J M Constructions Company

July 17, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	14.00	CARE B+; Stable	Assigned
Short Term Bank Facilities	16.00	CARE A4	Assigned

Details of facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of J M Constructions Company (JMCC) is tempered on account of small scale of operations along with exposure to geographical concentration risk with profitability margins susceptible to fluctuation in raw material prices, moderate financial risk profile and elongated operating cycle resulting into stretched liquidity.

The rating is also constrained by tender-based nature of operations in intensely competitive construction industry and constitution of the entity as proprietorship firm with inherent risk of capital withdrawal.

The rating, however, positively factor in experienced partners with proven track record in civil construction. The rating also takes note of moderate order book position of the firm; albeit with slow execution, indicating an orderbook to sales ratio of 5x thus providing revenue visibility in the near to medium term. In addition, the firm has been adding some new government clients where the budgetary allocation is in place and the execution is expected to improve.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Improvement in the scale of operations beyond Rs.75 crore while maintaining PBILDT margin of above 8%.
- Improvement in orders with improved execution resulting in improved cash accruals
- Timely realisation of receivables resulting reduced working capital utilisation with no instances of overdrawals in its CC account on a sustained basis.
- Improvement in operating cycle translating in to improved liquidity position of the firm.

Negative factors

- Significant delay in realisation of receivables from the government department thereby impacting the liquidity position of the firm.
- Withdrawal of the capital leading to overall gearing to more than 2.5x.
- Significant decline in the scale of operations or lower profitability translating in weakening of cash accruals.

Analytical approach: Standalone

Outlook: Stable

The 'Stable' outlook reflects CARE Ratings Limited's (CARE Ratings') expectation of the firm being able to improve its work order execution on the back of higher proportion of orders from newly added government clients with adequate budgetary allocation in place.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers:
Key weaknesses

Small scale of operations along with exposure to geographical concentration risk with profitability margins susceptible to fluctuation in raw material prices
The scale of operation of the firm continued to remain small, with firm reporting a revenue of Rs. 43.86 crores in FY24 (Prov); (PY: Rs. 45.08 crores). The scale of operations has remained in the range of Rs.35 crore to Rs.53 crore over last five years. The small scale of operations is mainly attributable to slower execution of orders, especially the order from slum board. However, on the back of higher proportion of new orders where the budgetary allocation is in place, the execution is expected improve, accordingly the firm is expected to report a TOI of about Rs.50 crore in FY25.
This apart, the firm is highly exposed to geographical concentration as, the order book is highly concentrated with most of its orders from a single state of Karnataka and are restricted to Bidar District of Karnataka. Hence, any change in the state's policy towards the construction sector (e.g., changes in budget allocation for infrastructure projects) might affect adversely to the fortunes of firms such as JMCC.
The basic input materials for execution of contracts are steel, bitumen and cement, the prices of which are highly volatile. Hence, the operating margin of the firm is exposed to any sudden spurt in the input material prices along with increase in labour prices being in labour intensive industry. The absence of price escalation clause primarily in the orders from slum board which constituted about 70% of the orders had resulted in fluctuation in PBILDT margins. However, going forward on the back of higher portion of new orders where majority of the orders have a price adjustment clause the PBILDT margins are expected to improve.

Moderate financial risk profile
Capital structure of the firm slightly improved, though remained moderate marked by overall gearing of 1.29x as on March 31, 2024, when compared to 1.88x as on March 31, 2023. TOL/TNW also slightly improved to 2.34x as on March 31, 2024, when compared to 2.71x as on March 31, 2023, on account of increase in net worth backed accretion of profits. The other debt coverage indicators also stood moderate with total debt to EBIDTA and total debt to GCA at 5.48x and 11.97x in FY24 (Prov) when compared to 7.07x and 12.73x in FY23 (A) respectively. Interest coverage of the firm has slightly moderated to 1.68x in FY24 (Prov) (PY: 1.94x) because of increase in interest cost backed by high utilisation working capital limits.

Elongated operating cycle & stretched liquidity
The operating cycle of the firm remained elongated for the last three financial years and stood at 269 days in FY24 (Prov) when compared to 264 days in FY23 (A) and 275 days in FY22 (A). The elongation in operating cycle was on account of elongated inventory days and receivable days. Slow execution has led to delay in billing and collection of its receivables from the government clients. The delays in receivables over past couple of years is mainly attributable to changes/instability in the government. The delay in receivable has further impacted the pace of execution resulting in increased inventory days to over 257 days in FY24 (Prov) (PY: 227 days). On account of above-discussed reasons the liquidity position of the firm remains stretched resulting into high dependency on working capital utilisation.

