

Press Release

Shankar Ramchandra Earthmovers Private Limited

December 15, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	10.00	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	40.00	-	ACUITE A3+ Assigned
Total Outstanding Quantum (Rs. Cr)	50.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

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 plus**) on Rs.50.00 Cr bank facilities of Shankar Ramchandra Earthmovers Pvt Ltd (SREPL). The outlook is '**Stable**'.

Rationale for rating assigned

The rating assigned takes into consideration the established market position of the company in the civil construction industry especially across the state of Maharashtra. The ratings also draws comfort from the sustained growth in scale of operations over the three year period ending FY2022 coupled with its healthy order book position and adequate liquidity position reflected in the company's moderate reliance on working capital limits. These strengths are partially offset by significant geographical concentration in its order book and inherent risk of tender based operations.

About the Company

Incorporated in 1994, Shankar Ramchandra Earthmovers Pvt Ltd (SREPL) is a class 1A contractor with Government of Maharashtra. The company is engaged in civil construction projects for roads and bridges majorly for Central Railway, National Highway Authority of India (NHAI) and Public Works Department (PWD). The company is promoted by Mr. Ramchandra Kad and Mr. Anant Kad.

Analytical Approach

Acuite has considered a standalone approach to arrive at the rating of Shankar Ramchandra Earthmovers Pvt Ltd (SREPL)

Key Rating Drivers

Strengths

Established track record of operations supported by management experience

Established in 1994, Shankar Ramchandra Earthmovers Pvt Ltd (SREPL) is registered as class 1A contractor with Government of Maharashtra and has established presence in executing projects related to construction and maintenance of roads and bridges for Public Works Department, NHAI and Central Railway. SREPL is promoted by Mr. Ramchandra Kad and Mr. Anant Kad who hold more than two decades of experience in civil construction industry. SREPL has demonstrated strong execution capability and has successfully executed projects worth more than Rs.420.00 Cr. over the last five years. Such projects also includes a road construction project which was taken up under its special purpose vehicle (SPV) PCIL HAM Bhele Shikrapur Pvt Ltd. (PHBSL) with a project cost Rs. 240 Cr. The project was executed under Hybrid Annuity mode and the SPV has started receiving annuity for the project.

Acuité believes the company will benefit from its established presence and experienced management over the medium term.

Stable operating performance with revenue visibility over the medium term

SREPL has registered a y-o-y growth of 36.31 percent in its operating income for FY22. The total operating income of the company stood at Rs. 148.59 Cr in FY22 as against Rs. 109.00 Cr in FY21 and Rs. 130.33 Cr in FY20. SREPL has also maintained the operating profit margin within the range of 11-12 percent. Operating profit margin of the company stood at 11.91 percent in FY22 as against 11.75 percent in FY21 and 14.84 percent in FY20. Further, the company ability to garner government projects is reflected in its unexecuted order book position which stood at Rs.379.00 Cr. (as on October, 2022) including those projects where the company has either received letter of award or had been declared L1 bidder. Such projects are expected to be executed over the next two to three years.

Acuité believes that the operating performance of the company is likely to remain stable over near to medium term on account of the company's healthy operating performance.

Comfortable financial risk profile albeit modest net worth

Financial risk profile of the company is comfortable reflected by modest net worth, low gearing, and comfortable debt protection metrics. Tangible net worth of the company stood at Rs. 46.17 Cr as on 31st March, 2022 as against Rs.37.26 Cr as on 31st March 2021 and Rs. 32.64 Cr as on 31st March 2020. Total debt of the company stood at Rs.42.72 Cr as on March 2022 as against Rs. 26.65 Cr as on March 2021. Debt profile of the company comprises of Rs.35.22 Cr of unsecured loans, Rs. 4.27 Cr of short-term loans and Rs. 3.24 Cr of long-term loans. Unsecured loans includes Rs. 27.00 Cr of loan from PHBSL for execution of project under the SPV. Gearing (Debt/Equity) of the company has seen a consistent improvement from its peak gearing at 1.23 times as on March 2020. Gearing stood at 0.93 times as on 31st March 2022 as against 0.72 times as on 31st March 2021. The increase in gearing as on 31st March 2022 is on account of unsecured loans availed by the company from its SPV and gearing is likely to improve in the near to medium term on account of repayment of the same. Adjusted gearing excluding unsecured loans have seen a consistent improvement over the last three years at 0.16 times as on 31st March 2022 as against 0.29 times as on 31st March 2021 and 0.38 times as on 31st March 2020. TOL/TNW stood at 2.30 times as on 31st March 2022 as against 2 times as on 31st March 2021 and 1.92 times as on 31st March 2020. Debt protection metrics remains comfortable with debt service coverage ratio 1.70 times in FY22 and interest coverage ratio stood at 4.63 times in FY22.

