

Press Release

Fortune Group

December 01, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.50	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	42.50	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	60.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs. 60.00 Cr bank facilities of Fortune Group (FG). The outlook is '**Stable**'.

Rationale for the rating

The rating takes into account the long track record of operations of the firm, healthy financial risk profile characterized by comfortable gearing and strong debt protection metrics. The rating also draws comfort from the extensive experience of the partners in the civil construction industry, along with reputed client profile of the firm. The rating favourably factors in FG's healthy order book position indicating satisfactory revenue visibility over the medium term. However, these strengths are partially offset by increasing but moderate scale of operations and high degree of geographical and customer concentration in the firm's order book and working capital intensive nature of operations.

About the Company

M/s Fortune group (FG) was initially set up as a proprietorship firm in 2003 and reconstituted as a partnership firm in 2010 with Mr. Tapas Kumar Pathy, Mr. Rajendra Narayan Nayak and Mrs. Meenakshi Panda as partners. Presently, the firm is governed by the partnership deed with a profit-sharing ratio of 85:10:5. Until 2020, the firm was operational mostly in Odisha, then later expanded into new geographies like Jharkhand and Nagaland. The firm secures all its contract through tender driven open bidding process. The firm offers a wide range of services in construction and infrastructure related developmental works across several sectors which includes execution of heavy earth work, construction of road embankment, raising of subgrade, concrete structures, asphalt topping of roads, reservoirs, steel structures, road projects, drainage work, etc. with major focus on roads and bridges. It specializes in road highway projects involving both rigid and flexible pavement and large scale formation. It is registered as a "Super Class" contractor with Odisha State R&B dept., Odisha State irrigation dept., Odisha State RWD dept. and Odisha State RWSS dept. It was also awarded with Best Quality Trophy by Dhamra Port Limited.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of FG to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management and established relationship with reputed clients**

Established in 2010, Fortune Group (FG) has a long track record of operations in the civil construction industry. The key partner, Mr Tapas Kumar Pathy, has more than two decades of experience in the civil construction industry through his erstwhile proprietorship concern, Fortune, established in 2003. It has successfully completed various projects under different departments of Government of Odisha like R&B, Irrigation, RWD and RWSS. The long standing experience of the promoter and long track record of operations has helped them to establish comfortable relationships with reputed customers both in Government and private sector, like NHIDCL, East Coast Railway, Paradeep Port, Dhamara Port Limited, Tata Steel Limited, L&T Constructions, and others. Acuité derives comfort from the long track record of operations, experienced management, relationship with reputed customers and believes this will benefit the firm going forward, resulting in steady growth in the scale of operations.

- **Sound business risk profile supported by healthy order book position**

The operating revenue of the firm increased significantly to Rs.103.69 Cr as on March 31, 2022 (Prov) as against Rs.51.91 Cr in the previous year. Its revenue declined in FY2021 due to pandemic-related lockdown, which led to slow execution of the existing work orders in hand. The firm, nevertheless, witnessed good recovery in FY2022 backed by healthy order book position and diversification into new geographies like Nagaland and Jharkhand. The company has achieved a revenue of around Rs.59 Cr (Prov) till September, 2022. Further, the firm has a healthy order book position with unexecuted orders in hand for infrastructure projects worth around Rs.479 Cr which are to be executed in the next one-two years, thereby providing strong revenue visibility in the medium term. Nearly 96 per cent of the company's order book comprises the road infrastructure and remaining 4 per cent for harbors. Acuité believes that the firm will continue to sustain its order book position and maintain its business risk profile over the medium term.

However, the EBITDA margin declined to 16.02 per cent in FY2022 (Prov) as compared to 22.51 per cent in FY2021 due to high material cost, increasing labor cost and subcontracting expense borne by the firm in FY2022. The PAT margin improved to 10.74 per cent as on March 31, 2022 (Prov) as against 7.73 per cent in the previous year. The RoCE levels stood comfortable at 25.68 per cent in FY2022 (Prov) as against 15.36 per cent in FY2021. Though the firm's profitability is exposed to volatility in raw material prices as their prices are volatile in nature, it has an inbuilt price escalation clause for major raw materials (such as steel, cement, fuel and bitumen) in most of its contracts. Going forward, the improvement in profitability margins will remain a key rating sensitivity.

