private Limited (JMC) was initially set up as proprietorship firm by Mr. Aranii Srenevasulu. In 1999, the proprietorship firm was reconstituted as partnership firm - 'M/s A Srenevasulu & Co' by Mr. A Srenevasulu and other family members. In June 2008, the firm changed its constitution to private limited company and currently is promoted by Mr. A Srenevasulu, Mr. A Jayaramulu, Mr. K Chandrasekhar and other family members. JMC, a family-owned business, undertakes civil construction activities primarily of Roads and Highways. JMC is a 'Special Class' contractor registered with Government of Andhra Pradesh, Telangana, Karnataka, Bihar and undertakes work for Public Works Department, Roads & Buildings Department, State and National Highway development authorities.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Promoters' extensive experience in civil construction industry; established track record of operations in Southern region; healthy order book providing long term revenue visibility**

JMC, a special class civil contractor, has established presence in executing projects related to primarily roads and highways amongst others for both public and private sector. Mr. Aranii Srenevasulu, the managing director of JMC, has more than 4 decades of experience in the line of civil construction. With the promoters' extensive industry experience and timely execution of its past projects, JMC has been able to establish long-standing relationship with various government divisions such as Roads & Building divisions (Anantapur), Roads & Building divisions (Chittoor), Bruhat Bengaluru Mahanagara Palike (BBMP), National Highways Authority of India (NHAI) and many region-wise national highway authorities amongst others. As on March 31, 2021 (Prov), JMC has an unexecuted order book position of approx. Rs.1242.79 Cr; estimated to be executed over the next 24-36 months providing long-term revenue visibility. The outstanding order book is 4.02x of the FY2021 revenue of Rs.309.38 Cr (provisional). Acuite believes that the promoters' extensive industry experience, established relation with its principal contractors and healthy order book will aid JMC's business risk profile over the medium term.

- **Above-average financial risk profile**

JMC financial risk profile is above-average, marked by a moderate network, low gearing and improving debt protection metrics. The EBITDA margins of the company marginally deteriorated to 10.94 per cent in FY2021 (Prov) against 11.80 per cent in FY2020 on account of increase in raw material cost in accordance to

the phase of project work done during the period. However, the EBITDA margins for the company has remained stable within a range of 10.74-11.83 percent over the last 4 years through FY2021 (Prov). The PAT margins of the company marginally deteriorated to 4.70 per cent in FY2021 (Prov) against 4.93 per cent in FY2020 on account increase in depreciation and tax charged during the period. The moderate profitability levels vis-à-vis reduction in the finance cost has led to improvement in the debt protection metrics. The interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood at 4.62 times and 2.54 times, respectively in FY2021 (Prov) as against 3.04 and 1.47 times, respectively in the previous year.

The net worth of the company stood at Rs.101.35 Cr as on 31 March, 2021 (Prov) as against Rs.86.83 Cr as on 31 March, 2020. This improvement is on the account of moderate accretion to reserves in FY2021 (Prov). The gearing level (debt-equity) has improved and stood at 0.32 times as on 31 March, 2021 (Prov) as against 0.48 times as on 31 March, 2020; the improvement is on the account of repayment of long term borrowings and strengthening of net worth. TOL/TNW (Total outside liabilities/Total net worth) has improved and stands at 0.56 times as on 31 March, 2021 (Prov) against 1.06 times in previous year. Improvement in TOL/TNW is on account of decline in long term borrowings on account of timely repayment, reduction in trade payables and healthy networth of the company.

The total debt of Rs.32.75 Cr as on 31 March, 2021 (Prov) consist of long-term debt of Rs.2.13 Cr, Unsecured loans (USL) from directors/promoters of Rs.7.86 Cr, short-term debt of Rs.21.25 Cr and maturing portion of long term borrowings of Rs.1.51 Cr. NCA/TD (Net cash accruals to total debt) has improved to 0.59 times in FY2021 (Prov) as against 0.39 times in FY2020. Acuite expects the financial risk profile to remain above-average over the medium to long term on account of healthy capital structure and stable operations of the company.