Acuite believes the financial risk profile of SREPL would remain comfortable over the medium term on account of healthy capital structure and stable operating performance of the company.

Weaknesses

Intensive nature of working capital operations

Working capital operations of the company are intensive marked by GCA days of 273 days in FY22 as against 238 in FY21 and 143 days in FY20. Higher GCA days are on account of elongated debtor collection period. Debtors as on 31st March 2022 stood at Rs.95.77 Cr. Such debtor balance includes approximately Rs. 85 Cr of receivables from its SPV which are expected to be recovered in FY23. Debtor collection period stood at 237 days in FY22 as against 238 days in FY21 and 143 days in FY20. Creditor days stood at 28 days in FY22 as against 62 days in FY21. Inventory holding period of the company stood at 12 days in FY22 as against 71 days in FY21 and 31 days in FY20. Despite the elongated receivable days, the company's reliance on working capital limits is moderate with average utilisation of fund-based limits at ~68% for 6 months ended September 2022 and non-fund-based utilisation as on September 2022 stood at ~83%.

Acuité believes that the working capital management for the company will remain a key rating sensitivity over the medium term.

Exposure to risks related to the tender-driven nature of the business, geographical concentration in revenues and orderbook

SREPL does civil construction work mainly for Central Railway and Government of Maharashtra which reflects company's high dependence on the number and value of tenders floated by the authorities. Further, 70-80 percent of the total revenue of the company over the last two years is contributed by two projects. Also, given the cyclicity inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical. Moreover, any delays in the project execution of current projects along with the delayed receipts from Government and site related issues are likely to result in higher working capital requirements and moderation in scale of operations.

Acuité believes that timely execution of projects and the ability of the company to maintain the scale of operations with the current level of profitability would be the key rating sensitivity factor over the medium term.

Rating Sensitivities

- Significant deterioration in scale of operations with delay in project execution and limited fresh orders
- Deterioration in working capital operations leading to stretched liquidity

Material covenants

None

Liquidity: Adequate

Liquidity of the company is adequate marked by sufficient net cash accrual as against its debt repayment obligation. Net cash accruals of the company stood at Rs.11.78 Cr as against debt repayment obligation Rs.5.21 Cr in FY22. Net cash accrual are likely to range between Rs.11.82-14.61 Cr as against repayment obligation of Rs.2.46-1.48 Cr in the near to medium term. Average fund based bank limit stood moderate at 68 percent during 6 months ended September 2022. Non-fund based bank guarantee limits are utilised at 83 percent as on September 2022. Unencumbered cash balance stood at a modest 0.55 Cr as on 31 March 2022 and the current ratio of the company stood at 1.74 times as on 31st March, 2022

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accruals against its maturing debt obligations.

Outlook: Stable

Acuité believes that the SREPL will continue to maintain a 'Stable' outlook over near to medium term owing to its experienced management, healthy order book and comfortable financial risk profile. The outlook may be revised to 'Positive' in case the company achieves sustained growth in its revenues from the current levels while improving its profitability and significant improvement in execution of projects and securing fresh tenders. Conversely, the outlook may be revised to 'Negative' in case of significant decline in revenues and operating profit margins on account of delayed execution of projects, deterioration in order book position or liquidity.

Other Factors affecting Rating

Not applicable

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	148.59	109.00
PAT	Rs. Cr.	7.37	4.61
PAT Margin	(%)	4.96	4.23
Total Debt/Tangible Net Worth	Times	0.93	0.72
PBDIT/Interest	Times	4.63	6.09

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. Acuité'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
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A3+ Assigned
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB- Stable Assigned

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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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