- **Healthy financial risk profile**

The firm's healthy financial risk profile is marked by moderate network, comfortable gearing and strong debt protection metrics. The tangible net worth of the firm increased to Rs.34.56 Cr as on 31st March 2022 (Prov) from Rs.27.22 Cr in the previous year due to infusion of capital by the partners, along with ploughing back of profits. The gearing of the firm stood below unity at 0.74 times as on March 31, 2022 (Prov) as compared to 0.56 times during the same period, even though the debt level increased in FY2022. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 1.49 times as on March 31, 2022 (Prov) as compared to 1.22 times in the previous year. The strong debt protection metrics of the firm is marked by Interest Coverage Ratio of 7.26 times and Debt Service coverage ratio of 4.17 times as on 31st March 2022 (Prov), supported by increasing revenue and net cash accruals. The Net Cash Accruals/Total Debt (NCA/TD) stood at 0.50 times as on 31st March 2022 (Prov) from 0.37 times in the previous year. Acuité believes that going forward the financial risk profile of the firm will be sustained backed by steady accruals and no major debt funded capex plans.

Weaknesses

- **Working capital intensive nature of operations**

The working capital intensive nature of operations of the firm is marked by high albeit improving GCA days of 223 days as on March 31, 2022 (Prov) as compared to 267 days in the previous year. The high GCA days are mainly led by significant security deposit kept with the tendering department. Moreover, these security deposits cannot be released before the completion of the projects. However, the inventory days have reduced to 70 days as on March 31, 2022 (Prov) as against 114 days in the previous year. The debtor period stood at 52 days as on March 31, 2022 (Prov) as against 58 days in the previous year. Acuité believes that the working capital operations of the firm will remain almost at the same levels as evident from efficient collection mechanism and moderate inventory levels over the medium term. Nonetheless, the company has substantial dependence on its suppliers and creditors to support the working capital creditors stood high at 219 days as on March 31, 2022 (Prov). Sustained improvement in creditors will remain a key monitorable.

- **Concentrated order book and execution risk**

The order book remains predominantly concentrated in Nagaland, constituting 65 per cent of the order book as on October 31st, 2022, thereby exposing the firm to geographical concentration risk. Further, FG remains exposed to the execution risk associated with the contracts as ~65 per cent of orders are in the early stage of execution with less than 10 per cent progress mainly due to issues such as environmental clearances, local challenges, etc faced by FG which limits the execution pace in Nagaland. Any delays in execution or receipt of payments can affect its revenues and liquidity position. The firm is also exposed to the risks inherent in the construction sector such as time/cost overruns, slowdown in new order inflows, high exposure to non-fund-based limits vis-à-vis its net worth, etc. It is also exposed to execution risk and its ability to complete the projects as per the scheduled timelines is crucial to meet its contractual obligations and receive repeat orders in future.

- **Competitive and fragmented nature of industry coupled with tender based business**

The firm is engaged as a civil contractor and the sector is marked by the presence of several mid to big size players. The company faces intense competition from the other players in the sectors. Risk becomes more pronounced as tendering is based on a minimum amount of bidding of contracts and hence the firm must make bid for such tenders on competitive prices, which may affect the profitability of the firm.

Rating Sensitivities

- Elongation of working capital cycle
- Reduction in order flow

Material covenants

None.

Liquidity Position Adequate

The firm's liquidity position is adequate marked by net cash accruals of Rs.12.68 Cr as against long term debt repayment of only Rs.1.50 Cr over the same period. Further, the current ratio stood comfortable at 1.54 times as on March 31, 2022 (Prov). The cash and bank balance stood at Rs.6.20 Cr as on March 31, 2022 (Prov) out of which balance in current account includes Rs.6.17 Cr. However, the fund based limit utilized at 83 per cent for seven months ended October'22 and non-fund based limited remained highly utilized at 91 per cent for the same period. Moreover, the working capital intensive nature of operations of the firm is marked by high albeit improving GCA days of 223 days as on March 31, 2022 (Prov) as against 267 days in the previous year. Acuité believes that going forward the firm will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes the outlook on FG will remain 'stable' over the medium term backed by experience of its partner and healthy order book position. The outlook may be revised to 'Positive' in case of significant growth in revenue while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the firm's financial risk profile and liquidity position or delay in completion of its projects or further elongation in its working capital cycle.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	103.69	51.91
PAT	Rs. Cr.	11.14	4.01
PAT Margin	(%)	10.74	7.73
Total Debt/Tangible Net Worth	Times	0.74	0.56
PBDIT/Interest	Times	7.26	3.70

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, Acuité 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:

Not Applicable.

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	32.50	ACUITE A3 Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Stable Assigned

Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE A3 Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE BBB- Stable Assigned
Punjab National Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.50	ACUITE BBB- Stable Assigned

Contacts

Analytical	Rating Desk
Pooja Ghosh Vice President-Rating Operations Tel: 022-49294041 pooja.ghosh@acuite.in Sakshi Seksaria Analyst-Rating Operations Tel: 022-49294065 sakshi.seksaria@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.