

Press Release

Srinivasa Enterprises

December 27, 2018

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB-**' (read as **ACUITE double B minus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 22.00 crore bank facilities of Srinivasa Enterprises (SE). The outlook is '**Stable**'.

SE was established as a partnership concern in 2003 by Mr. B Jeevan Kishore and Mr. N Rambabu. The firm undertakes civil construction work for schools and hospitals, among others and also caters to the Government of Karnataka and Andhra Pradesh.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of SE to arrive at the rating.

Key Rating Drivers

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 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 counterparty default risk remains minimal since the firm caters to government organisations. With the promoter's extensive industry experience and 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.96.39 crore as on November, 2018.

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.

- Moderate financial risk profile:**

The financial risk profile is moderate. The gearing has deteriorated to 1.41 times as on 31 March, 2018 from 0.52 times as on 31 March, 2017. The total debt mainly consists of working capital borrowings. SE has coverage indicators with interest coverage ratio (ICR) of 2.97 times for FY2018 and 2.93 times for FY2017. Debt Service Coverage Ratio (DSCR) of the firm also stood healthy at 2.41 times for FY2018 and FY2017. Further, the net worth of the firm has deteriorated to Rs.3.80 crore as on 31 March, 2018 from Rs.4.45 crore as on 31 March, 2017.

• **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 this business.

• **Working capital intensive operations:**

The working capital cycle of SE is intensive marked by Gross Current Assets (GCA) of 199 days in FY2018 as against 167 days in FY2017. This is mainly because of high inventory days of 121 days in FY2018 as against 38 days in FY2017 while the debtors stood at 45 days in FY2018 as against 112 days in FY2017. As a result, the average utilisation of bank limits stood high at 85 percent in the last six months ending 30 November, 2018. Acuite believes that efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

Outlook: Stable

Acuite believes that SE will maintain a 'Stable' outlook and benefit over the medium term from its promoters' extensive experience in the wholesale of liquor. The outlook may be revised to 'Positive' if the financial risk profile, particularly liquidity improves with infusion of long-term funds by promoters. Conversely, the outlook may be revised to 'Negative' if the liquidity weakens due to unanticipated stretch in working capital cycle or sizeable capital withdrawals by promoters.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	16.39	16.09	19.06
EBITDA	Rs. Cr.	1.41	1.26	1.29
PAT	Rs. Cr.	0.61	0.53	0.56
EBITDA Margin	(%)	8.59	7.84	6.76
PAT Margin	(%)	3.74	3.26	2.92
ROCE	(%)	17.38	20.37	25.60
Total Debt/Tangible Net Worth	Times	1.41	0.52	0.44
PBDIT/Interest	Times	2.97	2.93	2.97
Total Debt/PBDIT	Times	3.64	1.77	1.14
Gross Current Assets (Days)	Days	199	167	134

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-40.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
02-Nov-2017	Cash Credit	Long Term	2.50	ACUITE BB- / Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	4.50	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	7.00	ACUITE A4 (Reaffirmed)
	Proposed Bank Guarantee	Short Term	8.00	ACUITE A4 (Assigned)
18-Jul-2017	Cash Credit	Long Term	1.75	ACUITE BB- (Indicative)
	Cash Credit	Long Term	0.75	ACUITE BB- (Indicative)
	Bank Guarantee	Short Term	7.00	ACUITE A4 (Indicative)
21-Mar-2016	Cash Credit	Long Term	1.75	ACUITE BB- / Stable (Reaffirmed)
	Cash Credit	Long Term	0.75	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	7.00	ACUITE A4 (Reaffirmed)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE A4 (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.46	ACUITE BB- / Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.54	ACUITE BB- / Stable (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuute.in Saurabh Rane Analyst - Rating Operations Tel: 02249294044 Saurabh.Rane@acuiteratings.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuute.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 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. Acuité ratings 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. Acuité ratings 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) for the latest information on any instrument rated by Acuité.*