

Press Release

Srinivasa Enterprises

02 November, 2017



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs.22.00 Cr.
Long Term Rating	SMERA BB-/Stable
Short Term Rating	SMERA A4

**Refer annexure for details*

Rating Rationale

SMERA has reaffirmed the long term rating of '**SMERA BB-' (read as SMERA double B minus)** and short term rating of '**SMERA A4' (read as SMERA A four)** on the Rs. 9.50 crore bank facilities. Further SMERA has assigned long term rating of '**SMERA BB-' (read as SMERA double B minus)** and short term rating of '**SMERA A4' (read as SMERA A four)** on the Rs. 12.50 crore bank facilities of Srinivasa Enterprises (SE). The outlook is '**Stable**'.

SE was established as a partnership concern in 2001 by Mr. B Jeevan Kishore. The firm undertakes civil construction work for schools, hospitals among others and also caters to the Government of Karnataka and Andhra Pradesh.

List of key rating drivers and their detailed description:

Strengths

Established track record of operations and experienced management: SE was established in 2003 as a partnership firm by Mr. B Jeevan Kishore and Mr. N Rambabu. The firm has long track record of operations of over a decade in the construction business. The management is supported by a qualified and experienced team.

Long term association with government agencies: SE has executed projects for the Karnataka, Andhra Pradesh and Telangana governments apart from other government bodies. The counter-party default risk remains minimal since the firm caters to government organisations. With the promoter's extensive industry experience, timely execution of projects, the firm has been able to establish long-standing relations with clients.

Healthy order book position: The firm has a healthy order book position marked by current orders in hand of Rs. 65.00 crore as on 5 October, 2017.

Healthy financial risk profile: The financial risk profile is healthy. The firm has low gearing of 0.52 times as on 31 March, 2017 compared to 0.44 times as on 31 March, 2016. The total debt mainly consists of working capital borrowings. SE has healthy coverage indicators with interest coverage ratio (ICR) of 2.93 times for FY2017 and 2.97 times for FY2016. Further, the networth of the firm stood at Rs.4.45 crore as on 31 March, 2017 as against Rs.3.54 crore as on 31 March, 2016. The DSCR of the firm also stood healthy at 2.41 times for FY2017 compared to 2.42 times for FY2016.

Weaknesses

Small scale of operations due to tender based business: The scale of operations is small despite the firm being in the construction business from the last 14 years. The firm registered operating income of Rs.16.09 crore in FY2016-17 and Rs. 19.06 crore in FY2015-16. Being a civil contractor, the revenue of SE depends on the number of successful bids and the tenders being released in the financial year.

Competitive and fragmented industry: The civil construction industry is marked by the presence of several mid to big sized players. The firm faces intense competition from other players. Risk becomes more pronounced as tenders are based on the minimum amount of bidding of contracts. However, this risk is mitigated to an extent as the management has been in the business for the last 14 years.

Working capital intensive operations: SE has working capital intensive operations. The gross current asset days stood at 166 for FY2016-17 on account of high debtor days of 112.

Analytical approach: SMERA has considered the standalone business and financial risk profiles.

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Outlook: Stable

SMERA believes that SE will maintain a stable outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenue and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability, deterioration in the financial risk profile or higher than expected working capital requirements.

About the Rated Entity: Key financials

In FY2016-17, SE reported profit after tax (PAT) of Rs.0.53 crore on operating income of Rs. 16.09 crore as against PAT of Rs.0.56 crore on operating income of Rs.19.06 crore in the previous year. Further, the networth stood at Rs.4.45 crore as on 31 March, 2017 compared to Rs.3.54 crore as on 31 March, 2016.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History for the last three years:

Date	Name of Instrument/ Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
18-July-2017	Cash credit	Long term	1.75	SMERA BB- (Indicative)
	Cash Credit	Long term	0.75	SMERA BB- (Indicative)
	Bank Guarantee	Short term	7.00	SMERA A4 (Indicative)
21-Mar-2016	Cash credit	Long term	1.75	SMERA BB- / Stable (Reaffirmed)
	Cash Credit	Long term	0.75	SMERA BB- / Stable (Assigned)
	Bank Guarantee	Short term	7.00	SMERA A4 (Reaffirmed)
10-Feb-2015	Cash Credit	Long term	1.75	SMERA BB- / Stable (Reaffirmed)
	Bank Guarantee	Short term	7.00	SMERA A4 (Reaffirmed)

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A	2.50	SMERA BB-/Stable (Reaffirmed)
Proposed Cash Credit	N.A	N.A	N.A	4.50	SMERA BB-/Stable (Assigned)
Bank Guarantee	N.A	N.A	2021	7.00	SMERA A4 (Reaffirmed)
Proposed Bank Guarantee	N.A	N.A	N.A	8.00	SMERA A4 (Assigned)

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ABOUT SMERA

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