



Press Release
Shankar Ramchandra Earthmovers Private Limited
May 09, 2024
Rating Reaffirmed

| Product | Quantum (Rs. Cr) | Long Term Rating | Short Term Rating |
|---|---------------------|-------------------------------------|----------------------------|
| Bank Loan Ratings | 17.50 | ACUITE BB+ Stable Reaffirmed | - |
| Bank Loan Ratings | 32.50 | - | ACUITE A4+ Reaffirmed |
| Total Outstanding Quantum (Rs. Cr) | 50.00 | - | - |

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and the short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 50.00 crore of bank facilities of Shankar Ramchandra Earthmovers Private Limited (SREPL). The outlook is '**Stable**'.

Rationale for the Rating

The rating reaffirmation takes into account stable operating and financial performance of SREPL. The operating income of the company stood at Rs. 139.16 Cr. in FY2023 as against Rs. 148.59 Cr. in FY2022. The company recorded revenue of Rs. 149.65 crore for 11MFY2024 and is expected to close the year above Rs. 200 Cr. Further, the company has a healthy orderbook, as on March 2024, the unexecuted order book position stood Rs. 815.55 crore. The rating also draws comfort on account of extensive experience of the promoters in execution of civil construction contracts of over two decades and expected improvement in future operating revenues and margins.

However, the rating is constrained by the geographical concentration of order book coupled, significant deterioration in the debt protection metrics and inherent risk of tender based operations.

About the Company

Incorporated in 1994, Pune based Shankar Ramchandra Earthmovers Private Limited (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.

Unsupported Rating

Not Applicable

Analytical Approach

Acuite has considered a standalone approach to arrive at the rating of Shankar Ramchandra Earthmovers Private Limited (SREPL).

Key Rating Drivers

Strengths

Established track record of operations supported by experienced management

Established in 1994, Shankar Ramchandra Earthmovers Private Limited (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 Private Limited (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.

Moderate Working Capital Management

Working capital operations of the company are moderate marked by GCA days of 125 as on March 31, 2023 as against 273 days on March 31, 2022. Debtor collection period stood at 92 days as on March 31, 2023 as against 237 days on March 31, 2022. Creditor days stood at 144 days on March 31, 2023 as against 118 days on March 31, 2022. The current ratio stood at 0.98 times on March 31, 2023 against 1.74 times on March 31, 2022.

Healthy Order Book Position

SREPL has shown significant growth in its operations during 11MFY2024. In 11MFY2024, the company has recorded revenue of Rs.149.65 crore and is estimated to close the year in the range of Rs. 200-215 Cr. driven by comparatively higher billing in the month of March. The company has a healthy order book position with unexecuted orders in hand worth of around Rs. 815.55 Cr. as on March, 2024 crore which are to be executed in the upcoming two to three years, thereby providing revenue visibility over the near to medium term.

Weaknesses

Below Average Financial Risk Profile

The company's financial risk profile is below average marked by increased overall gearing, moderate net worth and debt protection metrics. The tangible networth of the company stood at Rs.47.88 crore as on March 31, 2023, as against Rs.46.17 crore as on March 31, 2022. The gearing ratio stood at 2.03 times on March 31, 2023 as against 0.93 times on March 31, 2022.

This is due to significant rise in the debt levels of the company. The total debt of the company was Rs. 97.34 crore on March 31, 2023 compared to Rs. 42.72 crore on March 31, 2022. The total debt of the company as on March 31, 2023 consists long term debt of RS. 11.77 crore (PY Rs.0.78 Cr), Rs.67.52 crore USL from directors/promoters or group entities (PY Rs. 35.22 Cr), short term debt of Rs.10.94 crore (PY Rs. 4.27 Cr.) and CPLTD of Rs.7.10 crore (PY Rs. 2.46 Cr). The debt service coverage ratio and interest coverage ratio stood at 1.43 times and 2.19 times in FY2023 as against 1.70 times and 4.63 times in FY2022 respectively. Debt/EBITDA stood at 8.58 times on March 31, 2023 as against 2.23 times on March 31, 2022.

Competition in construction segment, and to tender-based operations

Although the company has a long-standing presence of more than 25 years in the industry, as almost all its sales are tender based, the revenue depends on the company's ability to bid successfully for tenders. SREPL specialises in civil works related to construction and

maintenance of roads and bridges projects mainly for Central Railway, Public Works Department (PWD) and NHAI. The company faces competition from large players, as well as many local and small unorganised players, adversely affecting the profitability. Currently majority of their projects are situated in Maharashtra. This increases the geographical concentration risk significantly. Nonetheless, the company is bidding for projects in new territories and has recently received contracts in Rajasthan, which has mitigated the geographic concentration risk to some extent.

