

March 26, 2020

J M Constructions Company: Ratings upgraded to [ICRA]BB-(Stable)/[ICRA]A4; Ratings removed from Issuer non-cooperating category

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long term – Fund-Based/CC	5.00	5.00	[ICRA]BB-(Stable); upgraded from [ICRA]B+(Stable) and removed from Issuer non-cooperating category
Long term/Short term – Non-fund based	9.00	9.00	[ICRA]BB-(Stable); upgraded from [ICRA]B+(Stable) / [ICRA]A4; reaffirmed and removed from Issuer non-cooperating category
Short term – Non-fund based	0.50	0.50	[ICRA]A4; reaffirmed and Removed from Issuer non-cooperating category
Total	14.50	14.50	

*Instrument details are provided in Annexure-1

Rationale

The ratings reflect J M Constructions Company's (JMCC) healthy outstanding order book of Rs. 104.72 crore as on January 31, 2020, which is 3.17 times of FY2019 revenues, providing revenue visibility over the medium term. The ratings also consider long experience of partners in the civil construction work with a reputed client base of several public departments like Karnataka Slum Development Board (KSDB), Karnataka Public Works Department (PWD), Karnataka Urban Water Supply and Drainage Board (KUWS&DB).

These strengths are, however, partially offset by the firm's small scale of operations with revenues of Rs. 33.1 crore in FY2019 in a competitive civil construction industry. Moreover, the firm's revenues witnessed a 21% de-growth in FY2019 on account of delays in order execution during the period. The ratings are further constrained by high geographical concentration risk with order execution limited to Karnataka. Being a partnership firm, it is vulnerable to capital withdrawals by the partners.

The Stable outlook on the [ICRA]BB- rating reflects ICRA's opinion that JMCC will continue to benefit from its long track record of operations and a reputed client base.

Key rating drivers and their description

Credit strengths

Long experience of partners in civil work contracts – The partners have extensive experience in the civil contract work, which resulted in repeat orders from customers like Karnataka Housing Board (KHB) and KSDB. Moreover, the firm has been recognised as a Class-1 contractor by the Karnataka PWD.

Moderate order book size – JMCC has an outstanding order book size of Rs. 104.72 crore as on January 31, 2020, which is 3.17 times of FY2019 revenues, from clients like KSDB, KHB, PWD and other government departments, providing revenue visibility over medium term. The work include development of slums, roads, construction of buildings etc.

Credit challenges

Small scale of operations – JMCC is a small-sized construction company involved in civil infrastructure work for various municipalities and urban and industrial authorities for the Government of Karnataka. The firm’s revenues declined to Rs.33.2 crore in FY2019 from Rs. 42.2 crore in FY2018 due to slow execution of projects. However, the firm is expecting a 25-30% revenue growth in FY2020 on the back of higher order execution.

Order book and geographical concentration risks – The client concentration risk is high with most projects being executed for the Karnataka Urban Water Supply and Drainage Board and the Karnataka Slum Development Board. The orders from KSDB accounted for nearly 50% of the total order book size as on January 31, 2020. Moreover, it executes orders only in Karnataka, increasing the risk of dependence upon a single region for revenues.

Risk arising from partnership nature of business – Given JMCC’s constitution as a partnership firm, it is exposed to discrete risks including the possibility of withdrawal of capital by the partners and the risk of dissolution of the firm upon death, retirement or insolvency of the partners. Moreover, the partnership nature limits JMCC’s flexibility to tap external channels of financing.

Liquidity position: Stretched

The company’s liquidity is stretched with low retained cash flows of Rs. 1.5 crore in FY2019 and minimal buffer (less than Rs. 0.5 crore) in working capital limits, on account of delay in payments in the current year. However, the company does not have any repayment obligations or any major capex plans.

Rating sensitivities

Positive triggers – ICRA may upgrade JMCC’s ratings if healthy order inflow and timely execution of orders result in healthy revenue growth, while maintaining the profitability, leading to improved financial profile and liquidity. Specific credit metrics that could lead to an upgrade in ratings include interest coverage of more than 2.5 times on a consistent basis.

Negative triggers – Pressure may arise on JMCC’s ratings if its scale of operations declines due to delays in execution of projects, leading to a decline in its liquidity position. Specific credit metrics that may lead to a downgrade of ratings include interest cover of less than 2.0 times.

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 the standalone financial statements of the rated entity

About the company

JMCC is a partnership firm founded in April 2009 by Late Md. Junaid Ahmed and his family members. The firm is recognised as a class-1 contractor by the Karnataka PWD in 1989 (under proprietorship) and is involved in the business of executing civil work for various municipalities and other urban and industrial development departments for the Government of Karnataka.

In FY2019, the firm reported a net profit of Rs. 1.50 crore on an operating income of Rs. 33.06 crore compared to a net profit of Rs. 1.93 crore on an operating income of Rs. 42.23 crore in the previous year.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	42.23	33.06
PAT (Rs. crore)	1.93	1.50
OPBDIT/OI (%)	6.18%	9.18%
RoCE (%)	26.85%	27.65%
Total Outside Liabilities/Tangible Net Worth (times)	1.16	0.37
Total Debt/OPBDIT (times)	1.84	0.55
Interest Coverage (times)	2.35	2.14
DSCR	2.85	2.14

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Rating (FY2020)				Rating History for the Past 3 Years					
	Type	Amount Rated	Amount Outstanding	Current Rating 26-Mar-2020	Earlier Rating 09-Dec-2019	FY2019 12-Jun-2018	29-May-2018	FY2018 15-Nov-2017	FY2017 03-Feb-2017	
1 Cash credit	Long Term	5.0	5.0	[ICRA]BB-(Stable)	[ICRA]B+(Stable) ISSUER NON-COOPERATION	[ICRA]BB-(Stable)	[ICRA]BB-(Stable)	[ICRA]BB-(Stable) ISSUER NON-COOPERATION	[ICRA]BB-(Stable)	
2 Bank guarantee	Long Term/Short Term	9.0	9.0	[ICRA]BB-(Stable)/A4	[ICRA]B+(Stable)/A4 ISSUER NON-COOPERATION	[ICRA]BB-(Stable)/A4	[ICRA]BB-(Stable)/A4	[ICRA]BB-(Stable)/A4 ISSUER NON-COOPERATION	[ICRA]BB-(Stable)/A4	
3 SLC	Short Term	0.5	0.5	[ICRA]A4	[ICRA]A4 ISSUER NON-COOPERATION	[ICRA]A4	-	-	-	

Amount in Rs. Crore

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	5.00	[ICRA]BB-(Stable)
NA	Bank guarantee	-	-	-	9.00	[ICRA]BB-(Stable)/[ICRA]A4
NA	SLC	-	-	-	0.50	[ICRA]A4

Source: J M Constructions Company

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