

Press Release

Shrikishan And Company Private Limited

December 31, 2021



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Ratings	20.00		ACUITE A3 Assigned
Bank Ratings	3.00	ACUITE BBB- Stable Assigned	
Total	23.00	-	-

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BBB-**' (read as ACUITE Triple B minus) the short term rating of '**ACUITE A3**' (read as ACUITE A three) to the Rs. 23.00 Cr bank facilities of Shrikishan and Company Private Limited (SCPL). The outlook is '**Stable**'.

The rating reflects the extensive experience of the promoters in the construction industry, moderate scale of operations, healthy order pipeline, above average financial risk profile and efficient working capital management. These strengths are partially offset by exposure to risks related to intense competition, industrial cyclical and geographical concentration.

About the Company

Shrikishan and Company Private Limited (SCPL), a Chhattisgarh based company was incorporated in March 2005 and managed by Mr. Sharad Goyal and Mr. Sushil Agarwal. SCPL is a 'Class A' contractor with the Government of Chhattisgarh, engaged in civil construction works like construction of buildings, roads etc. SCPL receives majority of the contracts from the Government of Chhattisgarh and various municipal corporations in state of Chhattisgarh.

Analytical Approach

Acuité has taken a standalone view of the business and financial risk profile of SCPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record in the construction sector**

Benefits from the promoters' experience of over two decades, their strong understanding of local market dynamics, and healthy relations with customers and suppliers should continue to support the business. This is reflected in healthy order book of Rs 151.73 Cr as on December 2021, which provides revenue visibility for next 1-1.5 years, thereby assuring steady revenue growth over the medium term. The day to day operations are carried by its directors, Mr. Sharad Goyal and Mr. Sushil Agarwal who has an experience of over two decades in Infrastructure industry. The extensive experience of management has helped company to get tenders on regular basis and participate in various joint ventures.

Acuité derives comfort from the long experience of the management and believes this will benefit the firm going forward, resulting in steady growth in the scale of operations.

- **Efficient working capital management**

The efficient working capital management of the company is marked by low Gross Current Assets (GCA) of 50 days in as on March 31, 2021 as compared to 43 days as on March 31, 2020, mainly led by low debtors, and significant security deposits, margin money and retentions kept by the tendering authorities, without much reliance on interest-bearing mobilization advance. The debtor period stood low at 3 days as on March 31, 2021 as compared to 27 days as on March 31, 2020. The receivables cycle has improved, with payments received in 1-7 days from billing, which supports the working capital management. Further, the inventory holding is low at 6 days as on March 31, 2021 as compared to 3 days as on March 31, 2020. The company focuses on easy mobilization of its resources, thereby improving the turnaround time and reducing the idleness of machinery and equipment. Acuité believes that the working capital operations of the firm will remain almost at the same levels as evident from efficient collection mechanism and low inventory levels over the medium term.

Nonetheless, the company has substantial dependence on its suppliers and creditors to support the working capital; creditors stood at 199 days as on March 31, 2021. Sustained improvement in creditors will remain a key monitorable.

- **Above average financial risk profile**

The company's above average financial risk profile is marked by moderate albeit improving networth, comfortable gearing and strong debt protection metrics. The tangible net worth of the company improved to Rs.20.79 Cr as on March 31, 2021 from Rs.12.83 Cr as on March 31, 2020 due to accretion to reserves. Gearing of the company stood below unity at 0.70 times as on March 31, 2021 as against 0.14 times as on March 31, 2020 due to low dependence on external debt. However, the company has availed unsecured loans of Rs.7.01 Cr as on March 31, 2021 to support its fund requirements as security deposits to participate in some high value tenders. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 2.77 times as on March 31, 2021. The strong debt protection metrics of the company is marked by Interest Coverage Ratio at 4.49 times as on March 31, 2021 and Debt Service Coverage Ratio at 3.87 times as on March 31, 2021. Net Cash Accruals/Total Debt (NCA/TD) stood low at 0.35 times as on March 31, 2021.

Acuité believes that going forward the financial risk profile of the firm will remain above average with no major debt funded capex plans.

Weaknesses

- **Segmental and geographic concentration, along with susceptibility to risks related to tender-based operations**

Although the company has a long-standing presence of about 16 years in the industry, its scale of operations remains moderate as reflected in its operating income at Rs 77.30 Cr for FY 2021. As almost all its sales are tender based, the revenue depends on the company's ability to bid successfully for tenders. SCPL specializes in civil works related to construction of roads and buildings mainly for Government of Chhattisgarh and various municipal corporations in state of Chhattisgarh. The company faces competition from large players, as well as many local and small unorganised players, adversely affecting the profitability. Also, SCPL is a regional player, with 100 per cent of the works executed in and around Chhattisgarh.

- **Competitive and fragmented nature of industry**

With increased focus of the central government on the infrastructure sector, SCPL is expected to reap benefits over the medium term. However, most of its projects are tender-based and face intense competition, which may hence require it to bid aggressively to get contracts. Competition can intensify further due to the recent relaxation in bidding norms by NHAI and the Ministry of Road Transport & Highways (MoRTH). Also, given the cyclical nature inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical.

Rating Sensitivities

- Significant growth in revenue and profitability margin
- Elongation of working capital cycle
- Reduction in order flow

Material covenants

None

Liquidity Position: Adequate

The liquidity position of the company is adequate, supported by sufficient cash accrual, unutilized bank limits and cash in hand. The Net cash accruals stood at Rs. 5.02 Cr as on March 31, 2021 as against no debt repayment over the same period. The large portion of its security deposits are being met through deposit from subcontractor (in proportionate to given work) which lower requirement of funds in business. As a result, fund-based limit of Rs 5 crore was utilized at 12% during the 9 months through March 2021. The deposits from subcontractors stood at Rs 25.06 Cr which partly funds the working capital requirements of the company. The cash and bank balances of the company stood at Rs.4.59 Cr as on March 31, 2021, of this Rs. 4.27 Cr is retained as current account balance and remaining as unencumbered cash. The current ratio stood comfortable at 2.15 times as on March 31, 2021. Further, the company has neither applied for additional covid loan nor availed loan moratorium. The company has efficient working capital management as reflected by low Gross Current Assets (GCA) of 50 days as on March 31, 2021 as against 43 days as on March 31, 2020. Acuité believes that going forward the company will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes SCPL will benefit over the medium term from its promoters' extensive industry experience. The outlook may be revised to 'Positive' if scale of operations, profitability, and working capital cycle improve significantly, and if the company widens geographical presence. Conversely, the outlook may be revised to 'Negative' if financial risk profile weakens because of significantly low cash accrual, or sizeable working capital requirement, or debt-funded capital expenditure.

Key Financials

Particulars	Unit	FY 21 (Actual)	FY 20 (Actual)
Operating Income	Rs. Cr.	77.30	61.82
PAT	Rs. Cr.	3.76	2.54
PAT Margin	(%)	4.87	4.11
Total Debt/Tangible Net Worth	Times	0.70	0.14
PBDIT/Interest	Times	4.49	6.43

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

India Ratings, vide its press release dated February 22, 2021 had reaffirmed the rating of SCPL to 'IND BB/Stable/A4+; ISSUER NOT COOPERATING'.

Any other information

Not Applicable

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

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A3 Assigned
Bank of Baroda	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB- Stable Assigned

Contacts

Analytical	Rating Desk
Pooja Ghosh Head-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in
Srijita Chatterjee Analyst-Rating Operations Tel: 022-49294065 srijita.chatterjee@acuite.in	

About Acuité Ratings & Research

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 8,850 credit 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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