

Shree Shakti Construction

August 29, 2018

Summary of rated instruments

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based – Working Capital Facilities	4.00	4.00	[ICRA]BB- (Stable); Reaffirmed
Non-Fund based – Working Capital Facilities	7.00	7.00	[ICRA]A4; Reaffirmed
Total	11.00	11.00	

*Instrument details are provided in Annexure-1

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BB- (pronounced ICRA double B minus) assigned to the Rs. 4.00-crore¹ fund-based facility and the short-term rating of [ICRA]A4 (pronounced ICRA A four) assigned to the Rs. 7.00-crore non-fund based facility of Shree Shakti Construction (SSC or the firm)². The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of ratings factor in SSC's modest financial profile characterised by its relatively small scale of operations, low profitability levels, and moderate debt coverage indicators. The ratings also take into account SSC's modest order book position of Rs. 38.73 crore as on March 31, 2018 (1.35 times of FY2018 operating income), and its exposure to high geographic and customer concentration risks, given that most projects are concentrated in Gujarat, with a single customer accounting for more than 50% of the unexecuted order book as on March 31, 2018. Further, the ratings continue to remain constrained by the vulnerability of the firm's profitability to fluctuations in raw material prices, given the fixed-price nature of majority of its contracts. ICRA notes the intense competition in the civil construction industry, which limits the firm's pricing flexibility. ICRA also notes that SSC is a partnership firm and any significant withdrawal from the capital account can impact its net worth and hence its capital structure.

The ratings, however, favourably factor in the vast experience of the partners in the civil construction industry and its reputed clientele with Government and semi-Government bodies limiting counter-party credit risks.

Outlook: Stable

ICRA expects SSC to continue to benefit from the extensive experience of its partners in the civil construction industry. The outlook may be revised to Positive if a substantial growth in revenue and profitability along with better working capital management strengthens the financial risk profile. The outlook may be revised to Negative if lower than expected revenues and cash accruals due to lack of orders or slower execution of projects in hand, or regular capital withdrawals, or stretch in the working capital cycle weakens liquidity.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Key rating drivers

Credit strengths

Extensive track record and expertise of the partners in civil construction projects – SSC was set up in 1997 as a proprietorship concern for undertaking civil construction activities, primarily in Gujarat. It was converted into a partnership firm in May 2015. At present, the firm is managed by four partners, Mr. Deepak Thacker, Mrs. Damyantiben Thacker,

Mrs. Daxaben Thacker and Mr. Heet Deepak Thacker. SSC's operations are primarily overseen by Mr. Deepak Thacker who has significant experience of more than two decades in the civil construction industry. The extensive experience of Mr. Deepak has facilitated the firm to establish strong relationships with its customers as well as suppliers.

Reputed clientele with Government and semi-Government bodies 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 Council of Primary Education, and Western Railways (WR), etc, resulting in a relatively low counter-party credit risk.

Credit challenges

Small scale of operations and low profitability levels; moderate debt coverage indicators– SSC is a modest sized player in the highly fragmented and competitive civil construction industry. The operating income (OI) of the firm has fluctuated in the last two fiscals on the back of variations in order flow and execution of projects. The firm reported Rs. 28.8 crore of OI in FY2018, a YoY growth of 19%, as against a sharp decline of 47% in FY2017. The profitability of the firm remains modest given the low complexity of work involved and high competitive pressures, as reflected by operating profit margin of 4.2% and net profit margin of 3.0% in FY2018. The debt coverage indicators of the firm are moderate with interest coverage at 2.6 times, NCA/Total debt of 18.5% and Total debt / OPBDITA of 4.7 times as on March 31,2018.

Modest order book position - The firm had an unexecuted order book of Rs. 38.73 crore as on March 31, 2018 (1.35 times OI of FY2018), with the execution period falling between the next 9-12 months. This provides some near term revenue visibility, though the revenue growth would be contingent upon timely completion of the projects in hand.

Vulnerability to raw material price fluctuation risks – SSC executes work orders with a smaller execution time, 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 price-escalation clauses in the contracts.

High client and geographical concentration risks – The firm's client concentration risk remains high, with a single customer, Gujarat Council of Primary Education, accounting for more than 50% of the outstanding order book of Rs. 38.73 crore as on March 31, 2018. Almost all the outstanding orders of the firm are in Gujarat, which exposes it to geographical concentration risks as well.

Intense competition due to highly fragmented industry structure – The firm faces intense competition in the highly fragmented construction industry, characterised by many players in the organised as well as the unorganised segments. With tenders mainly awarded on the basis of competitive pricing, SSC's profitability stands exposed to intense competition.

Risk of capital withdrawal by partners – Being a partnership concern, the firm is exposed to the risk of cash withdrawal by the partners as witnessed by net capital withdrawal of Rs. 0.64 crore in FY2016 and Rs. 4.77 crore in FY2017.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:
[Corporate Credit Rating Methodology](#)
[Rating Methodology for Construction Entities](#)
About the company:

Established in 1997 as a proprietorship concern by Mr. Deepak Thacker, Shree Shakti Construction is involved in the execution of 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.

In FY2018, on a provisional basis, the firm reported a net profit of Rs. 0.9 crore on an operating income (OI) of Rs. 28.8 crore, as compared to a net profit of Rs. 0.7 crore on an OI of Rs. 24.1 crore in the previous year.

Key financial indicators

	FY2016 Audited	FY2017 Audited	FY2018 Provisional
Operating Income (Rs. crore)	45.9	24.1	28.8
PAT (Rs. crore)	1.3	0.7	0.9
OPBDIT/OI (%)	3.2%	4.2%	4.2%
RoCE (%)	17.4%	14.4%	15.6%
Total Debt/TNW (times)	0.7	1.6	1.3
Total Debt/OPBDIT (times)	3.1	4.3	4.7
Interest Coverage (times)	2.4	1.7	2.6

Status of non-cooperation with previous CRA: Not applicable
Any other information: None
Rating history for last three years:

Current Rating (FY2019)					Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
					-	Feb 2017	Nov 2015
1 Cash Credit	Long Term	4.00	-	[ICRA]BB-(Stable) Aug 2018	-	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)
2 Bank Guarantee	Short Term	7.00	-	[ICRA]A4	-	[ICRA]A4	[ICRA]A4

Complexity level of the rated instrument:

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website www.icra.in

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	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: Shree Shakti Construction

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