• **Tender based nature of operations; central and state funded projects ensuring timely receivables**

JMC executes only tender-based projects funded by central government and state government bodies with low reliance on work received as a sub-contract from other civil construction entities. The funded projects either have budgetary support or are funded by a consortium of banks. Once the tender is allotted, Earnest Money Deposit (EMD) of around 2.0-10.0 per cent (varies on basis of department, nature, tenure and size of contract work) is deposited against the BG. As per the part of Atmanirbhar Bharat 3.0 package, there is relaxation of Earnest Money Deposit (EMD) and Performance Security on government tenders. JMC currently is depositing EMD of around 1.0-3.0 per cent for the R&B and Highway work. The company raises bills on monthly basis. JMC has the option of availing mobilization advance, but avails limited amount from the same. The mobilization advance received from the clients against BGs as of March 31, 2021 stands at Rs.4.15 Cr. The retention money is usually 5.0-7.5 per cent of the contract value which is to be released after a defect liability period of 2-3 years. Out of the 7.5 per cent of the retention money, 5 per cent is released upon completion of the project and rest amount of nearly 2.5 per cent is held by the authorities. Since, the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. JMC has success rate of 40 per cent in bidding. In FY2021, JMC has billed for Rs.309.31 Cr of work done and demonstrated its ability to collect payment of 95 per cent of its work done amounting to Rs.292.83 Cr from the respective authorities. Acuite expects the operations of the company to remain efficient on account of timely collection of work billed on monthly basis to its respective authorities.

• **Recalibration in management's strategies leading to diversity in geographical presence and customer base**

JMC in Q1 of FY2022 has successfully bid and won 4 civil construction contracts from Bruhat Bengaluru Mahanagara Palike (BBMP) for road works in Bengaluru city (Karnataka), cumulating to Rs.353.73 Cr. The work is expected to be completed within 36 months from receiving the Letter of approval (LOA). The company has also received a work order from Karnataka Road Development Corporation Limited (KRDCL) for road works in Bengaluru city of Rs.231.82 Cr. Besides Karnataka state, JMC has received a work order from the R&B division of Ongole (Prakasam, A.P) of amount Rs. 186.86 Cr. The current Board of Directors consists of 2nd generation of the family. The focus of the management is to win high value work orders. Mr. A Mohan Narasimhulu supervises Karnataka state operations, Mr. A Madan Mohan supervises Andhra Pradesh state operations and Mr. A Jagan Mohan supervises Telangana state operations. The business territory is distributed for better coverage and improved focus on operations of a particular state. JMC, over the past had been executing projects for R&B divisions, Panchayat Raj division, State and National highway division and for NHAI. In FY2021, JMC has done work for 25 clients ensuring diversification in the customer profile. Notably, none of the single customer is contributing more than 20 per cent of the total revenue in FY2021 (Prov), thereby depicting lower customer concentration risk on its revenue profile. Acuite believes that JMC's business risk profile will improve on account of increase in scale of operations and diversified customer base.

Weaknesses

• Working capital operations marked by moderate GCA days

JMC's working capital cycle is marked by moderate gross current assets (GCA) days in the range of 128-190 days over the last 3 years ending March 31, 2021 (Prov). The GCA days are marked by moderate inventory days and debtor days. The GCA days include the other current asset portion in form of security deposits, retention money and EMD which manifests GCA days at slightly elevated levels. The inventory days and debtor days were at 64 days and 37 days, respectively, as on March 31, 2021 (Provisional). These are partially offset by moderate creditor days at 37 days as on March 31, 2021 (provisional). It pays the RM creditors within 30-45 days; however, major portion pertain to expenses payable to sub-contractors leading to high creditors days in past financial years. The moderate GCA cycle coupled with high requirement of working capital from increasing scale of operations has led to average utilization of 89.7 per cent of bank lines of Rs.21.00 Cr over the past 12 months ending June, 2021. Acuite believes that the operations of the JMC will remain moderately working capital intensive on account of continuous submission of security deposits and retention money.

• Presence of moderate geographical concentration risk in the revenue profile

JMC, over the past, had been executing projects majorly for R&B divisions, NHAI, State and Highway development authorities of Andhra Pradesh, Telangana and Karnataka and Bihar. To observe, the contribution from a single state (i.e. A.P/Karnataka) is more than 20 per cent in a given financial year, thereby, leading to moderate geographical concentration risk. In FY2021, the revenue contribution from A.P. State stood at 48 per cent and for Karnataka state it was recorded at 35 per cent. Out of total unexecuted order book of Rs.1242.79 Cr as of March 31 2021, A.P and Karnataka state has major concentration on the revenue profile with contribution of 25 per cent and 73 per cent, respectively. Acuite believes that JMC's revenue profile is subjected to moderate geographical concentration risk which is expected to remain over the medium term too. This risk is mitigated to an extent as JMC undertakes orders which are funded by budget allocation to state/central government or consortium of bankers. This ensures consistency in revenues and receivables along with better operating margins.

