

Sakthi Constructions

February 23, 2021

Ratings

Facilities/Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	5.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Long Term Bank Facilities	4.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable)
Short Term Bank Facilities	0.20	CARE A4 (A Four)	Assigned
Short Term Bank Facilities	17.80 (Enhanced from 8.00)	CARE A4 (A Four)	Reaffirmed
Total Bank Facilities	27.00 (Rs. Twenty-Seven Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the rating assigned to the bank facilities of Sakthi Constructions (SC) takes into account growth in total operating income (TOI) in FY20, improved capital structure and debt protection metrics and satisfactory operating cycle. The rating also factors, decline in PBILDT margin. The rating continues to be tempered by small scale of operations attributed by tender driven nature of business coupled with intense competition from other players, partnership nature of constitution with inherent risk of withdrawal of capital and Susceptibility of profit margins due to Volatility in input prices.

Rating sensitivities

Positive factors

- Consistent increase in the scale of operations and improvement in order book position on sustained basis
- Improvement in profitability on sustained basis

Negative factors

- Deterioration in capital structure marked by overall gearing above 2.00x.
- Any delays in execution of orders in hands impacting the financial performance of the firm

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations attributed by tender driven nature of business coupled with intense competition from other players

The scale of operations of the firm remains small albeit improved marked by its total operating income, at Rs.46.43 crore in FY20 due to increase in execution of orders. Further, the firm has low networth base at Rs. 6.63 crore as on March 31, 2020. The small scale of operations limits the firm's financial flexibility in times of stress and deprives it from scale benefits. Further, the firm has achieved turnover of Rs. 34.00 Crores as on January 31, 2021. The business prospects of SC are highly dependent on the government tenders and the business volume remains volatile depending upon the extent of government tenders floated during the year. Further, the civil construction industry is highly fragmented in nature with presence of large number of unorganized players at regional level and thereby creating intense competition within the players.

Moderate order book position

SC has an moderate order book of Rs. 32.17 crore as on January 31, 2021 which is to be executed over the period of 6-18 months providing medium term revenue visibility. The timely execution of these projects and strengthening its order book will remain crucial for the overall financial risk profile of the firm.

Partnership nature of constitution with inherent risk of withdrawal of capital

Constitution as a partnership has the inherent risk and possibility of withdrawal of capital at a time of personal contingency which can adversely affect the capital structure of the firm. Furthermore, partnerships have restricted access to external borrowings as credit worthiness of the partners would be a key factor affecting the credit decision of lenders.

Susceptibility of profit margins due to Volatility in input prices

The major input materials for the firm are steel, sand, blue metals, cement and bricks, the prices of which are volatile. Further the orders executed by the firm does not contain price escalation clause and thus the firm remains exposed to the

¹ Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

price volatility of the input materials. This apart, any increase in labour prices will also impact its profitability being present in a highly labour intensive industry.

Key Rating Strengths

Long track record of operations with extensive experience of the partners

SC is operating since 2009 and hence, the firm has track record of operations for about a decade. Mr. S. Thirunavukarasu and Mrs. T. Sangeetha Priya are the partners of the firm. Mr. S. Thirunavukarasu, aged 47 years, is the managing partner of the firm having more than two decades of experience in this industry. Due to long presence of the firm, the promoter is able to bag the repeated orders from its customers and maintaining healthy relationship with its suppliers.

Comfortable capital structure and satisfactory debt coverage indicators

SC's capital structure, stood comfortable marked by its overall gearing level and debt equity ratios, at 0.47x and 0.07x respectively as on March 31, 2020 as against 0.30x and 0.13x respectively as on March 31, 2019 mainly on account of moderate utilization of working capital utilization levels as on balance sheet date, followed by scheduled repayments of vehicle/equipment loans.

Though the debt levels increased, increase in cash accruals, led to improvement in the debt coverage indicators of the firm marked by its TD/GCA at 0.88x in FY20 as against 1.05x in FY19.

The interest service coverage ratio also stood comfortable at 8.04x in FY20 and improved from previous year 5.57x in FY19 due to increase in absolute PBILDT coupled with moderate increase in interest and finance costs.

