

December 31, 2021

Ganesan Builders Limited: Long-term rating reaffirmed; short-term rating downgraded

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	20.00	20.00	[ICRA]BB (Stable); reaffirmed
Short-term – Non-fund based	10.00	10.00	[ICRA]A4; downgraded from [ICRA]A4+
Long-term/Short-term – Unallocated	4.00	4.00	[ICRA]BB (Stable); reaffirmed/[ICRA]A4; downgraded from [ICRA]A4+
Total	34.00	34.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in Ganesan Builder Limited's (GBL) short-term rating considers its stretched liquidity position, characterised by the limited availability of buffer in its cash credit facility and modest cash balances caused by its elongated working capital cycle. The ratings remain constrained by the company's moderate scale of operations in an intensely competitive construction industry, which also constraints its profitability. Besides, the company's revenues declined by ~18% in FY2021 and the operating profit margins reduced sharply to 1.1% in FY2021 from 4.8% in FY2020 owing to the temporary disruption caused by the Covid-19 pandemic. The profitability was affected by the revenue decline, which resulted in weaker fixed cost absorption such as employee expenses. The company's debt protection metrics weakened as reflected in interest coverage and total debt/OPBIDTA of 0.4 time and 28.0 times, respectively, in FY2021, compared with an interest cover of 1.6 times and total debt/OPBIDTA of 4.5 times in FY2020. However, ICRA expects the operating income and profitability to improve in FY2022. Further, the ratings are constrained by its high segmental and geographical concentration risks as it is present predominantly in the industrial construction segment in Tamil Nadu.

The ratings, nonetheless, continue to factor in the extensive experience of the company's promoters, along with its vast track record in project execution spanning over five decades in the construction segment. The ratings consider its established relationship with a diverse clientele which mitigates the client concentration risk to an extent and ensures repeat orders. Besides, the company's reputed clientele of established private entities in Tamil Nadu keeps the counterparty credit risk limited.

The Stable outlook reflects ICRA's expectation that GBL will continue to benefit from its established track record in building construction, the extensive experience of its promoters and its moderate order book position as of September 2021, which provides near-term revenue visibility.

Key rating drivers and their description

Credit strengths

Experience of promoters and long track record in project execution – The company has a track record of over five decades. It started its operations in 1964 in the construction sector with projects in industrial, commercial, and residential structures,

mainly for the private sector and primarily in Tamil Nadu. GBL's promoter, Mr. Ganesan Venkatachalam, has over five decades of experience in the construction industry.

Diverse clientele with low customer concentration risk – The company has a diverse clientele with low customer concentration risk as the top three customers contributed to ~34% of its pending order book position as on September 30, 2021. It has an established relationship with clients based on its reputation in project execution that ensures repeat orders and lends stability to its revenues to an extent. Some of its major renowned clients include India Cements Ltd, TVS Group, Olympia Tech Park, JK Tyres Ltd and Saint Gobain India Pvt Ltd, among others.

Credit challenges

Modest scale of operations with high segmental and geographical concentration – The company has a modest scale of operation with an OI of Rs. 80.8 crore in FY2021 in an intensely competitive construction sector that has restricted its scope to expand margin. The revenue decline of 18% in FY2021 was due to the delay in project execution owing to the imposition of the lockdown following the Covid-19 pandemic. The same exerted pressure on its operating profit margins as well. The company has billed Rs. 62.0 crore in 8M FY2022 and has a pending order book of Rs. 95.7 crore as of September 2021. Although the order book was moderate as of September 2021, the company expects to receive a few large-scale orders in Q4 FY2022. With orders in hand and the subsiding impact of the Covid-19 pandemic, ICRA expects the revenue and profitability to improve in FY2022. The company's geographical concentration and sector concentration risks remain high with its pending order book as on September 30, 2021, limited to the building construction segment and presence predominantly in Tamil Nadu.

