



Press Release
SHODHA CONSTRUCTIONS PRIVATE LIMITED
September 23, 2024
Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	2.50	ACUITE BBB- Stable Assigned	-
Bank Loan Ratings	56.00	-	ACUITE A3 Assigned
Total Outstanding Quantum (Rs. Cr)	58.50	-	-

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**) on the bank facilities of Rs.58.50 Crore of Shodha Constructions Private Limited (SCPL). The outlook is '**Stable**'.

Rationale for Rating

The assigned rating factors in the company's scale of operations marked by an operating income of Rs.159.77 Cr. in FY2024 (Prov.) as against Rs.82.94 Cr. in FY2023. The assigned rating also positively factors in the experienced management in civil construction business, appointment of highly experienced professionals in the Board, leading to repeat orders. Additionally, the financial risk profile of the company remained moderate marked by comfortable gearing (D/E: 0.72 times as on March 31, 2024 (Prov.)), adequate liquidity position and healthy order book position with unexecuted orders in hand of Rs.1447.00 Cr. as on 31st July 2024, which will be executed in near to medium term. However, the above mentioned strengths are partly off-set by working capital intensive nature of operations of the company marked by intensive GCA days of 173 days in FY2024 (Prov.). However, Acuite notes that the elongated receivable cycle is due to lead time in clearance of final bills for its completed projects. Acuite also considers the reputed client base consisting of government, semi-government agencies, Private players thereby reducing the counter party risk. However, the business risk profile is constrained by customer concentration risk as the majority of the order book belongs to two parties. Further, it also remains constrained by risk related to tender based nature of business, volatility in raw material prices and intense competition in the civil construction industry.

About the Company

Incorporated in 2010, Shodha Constructions Private Limited is engaged in the business of civil constructions, irrigation, construction of bridges and electrical projects. The company has its registered office in Hyderabad. The present directors of the company are Ms. Deepthi Reddy Soodini and Ms. Vasundhara Sudini.

Unsupported Rating

Not applicable.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Shodha Constructions Private Limited (SCPL).

Key Rating Drivers

Strengths

Experienced management and established track record of operations

The company has a long track record of over a decade in the civil construction business with an established track record of project execution related to civil constructions, irrigation, construction of bridges etc. Currently the company is managed by Ms. Deepthi Reddy Soodini and Ms. Vasundhara Sudini, who has been associated with this industry for over a decade.

Improvement in the scale of operations

The company reported growth in revenue to Rs. 159.77 Cr. in FY2024 (Prov.) as against Rs.82.94 Cr. in FY2023, backed by increased execution of orders, thereby registering y-o-y growth of 93 per cent in FY2024 (Prov.). This was further followed by a sharp improvement in both operating profit and PAT figures as SCPL maintained moderate EBITDA at Rs. 20.46 crore in FY2024 (Prov.) vis-à-vis Rs. 13.25 crore in FY2023. Acuité expects the company to report a steady revenue growth in FY2025, backed by healthy order book. Acuité expects a further strong pipeline of orders from FY2025 onwards. Notwithstanding the healthy order book, the timely execution of such orders would remain critical to achieve revenue growth and profitability on the expected lines. On the other hand, both the operating margin and PAT margin to 12.81 per cent and 4.17 per cent declined respectively in FY2024 (Prov.), as compared to 15.98 per cent and 5.27 per cent in FY2023 due to high raw material costs. Acuité believes that scale of operations may continue to improve in near to medium term backed by healthy order book position. However, Improvement of profitability margins shall remain a key rating sensitivity.

Moderate Financial Risk Profile

The financial risk profile of the company is marked by moderate net worth, low gearing and comfortable debt protection metrics. The tangible net worth of the company improved to Rs.28.83 Crore as on 31st March 2024 (Prov.) against Rs.22.18 Crore as on 31st March 2023 due to accretion to reserve. The total debt of the company stood at Rs.20.90 Crore as on 31st March 2024 (Prov.) against Rs.23.18 Crore as on 31st March 2023. The gearing of the company stood below unity at 0.72 times as on March 31, 2024 (Prov.) as against 1.05 times as on March 31, 2023 due to limited reliance on external debt. However, Acuité notes that the TOL/TNW stood high at 3.10 times as on March 31, 2024 (Prov.) as against 3.26 times as on March 31, 2023, owing to a decrease in sub-contracting payables, which is the amount retained for the subcontracted projects as security, further improvement in the credit metrics, as Interest Coverage Ratio stood at 7.93 times and Debt Service coverage ratio at 1.56 times as on 31st March, 2024 (Prov.) as against 5.05 times and 1.03 times respectively as on 31st March, 2023. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.68 times as on 31st March, 2024 (Prov.). Acuité believes that going forward the financial risk profile of the company is likely to improve backed by steady accruals and no major debt funded capex plans.