• Presence of huge orders under L1 (lowest tenderer) status

JMC has an unexecuted order book position of approx. Rs.1242.79 Cr as on March 31, 2021 (Prov). Out of the 30 unexecuted orders until July, 2021, 6 orders are classified as L1 (lowest tenderer) status and letter of approval (LOA) of the same is to be received from the respective authority. The unexecuted order value under L1 status contract stands at Rs.586.61 Cr leading to the value of adjusted order book without L1 status at Rs.656.18 Cr i.e. 2.12x of FY2021 (Prov) revenue. However, the orders were bid during the Q1 of FY2022 and on account of the 2nd wave of Covid-19 pandemic and seasonal monsoon season, receiving the LOA from the authority has been delayed to an extent. Management of the company is expecting to receive the LOA by August, 2021. Acuite believes that JMC's revenue profile is subjected to timeliness of receiving the LOA from the respective authorities and JMC's ability in commencing and completing the civil construction work in the stipulated timelines.

• Susceptibility to tender-based operations

Revenue and profitability depend entirely on the ability to win tenders. Entities in this segment face intense competition, thus requiring them to bid aggressively to procure contracts; this restricts the operating margin to a moderate level. Also, given the cyclical nature inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical. Acuite believes that the company's business profile and financial profile can be adversely impacted on account of presence of stiff competition, and has inherent risk of susceptibility to tender based operations.

Liquidity Position: Adequate

JMC's liquidity is adequate marked by moderate generation of net cash accruals in FY2021 to its maturing debt obligations and moderate level of unencumbered cash and bank balance. The company has generated cash accruals in the range of Rs.14.48-19.37 Cr during last three years ending FY2021(Prov) as against its long term debt obligations of Rs.3.19-13.44 Cr for the same period. The company's working capital is moderate as evident from Gross Current Asset (GCA) of 128 days as on March, 2021 (Prov) as compared to 190 days as on March, 2020. Improvement in GCA days are driven by marginal improvement in the debtors' days and inventory of 37 days and 64 days as of FY2021 (Prov) against 43 days and 71 days in FY2020, respectively. The current ratio stood at 2.98 times as on 31 March 31 2021(Prov) against 2.31 in previous year and the fund based limit remains utilized at 89.7 per cent over the 12 months ended June, 2021. JMC's non-fund based working capital limits utilization has been around 70.8 per cent over the last 12-months period ending June, 2021. The company maintained unencumbered cash and bank balances of Rs.3.12 Cr as on 31 March 31 2021(Prov) against Rs.11.42 Cr in previous year. The company has margin money deposited with the bank of amount Rs.12.46 Cr as on March 31,2021 (Prov). JMC's liquidity position is expected to improve with enhancement of working capital limits from the respective banking institutions over the period of the

medium term. Acuite believes that the liquidity of the company is likely to improve over the medium term on account of healthy order book and increasing scale of operations. However, timely collection of payment, enhancement of banking facilities to cater the working capital requirements from the increasing order book and dependence on working capital bank lines will be key monitorables over the medium term for the assessment of liquidity position of the company. The company is expected to generate NCA in range of Rs.22.62-29.48 Cr against modest maturing debt obligations in range of Rs.0.63-1.51 Cr over the medium term.

Rating Sensitivities

Positive

- Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term.
- Sustainable improvement in Profitability, Leverage and Solvency position of the company.

Negative

- Any deterioration in working capital cycle and liquidity profile of the company.
- Any deterioration in Revenue profile and leverage position of the company.
- Any weakening of financial risk profile of the company.

Outlook: Stable

Acuite believes that JMC will continue to benefit over the medium to long term on account of long track record of operations, experienced management in the industry and healthy unexecuted order book. The outlook may be revised to 'Positive', in case of in case of timely execution of its unexecuted order book leading to higher-than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case JMC registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	309.38	253.63
PAT	Rs. Cr.	14.53	12.50
PAT Margin	(%)	4.70	4.93
Total Debt/Tangible Net Worth	Times	0.32	0.48
PBDIT/Interest	Times	4.62	3.04

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

None

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Entities In Services Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.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**

Lender's Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Union Bank of India	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Stable (Assigned)
Bank of Baroda	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB-/Stable (Assigned)
Not Applicable	Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB-/Stable (Assigned)
Union Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	110.00	ACUITE A3 (Assigned)
Bank of Baroda	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A3 (Assigned)
Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 (Assigned)

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