Modest debt protection metrics due to thin operating margin – GBL's financial profile is characterised by modest coverage indicators due to its thin operating margins that remain vulnerable to the fluctuations in raw material prices and labour costs. However, it mitigates the aforesaid risk to an extent as it has a price escalation clause for raw materials and labour with many of its customers. The company's debt protection metrics such as interest coverage and total debt/OPBDITA weakened sharply to 0.4 time and 28.0 times, respectively, in FY2021, compared with 1.6 times and 4.5 times, respectively, in FY2020, owing to the decline in the company's operating margins to 1.1% from 4.8%. The moderation in operating profitability was caused by the reduced scale of operations which resulted in weaker fixed cost absorption such as employee expenses. However, ICRA expects the credit metrics to improve in FY2022.

Working capital intensive nature of operations – The company's working capital intensity remains high at 40.9% as on March 31, 2021, compared with 32.6% as on March 31, 2020, owing to its high inventory and debtor levels. The increased working capital intensity in FY2021 was led by an elongation in its debtor position that stretched its liquidity position. Nonetheless, given its reputed clientele, the company has not faced any significant bad debt in the past.

Liquidity position: Stretched

The company's liquidity position is stretched, characterised by limited buffer in its fund-based working capital facilities and limited cash balances maintained. The average utilisation of its CC facility of Rs. 20.0 crore stood at 92.5% for the July 2020 to September 2021 period.

Rating sensitivities

Positive factors – ICRA may upgrade GBL's ratings if there is a sustained increase in its scale of operations and profitability along with an improvement in its liquidity position.

Negative factors – Negative pressure on the ratings could arise if the company's scale of operation and operating margin deteriorate on a sustained basis and/or if its liquidity position weakens due to a stretched working capital cycle.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the rated entity.

About the company

GBL was originally set up as a proprietorship firm by Mr. V. Ganesan in 1964, which was subsequently re-constituted as a private limited company and then, in 1985, as a public limited company. The company undertakes the construction of industrial structures and civil works for industrial, commercial, and residential segments for the private sector, primarily in Chennai. It has an extensive experience spanning over five decades in the construction sector. GBL's client list is diversified across various sectors such as IT, housing, heavy engineering, automobiles, sugar, power, educational institutions, residential buildings, etc.

Key financial indicators

GBL	FY2020	FY2021 Prov.
Operating Income (Rs. crore)	98.54	80.84
PAT (Rs. crore)	0.74	-0.55
OPBDIT/OI (%)	4.81%	1.10%
PAT/OI (%)	0.75%	-0.69%
Total Outside Liabilities/Tangible Net Worth (times)	2.80	2.73
Total Debt/OPBDIT (times)	4.48	28.05
Interest Coverage (times)	1.60	0.39

Source: GBL; ICRA; Prov. – Provisional financials

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)			Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2021 (Rs. crore)	Date & Rating on	FY2021	FY2020	FY2019
					December 31, 2021	October 28, 2020	November 28, 2019	November 29, 2018
1	Fund-based facility – Cash Credit	Long term	20.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Non-fund based facility – Bank Guarantee	Short term	10.00	-	[ICRA]A4	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+
3	Unallocated	Long term/short term	4.00	-	[ICRA]BB (Stable)/[ICRA]A4	[ICRA]BB (Stable)/[ICRA]A4+	[ICRA]BB (Stable)/[ICRA]A4+	[ICRA]BB (Stable)/[ICRA]A4+

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based facility – Cash Credit	Simple
Non-fund based facility – Bank Guarantee	Very Simple
Unallocated	Not Applicable

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, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No./Lender Name	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs Crore)	Current Rating and Outlook
NA	Fund-based facility – Cash Credit	NA	NA	NA	20.00	[ICRA]BB (Stable)
NA	Non-fund based facility – Bank Guarantee	NA	NA	NA	10.00	[ICRA]A4
NA	Unallocated	NA	NA	NA	4.00	[ICRA]BB (Stable)/[ICRA]A4

Source: GBL; ICRA

Annexure-2: List of entities considered for consolidated analysis – Not Applicable

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