Susceptibility of operating margin due to volatility in input material prices and labour charges.

The basic input materials for execution of construction projects and works contracts are steel, stone chips, cement, and structures etc. The prices of which are highly volatile. However, currently government agencies' work contracts have price escalation clause which mitigate price volatility risk to some extent. Furthermore, the operating margin of the company is exposed to sudden spurt in the input material prices along with increase in labour prices being in labour intensive industry.

Rating Sensitivities

- Delay in orderbook execution leading to deterioration in scale of operations and profitability margins.
- Elongation of working capital cycle leading to deterioration in liquidity position.

Liquidity Position Adequate

The company has an adequate liquidity position as reflected by sufficient net cash accruals (NCA) against the maturing debt obligations. The company has generated cash accruals worth Rs. 5.75 crore in FY2023 as against maturing debt obligation of Rs. 2.46 crore in the same period. NCA for FY24-25 are expected to be in the range of Rs. 8.00 to Rs. 12.00 Cr. against maturing debt obligations of Rs. 5.00 to Rs. 7.50 crore. The unencumbered cash and bank balance of the company stood at Rs. 1.29 crore on March 31, 2023 as against Rs. 0.55 crore on March 31, 2022. The current ratio stood at 0.98 times on March 31, 2023 against 1.74 times on March 31, 2022. The company has an average bank limit utilization of 66.26% for fund based and 66.71% utilization of non-fund based limits for 12 months ended December 2023.

Outlook: Stable

Acuité believes that the SREPL will continue to maintain a 'Stable' outlook over near to medium term owing to its experienced management and healthy order book albeit it's moderate 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 capital structure driven by timely project execution 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

None

Key Financials

| Particulars | Unit | FY 23 (Actual) | FY 22 (Actual) |
|-------------------------------|---------|----------------|----------------|
| Operating Income | Rs. Cr. | 139.16 | 148.59 |
| PAT | Rs. Cr. | 1.71 | 7.37 |
| PAT Margin | (%) | 1.23 | 4.96 |
| Total Debt/Tangible Net Worth | Times | 2.03 | 0.93 |
| PBDIT/Interest | Times | 2.19 | 4.63 |

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>
- 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 |
|-------------|--------------------------------|------------|-----------------|--|
| 05 Feb 2024 | Proposed Bank Guarantee | Short Term | 40.00 | ACUITE A4+ (Downgraded & Issuer not co-operating* from ACUITE A3+) |
| | Proposed Cash Credit | Long Term | 10.00 | ACUITE BB+ (Downgraded & Issuer not co-operating* from ACUITE BBB- Stable) |
| 15 Dec 2022 | Proposed Cash Credit | Long Term | 10.00 | ACUITE BBB- Stable (Assigned) |
| | Proposed Bank Guarantee | Short Term | 40.00 | ACUITE A3+ (Assigned) |

Annexure - Details of instruments rated

| Lender's Name | ISIN | Facilities | Date Of Issuance | Coupon Rate | Maturity Date | Complexity Level | Quantum (Rs. Cr.) | Rating |
|----------------|----------------------|----------------------|----------------------|----------------------|----------------------|------------------|-------------------|----------------------------------|
| ICICI Bank Ltd | Not avl. / Not appl. | Bank Guarantee (BLR) | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 23.00 | ACUITE A4+ Reaffirmed |
| HDFC Bank Ltd | Not avl. / Not appl. | Dropline Overdraft | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 5.00 | ACUITE BB+ Stable Reaffirmed |
| HDFC Bank Ltd | Not avl. / Not appl. | Dropline Overdraft | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 3.42 | ACUITE BB+ Stable Reaffirmed |
| ICICI Bank Ltd | Not avl. / Not appl. | Letter of Credit | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 9.50 | ACUITE A4+ Reaffirmed |
| Not Applicable | Not avl. / Not appl. | Proposed Cash Credit | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 0.08 | ACUITE BB+ Stable Reaffirmed |
| ICICI Bank Ltd | Not avl. / Not appl. | Secured Overdraft | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 5.00 | ACUITE BB+ Stable Reaffirmed |
| HDFC Bank Ltd | Not avl. / Not appl. | Secured Overdraft | Not avl. / Not appl. | Not avl. / Not appl. | Not avl. / Not appl. | Simple | 4.00 | ACUITE BB+ Stable Reaffirmed |

Contacts

| Analytical | Rating Desk |
|---|--|
| Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Kruti Patel Associate Analyst-Rating Operations Tel: 022-49294065 kruti.patel@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.

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