

G3S Builders Private Limited

March 14, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	12.00	CARE B-; Stable (Single B Minus; Outlook: Stable)	Assigned
Total	12.00 (Rs. Twelve crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of G3S Builders Private Limited (G3S) is constrained by its small scale of operations, negative net worth and weak debt coverage indicators. The rating is further constrained by working capital intensive nature of operations, raw material price fluctuation risk associated with orders due to absence of price escalation clause and fragmented nature of the construction sector. The rating, however, derives strength from experienced promoters, adequate order book position and positive outlook for construction industry

Going forward, the ability of the company to successfully execute projects in time and recover contract proceeds and scale up its operations while improving its profitability margins would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations with net losses in the past: Although, the scale of operations of the company increased from Rs. 19.83 crore in FY15 to Rs. 31.58 crore in FY17, at a healthy Compounded Annual Growth Rate (CAGR) of ~26% on the back of higher number of orders executed, it continued to remain small. Additionally, G3S reported total operating income of Rs. 23.00 crore in 6MFY18 (Provisional).

The PBILDT margin stood moderate at 8.75% in FY17, the company incurred net loss of Rs. 0.46 crore in FY17 (after adjusting for non-operating income) owing to low PBILDT in absolute terms and high interest and depreciation costs. Further, the company had cash losses in FY15 and FY16.

Negative net worth and weak debt coverage indicators: The capital structure of the company remains weak owing to erosion of the net-worth on account of net losses in the past (FY15 and FY16).

Furthermore, the interest coverage ratio stood weak at 1.50x in FY17 as against 1.18x in FY16 however, the total debt to GCA ratio stood moderate at 7.10x for FY17. The same improved from (-)218.78x for FY16 due to decline in debt levels and improvement in gross cash accruals.

Working capital intensive nature of operations: The average operating cycle of the company stood elongated at 158 days for FY17 (PY: 169 days) mainly due to high collection and inventory period. The working capital limit stood fully utilised for the last 12 months period ended October 2017.

Raw material price fluctuation risk associated with orders due to absence of price escalation clause: G3S is exposed to the inherent risk associated with raw material price fluctuation in execution of various orders due to absence of price

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

escalation clause in majority of the contracts. Thus, any adverse change in the prices of the raw material may affect the profitability margins of the company.

Fragmented nature of the construction sector albeit improving growth prospects: The construction sector in India is highly fragmented with a large number of small and mid-sized players. This coupled with tendering process in order procurement results into intense competition within the industry. Despite these road blocks faced by the industry, the sector is expected to grow, given huge economic significance associated with it and rising investor interest. Also, the outlook for Indian construction sector continues to be stable in the medium to long-term on account of increased thrust of Government on development of infrastructure to support economic growth.

Key Rating Strengths

Experienced promoters in the construction industry: Mr. Gulzar Singh and Mr. Surinder Singh have three decades and two and a half decades of experience, respectively, in construction industry gained through their association with G3S and G.S Builders and Engineers. Whereas, Mrs. Harjit Kaur and Mrs. Kusum Lata have 4 years of experience, each in the construction industry gained through their alliance with G3S only.

Adequate order book: The company has a comfortable order book position with outstanding order book of Rs. 199.10 crore as on November 27, 2017, to be executed by FY20. The current order book of the company is ~6.30x times of the revenue for FY17.

Analytical approach: Standalone

Applicable Criteria

[CARE's Criteria on assigning Outlook to Credit Ratings](#)

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

[CARE's methodology for manufacturing companies](#)

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

About the Company

G3S Builders Private Limited (G3S) was incorporated in 2013 as a private limited company by Mr. Gulzar Singh and his family members. G3S is engaged in civil construction work for private players in Punjab, Uttarakhand and Haryana which includes infrastructure development, construction of hospitals, educational institutes, residential projects etc. The orders undertaken by the company are secured through the competitive bidding process. The company also executes sub contracts for other civil contractor players.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	24.28	31.58
PBILDT	2.02	2.76
PAT	-1.10	1.04
Overall gearing (times)	-5.10	-5.52
Interest coverage (times)	1.18	1.50

A: 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

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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CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

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In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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	-	-	-	12.00	CARE B-; 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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT- Bank Overdraft	LT	12.00	CARE B-; Stable	-	-	-	-

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