

January 29, 2024

## Shree Shakti Construction: Ratings reaffirmed

### 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
Non-Fund based – Bank guarantee	7.00	7.00	[ICRA]A4; reaffirmed
<b>Total</b>	<b>11.00</b>	<b>11.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmed ratings factor in Shree Shakti Construction's (SSC) weak financial risk profile, which is characterised by its modest scale of operations, thin profitability, weak debt coverage indicators and stretched liquidity position with almost full utilisation of working capital limits. Operating revenues declined by ~50% in FY2023 to Rs. 16.9 crore, as the entity's primary focus in FY2023 was to complete all slow-moving orders that were stuck due to the Covid-19 pandemic. While the revenue in H1 FY2023 was Rs. 10 crore, it was only Rs. 6 crore for H2 FY2023. This decline in the second half was mainly due to a strike by the firm to receive the differential amount in the GST rate. In January 2021, the GST rate was increased to 18% from the earlier 12%. ICRA also notes the high geographical and client concentration risks for the company, and along with intense competition and tender-based contract system keep SSC's margin under check. The ratings also factor in the entity's vulnerability to raw material price fluctuation risks as most orders are fixed price in nature with the absence of price-escalation clauses. Further, SSC is a partnership concern and thus its capital structure remains vulnerable to capital withdrawals, as has been witnessed in the past.

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 its reputed clientele comprising the government and semi-government bodies.

The Stable outlook 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 a partnership firm in May 2015. The entity is promoted by the Thacker family, undertaking civil construction work, primarily in Gujarat. Mr. Deepak Thacker has over two decades of experience 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 operating revenues declined by ~50% in FY2023 to Rs. 16.9 crore, as the firm's primary focus in FY2023 was to complete all slow-moving orders that were stuck due to the Covid-19 pandemic. While the revenue in

H1 FY2023 was Rs. 10 crore, it was only Rs. 6 crore for H2 FY2023. This decline in the second half was mainly due to a strike by the firm to receive the differential amount in GST rate, which in January 2021, was increased to 18% from the earlier 12%. Further, the profitability, though improved, remained modest with an operating margin of 7.6% in FY2023 (4.4% in FY2022) and net profit margin remained stable at 1.7% in FY2023. The capital structure continued to remain weak as reflected in total debt/OPBDITA of 4.3 times in FY2023 (FY2022: 5 times) and TOL/TNW of 1.7 times as of the FY2023-end (FY2022: 1.8 times).

**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 the majority of its contracts.

**High client and geographical concentration risks; intense competition** - The firm's client concentration risk remains high, as its top three clients account for more than 95% of the outstanding order book as on December 31, 2023. All the outstanding orders are in Gujarat, exposing it to geographical concentration risk 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 – Stretched

SSC's liquidity is stretched with almost full utilisation of working capital limits, given the high working capital requirement stemming from the sizeable cash lock-up in business in the form of retention money and security deposits. The unencumbered cash balance as on December 31, 2023 was Rs. 0.04 crore. With current bank guarantee limits being ~93% utilised, there may be limitations in meeting fresh bank guarantee requirements for securing new work orders, in case of delay in release of BG. However, some comfort can be drawn as the company has no major debt-led capex plans in the near to medium term.

## Proposed 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 position.

**Negative factors** – Negative pressure on the ratings may arise if the firm's scale of operations declines adversely impacting its financial performance and liquidity position or material reduction in the order book.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Construction Entities</a>
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone approach

## 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 the 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	FY2022	FY2023
Operating income	33.1	16.9
PAT	0.6	0.3
OPBDIT/OI	4.4%	7.6%
PAT/OI	1.7%	1.7%
Total outside liabilities/Tangible net worth (times)	1.8	1.7
Total debt/OPBDIT (times)	5.0	4.3
Interest coverage (times)	1.7	1.3

Source: Company, ICRA Research; Amount in Rs. crore

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	Type	Current rating (FY2024)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as of Dec 31, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022	Date & rating in FY2021
				Jan 29, 2024	Oct 28, 2022	April 28, 2022	7-Jan-2021	13-Sep-2019
1 Cash Credit	Long term	4.0	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable); ISSUER NOT COOPERATING	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)
2 Bank Guarantee	Short term	7.0	-	[ICRA]A4	[ICRA]A4	[ICRA]A4; ISSUER NOT COOPERATING	[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: [Click Here](#)

#### 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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