Moderate operating cycle

The operating cycle of the firm stood satisfactory during the review period albeit negative at 4 days in FY20 (-41 days in FY19) on account of satisfactory improvement in collection and creditor's period. The firm usually receives payment within 30 days from the date the invoice raised. It avails credit period of 30 days from its suppliers. The firm accounts its revenue on realization of bills raised and it normally gets payment from the respective department within 30 days from the date of raising the bill. The average utilization of working capital facility stood at 50% for the last twelve months ended January 31, 2021.

Satisfactory profitability margins

The profitability margins of the firm remained Satisfactory over the review period. The PBILDT margin of the firm stood satisfactory albeit declined by 164 bps to 8.92% in FY20 from 10.56% in FY19 due to tender driven nature of business followed by increase in cost of construction materials, labour charges and other overhead expenses during the said period. However, The PAT margin of the firm shown marginal improvement during the review period. It has improved by 51 bps from 6.20% in FY19 to 6.71% in FY20.

Liquidity analysis: Adequate

Adequate liquidity characterized by sufficient cushion in accruals viz-a-viz repayment obligations and moderate cash balance of Rs. 2.49 crore. Its bank limits are utilized to the extent of 50% and has sought enhancement in bank lines, supported by the above unity current ratio which stood at 1.21x as on March 31, 2020. No moratorium has been sought by the firm as per RBI guidelines.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Financial ratios – Non-Financial Sector](#)

[Rating Methodology - Construction Sector](#)

[Criteria for Short term instruments](#)

[Liquidity analysis of Non-financial sector entities](#)

About the firm

Sakthi Constructions (SC), is a partnership firm, was established in the year 2009 promoted by Mr. S. Thirunavukarasu and his wife, Mrs. T Sangeetha Priya. Based in Erode, the firm is engaged into execution of bridge and irrigation works for state Government of Tamil Nadu. The day to day operations are managed by the Mr. S. Thirunavukarasu. SC registered as 'Class A' contractor with public work departments, Tamil Nadu. The firm receives the work orders from state Government by participating in the tenders. Further it purchases raw materials like sand, cement, iron and bricks from the local suppliers, for the execution of orders.

Brief Financials (Rs. crore)	31-03-2019	31-03-2020
	A	A
Total operating income	21.00	46.43
PBILDT	2.22	4.14
PAT	1.30	3.11
Overall gearing (times)	0.30	0.47
Interest coverage (times)	5.57	8.04

Audited

Status of non-cooperation with previous CRA: Not Applicable**Any other information:** Not applicable**Rating History for last three years:** Please refer Annexure-2**Annexure-1: Details of Instruments/Facilities**

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft	-	-	-	4.00	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	17.80	CARE A4
Fund-based - LT-Working Capital Demand loan	-	-	March 2021	1.00	CARE BB-; Stable
Non-fund-based - ST-Proposed non fund based limits	-	-	-	0.20	CARE A4
Fund-based - LT-Cash Credit	-	-	-	4.00	CARE BB-; Stable

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Bank Overdraft	LT	4.00	CARE BB-; Stable	-	1)CARE B+; Stable (23-Jan-20)	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	17.80	CARE A4	-	1)CARE A4 (23-Jan-20)	-	-
3.	Fund-based - LT-Working Capital Demand loan	LT	1.00	CARE BB-; Stable	-	-	-	-
4.	Non-fund-based - ST-Proposed non fund based limits	ST	0.20	CARE A4	-	-	-	-
5.	Fund-based - LT-Cash Credit	LT	4.00	CARE BB-; Stable	-	-	-	-

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities-NA

Annexure 4: Complexity level of various instruments rated for this company

Sr. No.	Name of the Instrument	Complexity Level
1.	Fund-based - LT-Bank Overdraft	Simple
2.	Fund-based - LT-Cash Credit	Simple
3.	Fund-based - LT-Working Capital Demand loan	Simple
4.	Non-fund-based - ST-Bank Guarantees	Simple
5.	Non-fund-based - ST-Proposed non fund based limits	Simple

Note on complexity levels of the rated instrument: CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications

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