

Press Release

JMC Constructions Private Limited

November 09, 2022



Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	146.00	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	26.00	ACUITE BBB- Negative Reaffirmed Stable to Negative	-
Total Outstanding Quantum (Rs. Cr)	172.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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 has been revised from 'Stable' to '**Negative**'.

Rationale for the rating and revision in outlook

The revision in rating outlook takes into account the deterioration in its business risk profile marked by lower-than-expected scale and profitability; higher debtor days on account of lower realisation in Q4FY22 and relatively slower movement expected in the order book over the medium term.

The rating reaffirmation takes into account its experienced promoters, its moderate business risk profile and healthy order book position. The rating also factors the above average financial risk profile marked by a moderate net worth, low gearing and improving debt protection metrics. These strengths are partially constrained by the working capital operations marked by moderate GCA days, susceptibility to tender-based operations and moderate geographical concentration.

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

Acuité 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. 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 Press Release JMC CONSTRUCTIONS PRIVATE LIMITED Rating Reaffirmed experience and timely execution of its past projects, JMC has been able to establish longstanding 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, 2022 (Prov.), JMC has an unexecuted order book position of approx. Rs. 1,202.18 Cr (includes L1 orders worth Rs.524.19 Cr; estimated to be executed over the next 24-36 months providing long-term revenue visibility. The outstanding order book is 7.33x of the FY2022 revenue of Rs.163.80 Cr (provisional). Acuité 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**

The financial risk profile of the company has remained moderate with moderate capital structure and debt protection metrics. The net worth of the company stood at Rs.103.66 Cr and Rs.100.25 Cr as on March 31, 2022(Prov.) and FY 2021, respectively. The gearing of the company has been improving over the last 3 years ending March 31,2022(Prov) due to decrease in long term debt and increase in net worth levels. It stood at 0.21 times as on March 31,2022(Prov.) against 0.30 times as on March 31, 2021. The long term debt has been repaid on timely basis ensuring comfortable leverage position of the company. The current Long term loan (Machinery loan) will be closed in the next financial year. The Debt/EBITDA has increased in the FY 2022 due to USL from directors of Rs.1.68 Cr. The Debt/EBITDA stands at 1.29 times and 1.00 times in the FY 2022 and FY 2021 respectively. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 4.51 times and 1.93 times as on March 31, 2022 (Prov.) respectively as against 3.44 times and 2.16 times as on March 31, 2021 respectively. Increase in net worth and decrease in the debt in the latest Financial years. TOL/TNW stood at 0.42 times and 0.59 times as on March 31, 2022(Prov.) and FY2021 respectively. Acuité 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.

Weaknesses

- **Working capital intensive Operations**

The working capital management of the company remained high with GCA days at 257 days as on March 31, 2022(Prov.) as against 146 days as on March 31, 2021. The high GCA days are mainly on account higher debtor days and WIP inventories. Inventory days stood at 77 days as on 31st March,2022 (Prov) as against 58 days as on March 31, 2021. Subsequently, the debtor's period stood at 95 days as on March 31, 2022(Prov.) as

against 24 days as on March 31, 2021 respectively. The payable day stood at 81 days as on March 31, 2022(Prov.) as against 112 days as on March 31, 2021. Further, the average bank limit utilization in the last twelve months ended September 22 remained at 89.2 percent for fund based and 46 percent for non-fund based.

- **Presence of moderate geographical concentration risk in the revenue profile**

JMC has executed orders across the state of Andhra Pradesh, Telangana and Karnataka state and Bihar in the past 2 years. It can be observed that the contribution from a single state (i.e. AP) is more than 80 per cent in a given financial year, thereby, leading to significant geographical concentration risk. Acuité 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.

- **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 cyclicity inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical. Acuité 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.

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.
- Anyweakening of financial risk profile of the company.

Material covenants

None

Liquidity : Adequate

The company has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.6.73 Cr in FY2022(Prov.) as against the repayment of Rs.1.38 Cr for the same period and expected to generate cash accruals in the range of Rs.12-14 Cr. against debt obligation of Rs.1.25 Cr. over the first term. Unencumbered cash and bank balances stood at Rs.7.21 Cr as on March 31, 2022(Prov). The current ratio of the company stood at 3.74 times as on 31 March, 2022(Prov). Further, the liquidity is expected to improve with additional enhancement proposal in process. Acuité believes that JMC's liquidity will remain sufficient over the medium term backed by repayment of its debt obligations and improving accruals.

Outlook: Negative

Acuité has revised the outlook on JMC to 'Negative' on account of decline in profitability margins and high working capital intensity. The rating may be 'downgraded' if there is higher

than expected decline in its revenues or profitability or elongation in working capital cycle. The outlook may be revised to 'Stable' if the company is able to show significant improvement in profitability margins and in working capital supported by reduction in payables days.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	163.80	286.72
PAT	Rs. Cr.	3.40	13.42
PAT Margin	(%)	2.07	4.68
Total Debt/Tangible Net Worth	Times	0.21	0.30
PBDIT/Interest	Times	4.51	3.44

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
26 Aug 2021	Secured Overdraft	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Secured Overdraft	Long Term	6.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	16.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	110.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	20.00	ACUITE A3 (Assigned)
	Secured Overdraft	Long Term	5.00	ACUITE BBB- 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
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	110.00	ACUITE A3 Reaffirmed
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	7.25	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	28.75	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Union Bank of India	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Negative Reaffirmed Stable to Negative
Bank of Baroda	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE BBB- Negative Reaffirmed Stable to Negative

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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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