

October 28, 2022

Shree Shakti Construction: Ratings reaffirmed and Removed from the Issuer Not Cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Cash Credit	4.00	4.00	[ICRA]BB-(Stable); reaffirmed and removed from the 'Issuer Not Cooperating' category
Non-Fund based – Bank Guarantee	7.00	7.00	[ICRA]A4; reaffirmed and removed from the 'Issuer Not Cooperating' category
Total	11.00	11.00	

*Instrument details are provided in Annexure-I

Rationale

The rating reaffirmation factors in Shree Shakti Construction's (SSC's) weak financial risk profile characterised by modest scale of operations, thin profitability, weak debt coverage indicators and stretched liquidity position with almost full utilisation of working capital limits. ICRA also notes high geographical and client concentration risks which coupled with intense competition and tender-based contract system keeps the margins under check. The ratings also factor in the vulnerability to raw material price fluctuation risks as majority of order are fixed price in nature with absence of any price-escalation clauses. Further, SSC is a partnership concern and thus its capital structure remains vulnerable to capital withdrawals.

The ratings, however, favourably factor in the past experience of the promoters in the civil construction industry and low counter-party credit risks owing to it's reputed clientele with Government and semi-Government bodies.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that SSC will continue to benefit from the extensive experience of its partners in the civil construction industry

Key rating drivers and their description

Credit strengths

Extensive track record and expertise of partners in civil construction projects - SSC was set up in 1997 as a proprietorship concern and later converted into partnership firm in May 2015. It is promoted by the Thacker and undertakes civil construction work, primarily in Gujarat. Mr. Deepak Thacker has over two decades in the civil construction industry.

Reputed clientele limits counter-party credit risks- SSC's client profile includes various reputed Government and semi-Government agencies/local authorities in Gujarat, such as Gujarat State Police Housing Corporation Limited, Gujarat Project Implementation Unit and Western Railways, resulting in a relatively low counter-party credit risk.

Credit challenges

Weak financial risk profile– The firm's scale of operations remains moderate, with an operating income (OI) of Rs. 25.2 crore in FY2021 and Rs. 33.1 core in FY2022. Further, the profitability continues to be weak with an operating margin of 4.4% in

FY2022 and net profit margin of 1.7% in FY2022. The debt coverage indicators remained weak due to low profitability and high debt levels, with the total debt/OPBDITA of 5 times, TOL/TNW of 1.8 times as on FY2022-end.

Vulnerability to raw material price fluctuation risks - SSC executes work orders with an execution time of 12-18 months, which are generally fixed-price contracts. Given the high share of raw material costs in its cost structure, any steep fluctuation in raw material prices could severely impact the profitability of the firm in the absence of any price-escalation clauses in majority of its contracts.

High client and geographical concentration risks; intense competition - The firm's client concentration risk remains high, as its top two clients account for more than 90% of the outstanding order book as on end September 2022. All the outstanding orders are in Gujarat, exposing it to geographical concentration risks as well. However, counter-party credit risk is relatively low since the clients are mostly Government departments. Further, the firm faces intense competition from numerous players in the organised and the unorganised segments. With tenders mainly awarded based on competitive pricing, SSC's profitability stands exposed to stiff competition.

Risks inherent in partnership firm - Given the partnership nature of the firm, any significant capital withdrawal could adversely impact the capital structure.

Liquidity position: Stretched

SSC's liquidity is stretched with almost full utilisation of working capital limits, given the high working capital requirement emanating from the sizeable cash lock up in business in the form of retention money and security deposits. With current bank guarantee (BG) limits ~75% utilised, there may be limitations in meeting fresh bank guarantee requirement, in case of delay in anticipated release of BG for securing new work orders. However, some comfort can be drawn as the company has no major debt led capex plans in the near to medium term.

Rating sensitivities

Positive factors – The ratings could be upgraded with sustained improvement in scale and profitability along with a substantial improvement in net worth and liquidity.

Negative factors – Negative pressure on the ratings may arise if the firm's scale of operations declines due to significant delays in execution, adversely impacting its financial performance and liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone approach

Note (for analyst reference only):

About the company

Established in 1997 as a proprietorship concern by Mr. Deepak Thacker, Shree Shakti Construction executes civil construction contracts, mainly building construction works for Government and semi-Government departments in Gujarat. SSC was converted into a partnership firm in May 2015. The firm is registered as a Class-AA contractor with the Road and Building Department, State Government of Gujarat.

Key financial indicators (audited)

SSC	FY2021	FY2022 P
Operating income	25.2	33.1
PAT	0.6	0.6
OPBDIT/OI	6.0%	4.4%
PAT/OI	2.3%	1.7%
Total outside liabilities/Tangible net worth (times)	2.2	1.8
Total debt/OPBDIT (times)	4.9	5.0
Interest coverage (times)	1.5	1.7

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; Amount in Rs crore; P: Provisional

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument			Current Rating (FY2023)		Chronology of Rating History for the past 3 years			
				Amount Outstanding (Rs. crore)	Date & Rating in		Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
		Type	Amount Rated (Rs. crore)		Oct 28, 2022	April 28, 2022			
1	Cash Credit	Long-term	4.00	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable); ISSUER NOT COOPERATING	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)
2	Bank Guarantee	Short-term	7.00	-	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	[ICRA]A4	[ICRA]A4	[ICRA]A4

Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund based – Cash Credit	Simple
Non-Fund based – Bank Guarantee	Very Simple

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	NA	NA	NA	4.00	[ICRA]BB-(Stable)
NA	Bank Guarantee	NA	NA	NA	7.00	[ICRA]A4

Source: Company

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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