

## Press Release

Saumya Construction

March 01, 2023

## Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	8.00	ACUITE B   Stable   Assigned	-
Bank Loan Ratings	42.00	-	ACUITE A4   Assigned
Total Outstanding Quantum (Rs. Cr)	50.00	-	-

## Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE B**' (read as **ACUITE B**) and short-term rating of '**ACUITE A4**' (read as **ACUITE A four**) on Rs. 50.00 crore bank facilities of Saumya Construction (SC). The outlook is '**Stable**'

### Rationale for rating assigned

The rating assigned reflects the established track record of operations and extensive experience of the promoters. The rating is however constrained by the firms below average financial risk profile, intensive nature of working capital operations and tender based nature of operations.

### About the Company

Incorporated in 2001, Saumya Construction (SC) is an EPC contractor and takes up various government contracts related to construction work such as commercial structures, industrial buildings, affordable housing and lake and river development projects. The firm is promoted by Mr. Vasant Patel who is a Civil Engineer and has over two decades of experience in the civil constructions industry. Currently the firm is working on executing lake development and river rejuvenation projects under the Smart City Mission in Bihar.

### Analytical Approach

Acuite has taken a standalone approach to arrive at the rating of Saumya Construction (SC).

### Key Rating Drivers

#### Strengths

#### Established track record of operations and experienced management

SC has an established presence since 2001 and is engaged in different types of civil construction contracts such as commercial structures, industrial buildings, affordable housing

and lake and river development projects. The firm is promoted and managed by Mr. Vasant Patel who is a civil engineer and has an experience of over two decades in the civil construction industry. The extensive experience of promoters has also helped the firm in successfully bidding of orders and maintaining longstanding relationships with its suppliers. The firm has a total order book position of Rs. 609.21 crore which majorly include lake development and river front development contracts under the Bihar smart city project taken up under a Joint Venture.

Acuité believes that the firm will continue to benefit through the promoter's extensive industry experience over the medium term.

## **Weaknesses**

### **Working capital intensive nature of operations**

The working capital operations of the firm are intensive marked by GCA days of 1,783 days in FY22 as against 365 days in FY21 and 353 days in FY20. The GCA days of the firm are elongated on account of elongated inventory holding period. The inventory of the firm includes projects where work is in progress. Inventory holding period of the firm elongated at 829 days in FY22 as against 116 days in FY21 and 180 days in FY20 on account of increased execution of projects. As on March 31, 2022, the firm debtors includes retention money related to work done for Airport Authority of India. Hence the debtor collection period of the firm elongated at 204 days in FY22 as against 97 days in FY21 and 83 days in FY20. The firms reliance on bank limits remains high with fully utilized fund based bank limits and non-fund based limits remain utilized at 76% as on February 2023.

Acuite believes that the working capital operations of the firm are likely to remain intensive over the near to medium term and will remain a key rating sensitivity.

### **Below average financial risk profile**

The financial risk profile of the firm is below average with below average net worth, high gearing and average debt protection metrics. The tangible networth of the firm stood at Rs. 2.97 crore as on March 31, 2022 as against Rs. 2.85 crore as on March 31, 2021 and Rs. 2.32 crore as on March 31, 2020. The management follows a aggressive financial policy reflected by peak gearing level of 4.52 times as on March 31, 2022. Gearing of the firm stood at 2.57 times as on March 31, 2021 and 2.25 times as on March 31, 2020. Total Debt of the firm stood at Rs. 13.41 crore as on March 31, 2022 as against Rs. 7.34 crore as on March 31, 2021 and Rs. 5.22 crore as on March 31, 2020. TOL/TNW of the firm stood at 9.98 times as on March 31, 2022 as against 3.73 times as on March 31, 2021 and 4.10 times as on March 31, 2020. The Debt protection metrics of the firm are average with Debt service coverage ratio of 2.61 times for FY22 as against 2.23 times for FY21 and 7.42 times for FY20. The interest coverage ratio stood at 3.53 times for FY22 as against 6.70 times for FY21 and 7.42 times in FY20.

Acuite believes the financial risk profile of the firm is likely to improve with increase in scale of operations and moderate level of debt funded capex plan.

### **Highly competitive industry and profitability susceptible to fluctuations in input cost**

The civil construction and infrastructure industry is marked by presence of large number of organized and unorganized players in the industry. The company faces intense competition from the presence of several mid to large sized players in the said industry. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts and susceptibility to inherent cyclical nature in the sector. The presence of large number of player's increases competition and has direct impact on pricing, restricts bargaining power having adverse impact on margins. Further, the input cost, i.e. power cost, labour cost and raw materials - iron, steel and cement are highly volatile in nature as the company sub-contracts its work.

## **Rating Sensitivities**

- Further Elongation in working capital cycle
- Customer concentration risk
- Susceptibility to timely execution of the projects

- Sustaining existing business and financial risk profile remains key monitorable

## Material covenants

None

## Liquidity Position Stretched

Liquidity of the firm remains stretched reflected by its fully utilised bank limits. Fund based bank Limits of the firm remain fully utilised for 6 months ended October, 2022. Further Non-fund based utilisation remained at 76% as on February 2023. The Net cash accruals are adequate to meet the debt service obligation of the firm. The Net cash accruals of the firm stood at Rs. 0.43 crore as against Rs. 0.07 crore in FY22. The net cash accruals of the firm are expected to remain adequate to meet its debt servicing obligations in the near to medium term. The firm has maintained cash balance of Rs. 0.23 crore as on March 31, 2022

Acuite believes that the liquidity of the firm is likely to remain stretched over the near to medium term on account of high reliance on working capital limits.

## Outlook: Stable

Acuite believes that the SC 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 firm 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

None

## Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	3.72	5.59
PAT	Rs. Cr.	0.29	0.20
PAT Margin	(%)	7.92	3.59
Total Debt/Tangible Net Worth	Times	4.52	2.57
PBDIT/Interest	Times	3.53	6.70

## 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, 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](http://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
The Mehsana Urban Cooperative Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	42.00	ACUITE A4   Assigned
The Mehsana Urban Cooperative Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE B   Stable   Assigned

## Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 <a href="mailto:aditya.gupta@acuite.in">aditya.gupta@acuite.in</a>  Deepti Bhandarkar Analyst-Rating Operations Tel: 022-49294065 <a href="mailto:deepti.bhandarkar@acuite.in">deepti.bhandarkar@acuite.in</a>	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 <a href="mailto:rating.desk@acuite.in">rating.desk@acuite.in</a>

### 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](http://www.acuite.in)) for the latest information on any instrument rated by Acuité.