

Govindgowda and Sons

October 05, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Facilities (CC)	8.0	[ICRA]BB (Stable); assigned
Unallocated Limits	2.0	[ICRA]BB (Stable); assigned
Non-fund Based Facilities (BG)	15.0	[ICRA]A4+; assigned
Total	25.0	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]BB (pronounced ICRA double B)¹ to the Rs. 8.0-crore² fund-based facilities and the Rs. 2.0-crore the unallocated facilities of Govindgowda and Sons (GGS). ICRA has also assigned the short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 15.0-crore non-fund based limits of GGS. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings consider the extensive experience of the promoters spanning over five decades in the construction industry, having executed various road projects for reputed Government agencies. The ratings factor in the moderate unexecuted order book of Rs. 34.7 crore as on September 18, 2018, which provides near-term revenue visibility. GGS' financial profile remains comfortable with healthy operating margins, comfortable capital structure and adequate debt coverage metrics. The ratings are, however, constrained by the project execution risks with ~70% of the order book being in the initial stages of execution. The ratings are also constrained by its high customer concentration risk with only one customer accounting for the entire outstanding order book. GGS is exposed to geographical concentration risks with Mysore district in Karnataka contributing to the entire pending order book, exposing it to economic and political risks pertaining to a single region. The ratings also factor in the significant competition in the construction industry, particularly for Government projects and the vulnerability of the firm's margins to adverse variation in raw material, labour, and other input costs in absence of price escalation clauses for road projects. Going forward, GGS' ability to achieve revenue growth by executing orders in a timely manner and securing new orders, while sustaining healthy operating margins, while effectively managing its working capital requirements, will be the key rating sensitivities.

Outlook: Stable

ICRA believes GGS will continue to benefit from the extensive experience of its promoters in the construction industry. The outlook may be revised to Positive if the firm is able to demonstrate substantial growth in revenues with healthy profitability and efficient working capital management, resulting in strong cash accruals and strengthening of the overall financial risk profile. Conversely, the outlook may be revised to Negative if any slowdown in order execution, or cost escalation results in lower-than-expected cash accruals or if any major capital expenditure, or stretch in the working capital cycle, weakens the liquidity.

¹For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications

²100 lakh = 1 crore = 10 million

Key rating drivers

Credit strengths

Established track record of the promoters in the civil construction industry – Mr. Govinde Gowda, Managing Partner of GGS has over five decades of experience in the civil construction industry. Over the years, GGS has proven its execution capabilities in road construction projects. His sons, Mr. G. Ashok and Mr. G. Arun, the other partners of the firm, are civil engineering graduates and have over two decades of experience in the industry.

Comfortable financial risk profile – GGS' financial profile is strong with healthy operating margins over the years and low leverage as reflected by its gearing of 0.5 times as on March 31, 2018 and adequate coverage indicators. Furthermore, its unexecuted order-book position of Rs. 34.6 crore as on September 18, 2018, which are likely to be completed in FY2019, lends near-term revenue.

Established relationship with major customers – Timely execution of projects and established relationship with the Government organisations like Karnataka Public Works Department (KPWD), State Highway Development Project (SHDP), Mysuru City Corporation (MCC), National Highway Division (NH Division), etc result in repeat orders for the firm. GGS's top three customers, KPWD, SHDP and NH Division accounted for ~75% of the revenues in the last three fiscals.

Credit challenges

Moderate scale of operations – GGS has moderate scale of operations with revenues of Rs. 51.3 crore in FY2018 (increased from Rs. 46.6 crore in FY2017), restricting its operational and financial flexibility to some extent. Furthermore, GGS' ability to win larger projects may also be constrained by its modest net-worth base and limited track record in large-scale projects.

Project execution risk with larger orders in the initial stages of execution – GGS is exposed to project execution risks with ~70% of the order book being in the initial stages of execution (i.e. less than 20% financial progress). Additionally, the top three projects contribute to 91% of its outstanding order book. Hence any delay in execution or payments can affect the revenues and liquidity position of the firm.

High client and geographical concentration risks – GGS has high client concentration with KPWD accounting for the entire outstanding order book as on September 18, 2018. Moreover, the firm's operations are restricted to Mysore, Mandya and Chamarajanagar districts in Karnataka, which exposes it to various risks pertaining to a single region with no plans to geographically diversify in the immediate future.

Intense competition in the construction industry – GGS is exposed to cyclicity inherent in the construction industry and intense competition in the tender-based contract awarding system, resulting in volatility in revenue and pressure on margins. However, its extensive presence and established relationship with Government entities has resulted in regular order flow over the years.

Inherent risk associated with a partnership firm – Being a partnership concern, the firm is exposed to the risk of cash withdrawals by the partners.

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

Govinde Gowda, a proprietorship firm set up about 50 years ago and owned by Mr. Govinde Gowda, was re-constituted as a partnership entity, Govindgowda and Sons in 2013 by including his sons Mr. G. Ashok and G. Arun as partners. GGS, a Mysore-based construction contractor and a 'Class-I contractor' with the Government departments undertakes road construction work in Mysore, Mandya and Chamarajanagar districts of Karnataka for various government entities. Its clientele includes KPWD, SHDP, MCC, NH Division, Karnataka, Mysuru Urban Development Authority (MUDA), Directorate of Municipal Administration (DMA), and the Karnataka Industrial Area Development Board (KIADB) among others. The firm has about 70 employees on roll and about 60 contractual employees, who are deployed in projects across locations.

In FY2018, on provisional basis, the firm reported a net profit of Rs. 3.6 crore on an operating income (OI) of Rs. 51.3 crore compared to a net profit of Rs. 0.6 crore on an OI of Rs. 46.6 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018*
Operating Income (Rs. crore)	46.6	51.3
PAT (Rs. crore)	0.6	3.6
OPBDIT/ OI (%)	11.5%	12.4%
RoCE (%)	26.1%	29.1%
Total Debt/ TNW (times)	0.3	0.5
Total Debt/ OPBDIT (times)	0.7	1.4
Interest Coverage (times)	7.1	8.1

*Provisional financials for FY2018

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 Oct 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1 Fund-based facilities	Long Term	8.0	-	[ICRA]BB (Stable)	-	-	-
2 Unallocated Limits	Long Term	2.0	-	[ICRA]BB (Stable)	-	-	-
3 Non-fund based facilities	Short Term	15.0	-	[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	8.0	[ICRA]BB(Stable)
NA	Unallocated Limits	NA	NA	NA	2.0	[ICRA]BB(Stable)
NA	Bank Guarantee	NA	NA	NA	15.0	[ICRA]A4+

Source: GGS

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