

Press Release

Ashok Construction

January 10, 2023



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	23.00	ACUITE BB- Stable Assigned	-
Bank Loan Ratings	5.00	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	28.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and its short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.28.00 Cr bank facilities of Ashok Construction (AC). The outlook is '**Stable**'.

Rationale for the rating

The rating assigned factors the experience of its partners, improved revenue and operations in FY22, moderate financial risk profile and efficiently managed working capital cycle. Ratings, however, are constrained by its inherent risk of tender-based operations and moderate customer concentration risk on the revenue profile of the firm.

About the Firm

Ashok Constructions (AC) is a civil construction partnership firm, mainly into construction of buildings, roads. The firm mainly undertakes only central government funded projects from slum clearance board, Public works department and Rural works department. Mr. Periyasami, the founder of PSK engineering construction & co. has established Saranya spinning Mills Private Limited during 1995. Mr. Ashok Kumar is the elder son of Mr. Periyasami, has been actively participating in the operations of PSK engineering and Saranya Spinning Mills Private Limited since 2000. Later, after the split in business in 2017, Mr. Ashok Kumar has received full holding of Saranya Spinning Mills Private Limited, 50 percent holding in PSK engineering and his younger brother has received 50 percent holding in PSK engineering. During 2018, Mr. Ashok established new firm in the name of Ashok Constructions.

Analytical Approach

Acuite has considered standalone financial and business risk profile of the Ashok Construction (AC).

Key Rating Drivers

Strengths

Prior experience of the partners resulted in improved operations in FY22

Mr. Periyasami, the founder of PSK engineering construction & co. has established Saranya spinning Mills Private Limited during 1995. Mr. Ashok Kumar is the elder son of Mr. periyasami, has been actively participating in the operations of PSK engineering and Saranya Spinning Mills Private Limited since 2000. Later, after the split in business in 2017, Mr. Ashok Kumar has received full holding of Saranya Spinning Mills Private Limited, 50 percent holding in PSK engineering and his younger brother has received 50 percent holding in PSK engineering. During 2018 Mr. Ashok has established new company in the name of Ashok Constructions.

Ashok Constructions was registered in 2017, which is 3 years prior to start the operations in FY20. This is in order to get the eligibility for bidding. The firm has registered significant growth in revenue, in its second year of operations while AC has reported Rs.80.54Cr in FY22 compared to Rs.26.89Cr in FY21 and PAT of Rs.3.94Cr in FY22. This is mainly due to promoter's previous experience in civil construction from PSK engineering, presence of healthy order book and timely execution of the orders. As on October 31, 2022, the firm has unexecuted order book of Rs.419Cr, which is to be executed in next 24-36months.

Efficient working capital Cycle:

The firm is efficiently managing working capital cycle which is evident from the Gross Current Assets (GCA) days at 118 days as on March 31, 2022. Creditor days stood low at 1 days as the firm do not purchase material on credit and debtor days stood at 54 days which is similar to past 3 years as the firm undertakes only central government funded projects which ensures timely receipt of payments. The working capital utilization of the firm stood at an average of 80 percent during the past 12 months ending October, 2022. Acuite believes that working capital cycle of the firm will remain efficient over the medium term.

Moderate financial risk profile:

The financial risk profile of the firm is moderate as the firm's gearing is moderately high and has moderate debt protection metrics. The net worth of the firm stood at Rs.7.05 as on March 31, 2022 against Rs.3.11Cr as on March 31, 2021. Gearing of the firm stood at 3.31 times as on March 31, 2022 which is improved from 7.90times as on March 31, 2021. Debt/ EBITDA stood moderate at 2.73 times. Ashok constructions has moderate debt protection metrics as firm's Interest coverage ratio, debt service coverage ratio (DSCR) and total outside liabilities to total net worth stood at 2.34 times, 1.93 times and 4.02 times respectively as on March 31, 2022. Acuite believes that Ashok constructions debt protection metrics will improve in the medium term.

Weaknesses

Customer concentration risk on the revenue profile:

The firm has executed orders worth Rs.70 Cr from Slum Clearance Board in FY22, which is 90 percent of the revenue for the year. Therefore, depicting high customer concentration risk on the revenue profile. Acuite believes that new orders from public works department will mitigate the customer concentration risk in FY23.

Inherent risk of tender based operations:

Revenue and profitability depend entirely on the ability to win tenders. Entities in this segment face intense competition, thus requiring them to bid aggressively to procure contracts; this restricts the operating margin to a moderate level. Also, given the cyclical nature inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical. Acuite believes that the firm's business profile and financial profile can be adversely impacted on account of presence of stiff competition, and has inherent risk of susceptibility to tender based operations.

Rating Sensitivities

- Substantial improvement in scale of operations while maintaining profitability margins over the medium term
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile

Material covenants

None

Liquidity : Adequate

The firm has adequate liquidity as the firm has generated sufficient Net Cash Accruals (NCA's) against its maturing debt obligations. The firm has Rs.4.89Cr NCA's as on March 31, 2022 which is sufficient to pay its debt obligations of Rs.0.78Cr in FY22. The firm is expected to generate NCA's in the range of Rs.7Cr to 9Cr in the medium term which will be sufficient to repay the debt obligation ranging from Rs.0.68 – Rs.0.78Cr. The firm has unencumbered cash and bank balances of Rs.0.10 Cr as on March 31, 2022. Acuite believes that the liquidity position of the firm will remain adequate in the medium term

Outlook: Stable

Acuite believes that AC will continue to maintain a 'Stable' outlook over near to medium term owing to its established track record and experienced management. The outlook may be revised to 'Positive' in case the firm achieves higher than expected growth in revenues and improvement in profitability, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected debt and working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	80.54	26.89
PAT	Rs. Cr.	3.94	1.14
PAT Margin	(%)	4.89	4.23
Total Debt/Tangible Net Worth	Times	1.46	7.90
PBDIT/Interest	Times	2.34	2.53

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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:

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
Indian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A4+ Assigned
Indian Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BB- Stable Assigned
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.93	ACUITE BB- Stable Assigned
Indian Bank	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	2.07	ACUITE BB- Stable Assigned

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About Acuité Ratings & Research

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