

## Sakthi Constructions

March 31, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	-	-	Reaffirmed at CARE BB-; Stable (Double B Minus; Outlook: Stable) and Withdrawn
Short Term Bank Facilities	-	-	Reaffirmed at CARE A4 (A Four) and Withdrawn
<b>Total Bank Facilities</b>	-		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE BB-; Stable' [Double B Minus; Outlook: Stable] and 'CARE A4' [A four] assigned to bank facilities of Sakthi Constructions with immediate effect. The above action has been taken at the request of Sakthi Constructions and 'No Objection Certificate' received from the bank that have extended the facilities rated by CARE.

### Detailed description of the key rating drivers

The ratings assigned to the bank facilities of Sakthi Constructions derives strength from experienced promoters, comfortable capital structure, comfortable debt coverage indicators, improved profitability margins and satisfactory order book position. The ratings, however are constrained by small scale of operations, partnership nature of constitution with inherent risk of withdrawal of capital and susceptibility of profit margins due to volatility in input prices.

### Key Rating Weakness

#### Small scale of operations

The operating income of the firm remained stable at Rs. 47.47 crore in FY21 as against Rs. 46.43 crore in FY20 on back of orders bagged and executed despite covid restrictions. The firm booked income of Rs. 23 crore in 10mFY22 (refers to the period April 1 to January 31).

#### Profitability margins are susceptible to fluctuation in raw material prices

The raw material is the major cost driver and the prices of the same are volatile in nature therefore the cost base remains exposed to any adverse price fluctuations in the prices of cement, sand, bricks being major cost components amongst all materials. Accordingly, the profit margins of the firm are susceptible to fluctuation in raw material prices.

#### Partnership nature of business constitution with inherent risk of withdrawal of capital

SC is a partnership nature of business wherein the inherent risk of withdrawal of capital by the partners at the time of their personal contingencies resulting in erosion of capital base leading to adverse effect on capital structure. It is witnessed that the partners had withdrawn the capital of Rs. 4.90 crore for past two years ended FY21.

### Key Rating Strengths

#### Experienced promoters

SC is operating since 2009 and the firm has track record of operations for about a decade. Mr. S. Thirunavukarasu and Ms. T. Sangeetha Priya are the partners of the firm. Mr. S. Thirunavukarasu, the managing partner is experienced in similar industry for more than two decades. Due to long presence, the firm is able to bag repeated orders from its customers and maintain healthy relationship with its suppliers.

#### Satisfactory order book position and Improved profitability margins

The firm has satisfactory order book at Rs. 208.63 crore which translates 4.39 times of FY21 revenue as on February 2021 as against Rs.32.17 crore as on February 2021. The PBILDT margin of the firm improved to 10.69% in FY21 from 8.92% in FY20 due to execution of higher margin projects.

#### Comfortable capital structure and debt coverage indicators

The capital structure of the firm remained comfortable with overall gearing of 0.48 x as on March 31, 2021 as against 0.93x as of March 31, 2020. The cash accruals improved during FY21 resulted in debt coverage indicators to remain comfortable with Total debt/GCA of 0.94x as of March 31, 2021 as against 1.74 as of March 31, 2020.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

**Analytical approach:** Standalone

**Applicable Criteria**

[Policy on default recognition](#)

[Financial Ratios – Non-financial Sector](#)

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

[Rating Outlook and Credit Watch](#)

[Short Term Instruments](#)

[Construction](#)

[Policy on Withdrawal of Ratings](#)

**About the Firm**

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

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	10mFY22 (P)
Total operating income	46.43	47.47	23.00
PBILDT	4.14	5.08	NA
PAT	3.11	3.54	NA
Overall gearing (times)	0.93	0.48	NA
Interest coverage (times)	8.04	5.48	NA

A: Audited; P: Provisional; NA: Not Available

**Status of non-cooperation with previous CRA:** Not Applicable

**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 for this company:** Annexure 4

**Annexure-1: Details of Instruments / Facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	0.00	Withdrawn
Non-fund-based - ST-Bank Guarantee		-	-	-	0.00	Withdrawn
Fund-based - LT-Working Capital Demand loan		-	-	-	0.00	Withdrawn
Non-fund-based - ST-Proposed non-fund-based limits		-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit		-	-	-	0.00	Withdrawn

**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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Bank Overdraft	LT	-	-	-	1)CARE BB-; Stable (23-Feb-21)	1)CARE B+; Stable (23-Jan-20)	-
2	Non-fund-based - ST-Bank Guarantee	ST	-	-	-	1)CARE A4 (23-Feb-21)	1)CARE A4 (23-Jan-20)	-
3	Fund-based - LT-Working Capital Demand loan	LT	-	-	-	1)CARE BB-; Stable (23-Feb-21)	-	-
4	Non-fund-based - ST-Proposed non-fund-based limits	ST	-	-	-	1)CARE A4 (23-Feb-21)	-	-
5	Fund-based - LT-Cash Credit	LT	-	-	-	1)CARE BB-; Stable (23-Feb-21)	-	-

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable

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

Sr. No	Name of 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 Guarantee	Simple
5	Non-fund-based - ST-Proposed non-fund-based limits	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. 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 CARE Ratings Limited:

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