Weaknesses

Working Capital Intensive Operations

The working capital management of the company remained intensive marked by GCA days of 173 days in 31st March 2024 (Prov.) as compared to 249 days on 31st March 2023 with increased efficiencies in inventory and debtor management. Besides, the project billing and delivery schedule for the material handling business is usually concentrated towards the end of every fiscal, Milestone-based billing along with extensive trials and testing carried out for technically critical products before the final acceptance also results in elongated receivables. Despite that, the debtor days have improved from 66 days as on 31st March 2023 to 38 days as on 31st March 2024 (Prov.). However, the inventory days stood efficient at 71 days in FY2024 (Prov.) compared to 116 days in FY2023. The working capital cycle was stretched due to high other current assets which stood at Rs.30.42 Crore in FY24(Prov.) against Rs.17.70 Crore in FY23. Acuité believes that the working capital operations of the company will remain almost at the same levels as evident from efficient debtor and inventory levels over the medium term. Nonetheless, the company has substantial dependence on its suppliers and creditors to support the working capital; creditors stood high at 79 days as on March 31, 2024 (Prov.). Sustained improvement in creditors will remain a key monitorable.

Presence in a highly Competitive Industry

Infrastructure is a fairly fragmented industry with a presence of few large pan India players

where subcontracting & project specific partnerships for technical/financial reasons are fairly common. The company faces stiff competition with its competitors in procuring orders through bidding, immense competition for procuring tenders leads to very competitive pricing which in turn lead to stress on the margins. Moreover, susceptibility of raw material pricing again keeps profit margin vulnerable risk and key sensitivity factor. However, presence of price escalation clause prevents the company from exposure to raw material price fluctuations to some extent. Also, the vast experience of the promoters gives the company an edge in procuring big size ticket orders but the stability of the order size in diversified segment is the key sensitivity factor.

Rating Sensitivities

- Improvement in revenues and profitability margins.
- Stretch in working capital.
- Timely execution of its order book

Liquidity Position Adequate

The company's liquidity is adequate marked by steady net cash accruals of Rs.14.14 Cr. as on March 31, 2024 (Prov.) as against long term debt repayment of Rs.8.10 Crore in the same period. Further, the company is expected to generate sufficient cash accruals over the medium term to repay its debt obligation. The current ratio stood moderate at 2.03 times as on March 31, 2024 (Prov.). The company has sizeable retention money with the authorities and timely receipt of these payments is crucial to support the liquidity position. As a result, the non-fund based limit remained highly utilized at ~96.13 per cent over the six months ended April, 2024 from canara bank and the fund based limit remained lower stood at ~20.63 per cent over the six months ended April, 2024. Moreover, the working capital intensive management of the company is marked by Gross Current Assets (GCA) of 173 days in 31st March 2024 (Prov.) as compared to 249 days in 31st March 2023. Acuité believes that going forward absence of any committed capital expenditure and term liabilities would further strengthen the liquidity profile of the company.

Outlook: Stable

Acuité believes that SCPL will continue to maintain a 'Stable' outlook over the medium term due to its experienced management and established track record along with moderate order book position. The outlook may be revised to 'Positive', in case of higher than-expected revenues and profitability, while maintaining its capital structure and improving its working capital management. Conversely, the outlook may be revised to 'Negative' in case SCPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

Other Factors affecting Rating

None.

Key Financials

Particulars	Unit	FY 24 (Provisional)	FY 23 (Actual)
Operating Income	Rs. Cr.	159.77	82.94
PAT	Rs. Cr.	6.65	4.37
PAT Margin	(%)	4.17	5.27
Total Debt/Tangible Net Worth	Times	0.72	1.05
PBDIT/Interest	Times	7.93	5.05

Status of non-cooperation with previous CRA (if applicable)

IVR, vide its press release dated June 18th, 2024 had denoted the rating of Shodha Constructions Private Limited as IVR BB-/Negative/ A4 'Downgraded and Issuer non cooperating'.

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 :

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
Canara Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	24.00	ACUITE A3 Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	32.00	ACUITE A3 Assigned
Canara Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.50	ACUITE BBB- Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.00	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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