

Press Release

Shelke Constructions Private Limited (Erstwhile Shelke Construction)

October 05, 2021



Rating Reaffirmed

Total Bank Facilities Rated*	Rs.100.00 Cr. (Enhanced from Rs.53.00 Cr.)
Long Term Rating	ACUITE BBB-/Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating to '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and the short term rating to '**ACUITE A3**' (**read as ACUITE A three**) on the Rs.100.00 crore bank facilities of Shelke Construction Private Limited. The outlook is '**Stable**'.

The ratings continue to reflect the extensive experience of the promoters in the civil construction industry, healthy order book position, and moderate financial risk profile. The strengths are partially offset by the exposure to risks related to tender-based business, along with large working capital requirement.

About the rated entity

Pune based Shelke Constructions Private Limited (SCPL) was established as a proprietorship concern established in 1993 and has been reconstituted as a private limited company in 2021. The company is managed by Mr. Babanrao Shelke and Mr. Vishal Shelke. The company is engaged as a class 1 EPC contractor for state and central government undertaking projects for irrigation, canals, bridges, national highways and railways.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management**

Mr. Babanrao Shelke has an experience of over two decades in the construction business. He is well supported by his sons Mr. Nilesh Shelke, Mr. Vishal and Mr. Milind Shelke. With the promoter's extensive industry experience and timely execution of projects, the firm has been able to establish long-standing relationship with various government as well as private clients.

- Healthy order book position**

SCPL registered revenues of Rs.44 crore from April—August 2021 and has an unexecuted order book position of more than Rs.1000.00 crore as on August 31, 2021, which gives the revenue visibility over the medium term.

- Adequate financial risk profile**

The financial risk profile of the company remains adequate as reflected in modest net worth, adequate capital structure and comfortable debt protection metrics. The net worth of the company stood at Rs.52.00 crore as on March 31, 2021 (prov.). The total debt of Rs.44.82 crore as on March 31, 2021 (prov.) comprises of term loans of Rs.18.85 crore, unsecured loans of Rs.0.74 crore, and short term debt of Rs.25.23 crore. The gearing and TOL/TNW stood at 0.86 times and 1.18 times as on March 31, 2021 (prov.), as

against 1.16 times and 2.24 times as on March 31, 2020. Debt protection metrics of interest coverage ratio and net cash accruals to total debt (NCA/TD) comfortable at 4.39 times and 0.29 times, respectively, for FY2021 (prov.) as against 4.00 times and 0.30 times, respectively, in FY2020. The financial risk profile of the company is likely to remain at similar levels over the medium term

Weaknesses

- **Working capital intensive operations**

The company's operations remain working capital intensive as reflected in its GCA days of 223 days in FY2021 (prov.). The GCA days stood high on account of inventory and debtors that increased to 124 days and 65 days in FY2021 (prov.) from 95 days and 36 days in FY2020 respectively. The working capital limits were about 80% utilised for the past six months ended July 2021. Acuité believes that the working capital management will be crucial to the company in order to maintain a stable credit profile

- **Geographic and concentration risk**

The company majorly undertakes orders from govt. majorly in the Maharashtra region exposing the company to significant geographic concentration risk associated with its operations. Any change in awarding the contracts will have a significant negative impact on overall operations of the company.

- **Competitive and fragmented industry**

The company is engaged as civil contractor. The particular sector is marked by the presence of several mid to big size players. The company faces intense competition from the other players in this sector, which can impact its profitability and operations going forward. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent on account of extensive experience of the management.

Rating Sensitivities

- Improvement, sustainability and healthy growth of revenues and profitability margins.
- Deterioration in the working capital cycle leading to stress on the liquidity position

Material Covenants

None

Liquidity Position: Adequate

The company has adequate liquidity marked by net cash accruals against its maturing debt obligations. The cash accruals were in range of Rs.10.89-12.79 crore from FY2019-21 (prov.). Going ahead the cash accruals are likely to be in range of Rs.22.00-33.00 crore from FY22-24 against debt obligations of Rs.3-5 crore during the same span. The cash and bank balances of the company stood at Rs.4.17 crore as on March 31, 2021. The current ratio of the company stood moderate at 1.63 times in FY2021 (prov.) as against 1.23 times in FY2020. The bank limit utilization remains stands at about 80% on a consolidated basis over the past 6 months ended July 2021. Acuité believes that efficient working capital management with enhanced working capital facilities will keep the liquidity profile of SC's adequate over the medium term.

Outlook: Stable

Acuité believes that SCPL will maintain a stable outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or if the financial risk profile deteriorates due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	93.40	140.82
PAT	Rs. Cr.	9.15	10.09
PAT Margin	(%)	9.80	7.17
Total Debt/Tangible Net Worth	Times	0.86	1.16
PBDIT/Interest	Times	4.39	4.00

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

Not Applicable

Any other information

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)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
10-Jun-2020	Cash Credit	Long Term	16.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
	Cash Credit	Long Term	13.00	ACUITE BBB-/Stable (Upgraded from ACUITE BB+/Stable)
	Bank Guarantee	Short Term	12.00	ACUITE A3 (Upgraded from ACUITE A4+)
	Bank Guarantee	Short Term	12.00	ACUITE A3 (Upgraded from ACUITE A4+)
29-Oct-2019	Cash Credit	Long Term	16.00	ACUITE BB-/Stable (Downgraded & Indicative)
	Proposed Bank Facility	Long Term	9.00	ACUITE BB+ (Downgraded & Indicative)
	Bank Guarantee	Short Term	12.00	ACUITE A4+ (Downgraded & Indicative)
	Proposed Bank Facility	Short Term	23.00	ACUITE A4+ (Downgraded & Indicative)
21-Aug-2018	Cash Credit	Long Term	16.00	ACUITE BBB-/Stable (Assigned)
	Proposed Bank Facility	Long Term	9.00	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	12.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Short Term	23.00	ACUITE A3 (Assigned)

***Annexure – Details of instruments rated**

Lenders Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3 (Reaffirmed)
Karnataka Bank Limited	Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3 (Reaffirmed)
Catholic Syrian Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A3 (Reaffirmed)
Not applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB-/Stable (Reaffirmed)
Not applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A3 (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President - Corporate and Infrastructure Sector Tel: 022 49294041 aditya.gupta@acuite.in Pooja Sawant Senior Analyst – Rating Operations pooja.sawant@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022 49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

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