

Press Release
Ashok Construction
April 08, 2024
Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Loan Ratings	24.00	ACUITE BB- Stable Reaffirmed	-
Bank Loan Ratings	4.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	28.00	-	-

Rating Rationale

Acuite has reaffirmed 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 rating reaffirmation:

The rating reaffirmation considers the promoters prior industry experience in PSK engineering and construction co., improving scale of operations in FY24, stable operating profit margin and moderate financial risk profile. Ashok construction (AC) has registered lower-than expected revenue in FY23 of Rs.56.27 Cr. due to delays in funding for some orders. However, the firm has shown improvement in FY24 with revenue of Rs.71.27 Cr. till January, 2024 with an estimation to close the year in the range of Rs.115-117 Cr, while the operating profit margin is expected to remain range bound between 10-11 percent. The revenue is further expected to improve over the medium term on account of outstanding unexecuted order book position of Rs.225 Cr. which translates into 2x times of FY24 estimated revenue providing healthy revenue visibility.

The rating is however, constrained by intensive working capital operations and moderate customer concentration risk on the revenue profile of the firm.

About the Company

Ashok Constructions (AC) is a civil construction partnership firm, mainly into construction of buildings, roads. The firm primarily 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 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. Currently the firm is managed by Mr. Ashok Kumar and Ms. A Revathi with a profit sharing ratio of 50:50.

Unsupported Rating

Not Applicable

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:

Mr. Periyasami, the founder of PSK engineering construction & co. established Saranya spinning Mills Private Limited during 1995. Mr. Ashok Kumar, 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 received full holding of Saranya Spinning Mills Private Limited, 50 percent holding in PSK engineering and his younger brother received 50 percent holding in PSK engineering. During 2017 Mr. Ashok kumar established new company in the name of Ashok Constructions. Acuite believes that the promoters prior industry experience from PSK engineering and construction co. will help in improving the business risk profile of Ashok constructions.

Improvement in revenue amidst improving order flow:

The firm has an outstanding unexecuted order book position of Rs.225 Cr. as on March 31, 2024 which translates to approximately 2 times of FY24 expected revenue there by providing moderate revenue visibility over the medium term as these orders are to be executed in next 12-18 months. The firm has registered lower than expected revenue in FY23 at Rs.56.27 Cr. against Rs.80.54 Cr. of FY22, as there was delay in funding of few orders worth Rs.38cr, which were initially planned to be executed in Q4 of FY23. However, in FY24 Ashok constructions has reported revenue of Rs.71.24 Cr. until January, 2024 and expected to close the year with revenue of Rs.112 Cr. Growth in revenue for FY24 is primarily on the back of steady orders flow and timely execution of the same. EBITDA margin of the firm remained range bound between 10-11 percent during the last three years and expected to remain stable over the medium term. Acuite believes that revenue of the firm will improve over the medium term on account of healthy order flow.

Moderate financial risk profile:

The financial risk profile of the firm is moderate with moderate capital structure and debt protection metrics. The net worth of the firm stood at Rs.19.01 Cr. as on March 31, 2023 against Rs.12.36 Cr. during previous year. Improvement in net worth is because of infusion of unsecured loans worth Rs.6.66 Cr. during FY23. Acuite has considered unsecured loan from partners as quasi equity as it is sub-ordinated to bank borrowings. However, there is a reduction of Rs.1.80 Cr. from reserves in form of Tax expenses.

The firm's capital structure is moderate with gearing and total outside liabilities to total net worth (TOL/TNW) of 1.09 times and 1.52 times respectively as on March 31, 2023 as against 1.46 times and 1.86 times as on March 31, 2022. The coverage indicators marginally deteriorated in FY23, with DSCR of 1.55 times as on March 31, 2023 as against 1.70 times as on March 31, 2022. Interest coverage stood at 2.26 times as on March 31, 2023 as against 2.44 times as on March 31, 2022. Debt to EBITDA has also marginally deteriorated to 3.20 times in FY23 against 2.03 times of FY22.

Acuite believes that financial risk profile of the firm will improve in the near term on the back of expected improvement in profitability and accruals generation.

Weaknesses

Intensive working capital operations:

The working capital management of the firm is intensive which is evident from the Gross current asset (GCA) days of 277 days in FY23 as against 128 days in FY22. GCA days are majorly driven by high inventory days majorly in the form of work in progress inventory. Debtor collection period of the firm stood moderate at 79 days in FY23. Timely realization of bills from

customers have led to prompt payment to suppliers as reflected by creditor days of 0 days in FY23. Intensive working capital operations have led to high dependency on its fund based working capital limits. The fund based limits utilization stood at an average of 92 percent during the past 12 months ending January 2024. Acuité believes that working capital management of the firm will improve over the medium term.

Inherent risk of tender based operations:

Revenue and profitability depends entirely on the ability to successfully bid for the 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. Acuité believes that the firm's business risk and financial risk 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

Liquidity Position: Adequate

Ashok construction's liquidity position is adequate which is evident from sufficient net cash accruals (NCA) against the debt repayment obligations. The firm has reported Net Cash Accruals (NCA's) of Rs.2.64 Cr. on March 31, 2023 against Rs.0.91Cr of debt repayment obligations. The cash accruals are estimated to remain in the range of Rs.6-8 Cr. in the medium term against expected debt repayment range of Rs.0.90-1 Cr. during the same period.

The firm's unencumbered cash and bank balances stood at Rs.4.04 Cr. as on March 31, 2023, providing additional comfort towards liquidity. Intensive working capital operations have led to high reliance on the fund based working capital limits, which were utilized in the range of ~92 percent during the past 12 months ending January 2024. Besides, the current ratio of the firm stood at 1.78 times as on March 31, 2023. Acuite believes that liquidity position of the group will remain adequate over the medium term on the back of sufficient NCA generation.

Outlook: Stable

Acuité 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 infusion of debt and working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	56.27	80.54
PAT	Rs. Cr.	1.79	2.92
PAT Margin	(%)	3.17	3.62
Total Debt/Tangible Net Worth	Times	1.09	1.46
PBDIT/Interest	Times	2.26	2.44

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>
- 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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 Jan 2023	Cash Credit	Long Term	20.00	ACUITE BB- Stable (Assigned)
	Term Loan	Long Term	2.07	ACUITE BB- Stable (Assigned)
	Proposed Long Term Bank Facility	Long Term	0.93	ACUITE BB- Stable (Assigned)
	Bank Guarantee (BLR)	Short Term	5.00	ACUITE A4+ (Assigned)

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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	4.00	ACUITE A4+ Reaffirmed
Indian Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	18.60	ACUITE BB- Stable Reaffirmed
Not Applicable	Not avl. / Not appl.	Proposed Long Term Bank Facility	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.82	ACUITE BB- Stable Reaffirmed
Indian Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	07 Oct 2030	Simple	1.01	ACUITE BB- Stable Reaffirmed
Indian Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	15 Nov 2026	Simple	1.57	ACUITE BB- Stable Reaffirmed

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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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