Tender-based nature of operations in intensely competitive construction industry
The construction industry is fragmented in nature with a large number of small and medium scale players present at the regional level coupled with the tender driven nature of the construction contracts leading to aggressive bidding in order to bag orders; thus, intensifying competition which puts pressure on the profitability margins of the players. Hence, the business prospects are dependent on periods when the government doles out tender, due to which the business volume remains high in the years when there are more government tenders and vice versa.

Constitution of the entity as proprietorship firm with inherent risk of capital withdrawal
Constitution as a proprietorship firm has the inherent risk of possibility of withdrawal of the capital at the time of personal contingency which will affect its capital structure. Moreover, proprietorship firms have restricted access to external borrowing which limits their growth opportunities to some extent. However, there has been no instances of capital withdrawal and on contrary, the promoters have infused capital of Rs. 1.98 crores during FY24 (Prov.)

Key strengths

Experienced partners with proven track record in civil construction.
The firm is presently managed by Mr. Mohammed Javeed Ahmed. Mr. Ahmed holds experience in construction industry for nearly fifteen years. He looks after the overall day-to-day activities of the firm. Further, the long-standing presence of promoters in the construction industry, enabled them to establish a long-term relationship with their customers and suppliers.

Moderate order book position of the firm albeit slow execution
As on July 04, 2024, the firm had total unexecuted order book position of Rs.221.90 crore, indicating an orderbook to sales ratio of 5x thus providing revenue visibility in the near to medium term. However, it is to be noted that most of the orders were pertaining to orders awarded in FY19 to FY21 period. The firm executes orders primarily from government bodies such as Public Work Departments (PWD) Karnataka, Karnataka Housing Board (KHB), Karnataka Slum Board (KSB), Karnataka Urban Water Supply and Drainage Board (KUWSDB), Rural Drinking Water and Sanitation Department (RDWSD), construction works for various municipalities, and works of urban and industrial departments (UIDD). This apart the firm has also signed LOA of new work orders amounting to Rs. 21.14 crore from Director of Municipal Admin (DMA).

Liquidity: Stretched
Liquidity position remained stretched marked by high utilization of its working capital limits. The average utilization of fund based working capital stood at 96.41% for last twelve months ended June 30, 2024. There were some instances of overdrawals in CC account, however, the same was regularised within 8-10 days. The firm had a low unencumbered cash and balance of Rs. 0.10 crore as on March 31, 2024. The operating capital cycle stood at 269 days in FY24 (Prov.) (PY: 264 days). The firm's current ratio stood at 1.36x but its quick ratio remained below unity at 0.59x as on March 31, 2024. The firm is expected to generate gross cash accruals of around Rs. 2 crores against the debt obligations of Rs. 0.17 crore pertaining to GECL loan. Thus, its cash accruals are expected to remain adequate to meet its debt repayment obligations.

Applicable criteria

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Short Term Instruments

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

J M Constructions Company (JMCC) was established as partnership firm in the year 2008 in Bidar, Karnataka. The firm is presently looked after by Mr. Mohammed Javeed Ahmed and is mainly engaged in construction and civil works for Public Works Department (PWD), Karnataka, Karnataka Housing Board (KHB), Karnataka Slum Board (KSB), Karnataka Urban Water Supply and Drainage Board (KUWSDB), Rural Drinking Water and Sanitation Department (RDWSD), construction works for various municipalities, and works of urban and industrial departments (UIDD) Etc.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	45.08	43.86
PBILDT	3.77	4.22
PAT	1.89	1.76
Overall gearing (times)	1.88	1.29
Interest coverage (times)	1.94	1.68

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA: ICRA has conducted the review on the basis of the best available information and has classified the JMCC as 'Issuer Not Cooperating' vide its press release dated July 19, 2023.

Any other information: Not applicable

Rating history for last three years: Please refer Annexure-2

Covenants of rated instrument / facility: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Working Capital Limits		-	-	-	14.00	CARE B+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	16.00	CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Fund-based - LT-Working Capital Limits	LT	14.00	CARE B+; Stable				
2	Non-fund-based - ST-Bank Guarantee	ST	16.00	CARE A4				

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Working Capital Limits	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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