PMJ Constructions Pvt. Ltd.

May 15, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based facilities	1.50	5.00	[ICRA]B (Stable); reaffirmed
Non-Fund based facilities	7.00	10.00	[ICRA]A4; reaffirmed
Unallocated Limits	15.00	2.00	[ICRA]B (Stable); reaffirmed
Total	**23.50**	**17.00**	

Rating action

ICRA has reaffirmed the long-term rating of [ICRA]B (pronounced ICRA B)[1] to the Rs. 5.00-crore fund-based facilities and Rs 2.00-crore unallocated limits of PMJ Constructions Pvt. Ltd. (PMJ). ICRA also has reaffirmed the short-term rating of [ICRA]A4 to the Rs. 10.00-crore non-fund based facilities of PMJ. The outlook on the long-term rating is Stable.

Rationale

The reaffirmation of the ratings considers the extensive experience of the promoters in the construction sector with expertise in civil construction projects and the reputed client base of the company which primarily consists of government entities in Karnataka, resulting in low counterparty credit risks. The ratings also take into consideration the significant improvement in gearing levels and coverage indicators of the company due to conversion of a major portion of unsecured loans to equity in FY2017. The ratings are, however, constrained by the weak order book position of Rs. 15.36 crore as on March 31, 2018 (0.87 times of the operating income in FY2018), which limits the revenue visibility in the near term. Moreover, the deferment of the M-sand project due to delays in clearances from different government departments has also restricted revenue visibility. The ratings are also constrained by the high customer-concentration risk as BBMP accounts for the entire outstanding order book at present. PMJ is also exposed to geographical-concentration risks as all its projects are based in Karnataka, exposing it to economic and political risks pertaining to a single region. The ratings factor in the high working capital intensity of operations primarily due to elongated receivables cycle, delay in execution and delay in approval of bills by the government departments. The ratings also factor in the intensely competitive business environment, characterised by the presence of many players along with a tender-based contract-awarding system, which keeps operating margins under check. The firm's margins are also vulnerable to adverse variation in raw materials, labour and other input costs with price-escalation clauses generally limited to cement and steel.

Going forward, PMJ's ability to achieve revenue growth by securing new orders and executing them in a timely manner while effectively managing its working capital requirements will be the key rating sensitivities.

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

Outlook: Stable

ICRA believes that PMJ will continue to benefit from the extensive experience of the promoters, however, the company's weak order book remains a concern. The outlook may be revised to 'Positive' if the company is able to demonstrate substantial growth in revenues while improving its profitability and working capital cycle, 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 any stretch in the working capital requirements, weakens liquidity.

Key rating drivers

Credit strengths

- **Established track record of the promoters in the civil-construction industry –** PMJ's promoters have extensive experience in the field of civil construction and is a 'Class 1A PWD Contractor'. It has established relationships with government organisations such as BDA, BBMP and Bangalore University among others.
- **Improvement in capital structure and coverage indicators –** With a significant portion of unsecured loans getting converted into equity, the capital structure and coverage indicators improved significantly, as reflected by a gearing of 0.8 times and interest coverage of 2.5 times as on March 31, 2017.

Credit challenges

- **Small scale of operations–** PMJ's scale of operations remain modest with revenues of Rs.17.67 crore in FY2018 which limits its operational and financial flexibility. Additionally, PMJ's ability to win more projects may be constrained by its low net worth base and limited track record.
- **High working capital intensity of operations:** PMJ's working capital intensity of operations remains high as reflected by NWC/OI of 46% in FY2017 primarily due to elongated receivables cycle and high work-in-progress inventory with delay in execution and approval of bills from the government departments.
- **High client and geographical concentration risks**: PMJ has high client concentration with BBMP accounting for more than 95% of the revenues in FY2018 and the entire outstanding order book position. Hence, any delay in execution or payments can affect the revenues and liquidity position of the company. Additionally, PMJ's operations are restricted to Karnataka which exposes it to various risks pertaining to a single region.
- **Intense competition in the construction industry:** PMJ is exposed to cyclicality inherent in the construction industry and intense competition in the tender-based contract awarding system, resulting in volatility in revenue and pressure on margins.

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

Links to applicable criteria:

Corporate Credit Rating Methodology

About the company

PMJ Constructions Pvt. Ltd., established in 2002, is promoted by M. Jagannath and is mainly involved in the field of civil construction work in and around Karnataka for various clients. The company is registered as a 'Class 1A category contractor' with the Karnataka PWD. The clientele of the company mainly includes government entities like Bangalore Development Authority (BDA), Bruhat Bengaluru Mahanagara Palike (BBMP), Bangalore University, Visvesvaraya Technological University, among others.

In FY2017, the company reported a net profit of Rs. 0.4 crore on an operating income of Rs. 18.8 crore compared to a net profit of Rs. 0.01 crore on an operating income of Rs. 8.7 crore in the previous year.

Key financial indicators (Audited)

	FY2016	FY2017
Operating Income (Rs. crore)	8.7	18.8
PAT (Rs. crore)	0.01	0.40
OPBDIT/ OI (%)	7.3%	7.6%
RoCE (%)	3.2%	11.0%
Total Debt/ TNW (times)	16.1	0.8
Total Debt/ OPBDIT (times)	17.6	3.2
Interest coverage (times)	1.9	2.5
NWC/ OI (%)	115%	46%

Source: RFIPL

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
					May 2018	-	Nov 2016	-
1	Cash Credit	Long Term	5.00		[ICRA]B (Stable)		[ICRA]B	
2	Bank Guarantee	Short Term	10.00		[ICRA]A4		[ICRA]A4	
3	Unallocated Limits	Long Term	2.00		[ICRA]B (Stable)		[ICRA]B	

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	Fund based facilities	NA	NA	NA	5.00	[ICRA]B (Stable)
NA	Non-fund based facilities	NA	NA	NA	10.00	[ICRA]A4
NA	Unallocated Limits	NA	NA	NA	2.00	[ICRA]B (Stable)

Source: PMJ

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About ICRA Limited:

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