

G3S Builders Private Limited

September 17, 2018

Ratings

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

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of G3S Builders Private Limited (G3S) takes into consideration improvement in total operating income, order book position and net worth base. The rating, however, continues to be constrained by its small scale of operations, low PAT margin, leveraged capital structure and weak total debt to GCA ratio. 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 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 low PAT margins: The total operating income of the company grew from Rs. 31.58 crore in FY17 to 36.81 crore in FY18 at an annual growth rate at ~16% on the back of higher number of orders executed, however, the same continued to remain small. The small scale limits the company's financial flexibility in times of stress and deprives it of scale benefits. Furthermore, the company has reported total operating income of Rs. 10.86 crore in Q1FY19 (Provisional).

The PBILDT margin of the company stood moderate at 12.11% in FY18. The same improved from 8.75% in FY17 due to execution of contracts having better margins. The company registered adjusted net profit of Rs. 0.46 crore in FY18 as against adjusted net loss of Rs. 0.46 crore in FY17. However, the gross cash accruals decreased from Rs. 1.92 crore in FY17 to Rs. 1.76 crore in FY18 due to decline non operating income in FY18.

Leveraged capital structure and weak total debt to GCA ratio: The net worth base improved from (-)Rs. 2.43 crore as on March 31, 2017 to (-)Rs. 1.92 crore as on March 31 2018 due to accretion of profits. Further, net worth base stood at Rs. 0.32 crore as on June 30, 2018 due to infusion of funds by promoters.

The interest coverage ratio of the company stood moderate at 2.64x in FY18 as against 1.50x in FY17. The same improved due to improvement in PBILDT and decline in interest costs, however, the total debt to GCA ratio stood weak at 10.35x for FY18 as against 7.29x for FY17. The same deteriorated from 7.29x for FY17 due to increase in debt levels and decrease in gross cash accruals.

Working capital intensive nature of operations: The average operating cycle of the company stood elongated at 181 days for FY18 (PY: 158 days) mainly due to high collection and inventory period. The working capital limit stood fully utilised for the last 12 months period ended August, 2018.

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 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.

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

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. 219.08 crore as on September 11, 2018, to be executed by FY20. The current order book of the company is ~5.95x times of the revenue for FY18.

Analytical approach: Standalone

Applicable Criteria

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

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

[Rating Methodology-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)	FY17 (A)	FY18 (A)
Total operating income	31.58	36.81
PBILDT	2.76	4.46
PAT	1.04	0.55
Overall gearing (times)	-5.76	-9.49
Interest coverage (times)	1.50	2.64

A: Audited

Status of non-cooperation with previous CRA: CRISIL has conducted the review on the basis of best available information and has classified G3S as “Not cooperating” vide its press release dated March 27, 2018

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.

Analyst Contact:

Name: Mr. Achin Nirwani

Tel: 01145-333228

Email: achin.nirwani@careratings.com

About CARE Ratings:

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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Fund-based - LT-Bank Overdraft	LT	12.00	CARE B; Stable	-	1)CARE B-; Stable (14-Mar-18)	-	-

CONTACT

Head Office Mumbai

Ms. Meenal Sikchi
 Cell: + 91 98190 09839
 E-mail: meenal.sikchi@careratings.com

Ms. Rashmi Narvankar
 Cell: + 91 99675 70636
 E-mail: rashmi.narvankar@careratings.com

Mr. Ankur Sachdeva
 Cell: + 91 98196 98985
 E-mail: ankur.sachdeva@careratings.com

Mr. Saikat Roy
 Cell: + 91 98209 98779
 E-mail: saikat.roy@careratings.com

CARE Ratings Limited

(Formerly known as Credit Analysis & Research Ltd.)

Corporate Office: 4th Floor, Godrej Coliseum, Somaiya Hospital Road, Off Eastern Express Highway, Sion (East), Mumbai - 400 022
 Tel: +91-22-6754 3456 | Fax: +91-22-6754 3457 | E-mail: care@careratings.com

AHMEDABAD

Mr. Deepak Prajapati
 32, Titanium, Prahaladnagar Corporate Road,
 Satellite, Ahmedabad - 380 015
 Cell: +91-9099028864
 Tel: +91-79-4026 5656
 E-mail: deepak.prajapati@careratings.com

BENGALURU

Mr. V Pradeep Kumar
 Unit No. 1101-1102, 11th Floor, Prestige Meridian II,
 No. 30, M.G. Road, Bangalore - 560 001.
 Cell: +91 98407 54521
 Tel: +91-80-4115 0445, 4165 4529
 Email: pradeep.kumar@careratings.com

CHANDIGARH

Mr. Anand Jha
 SCF No. 54-55,
 First Floor, Phase 11,
 Sector 65, Mohali - 160062
 Chandigarh
 Cell: +91 85111-53511/99251-42264
 Tel: +91- 0172-490-4000/01
 Email: anand.jha@careratings.com

CHENNAI

Mr. V Pradeep Kumar
 Unit No. O-509/C, Spencer Plaza, 5th Floor,
 No. 769, Anna Salai, Chennai - 600 002.
 Cell: +91 98407 54521
 Tel: +91-44-2849 7812 / 0811
 Email: pradeep.kumar@careratings.com

COIMBATORE

Mr. V Pradeep Kumar
 T-3, 3rd Floor, Manchester Square
 Puliakulam Road, Coimbatore - 641 037.
 Tel: +91-422-4332399 / 4502399
 Email: pradeep.kumar@careratings.com

HYDERABAD

Mr. Ramesh Bob
 401, Ashoka Scintilla, 3-6-502, Himayat Nagar,
 Hyderabad - 500 029.
 Cell : + 91 90520 00521
 Tel: +91-40-4010 2030
 E-mail: ramesh.bob@careratings.com

JAIPUR

Mr. Nikhil Soni
 304, Pashupati Akshat Heights, Plot No. D-91,
 Madho Singh Road, Near Collectorate Circle,
 Bani Park, Jaipur - 302 016.
 Cell: +91 – 95490 33222
 Tel: +91-141-402 0213 / 14
 E-mail: nikhil.soni@careratings.com

KOLKATA

Ms. Priti Agarwal
 3rd Floor, Prasad Chambers, (Shagun Mall Bldg.)
 10A, Shakespeare Sarani, Kolkata - 700 071.
 Cell: +91-98319 67110
 Tel: +91-33- 4018 1600
 E-mail: priti.agarwal@careratings.com

NEW DELHI

Ms. Swati Agrawal
 13th Floor, E-1 Block, Videocon Tower,
 Jhandewalan Extension, New Delhi - 110 055.
 Cell: +91-98117 45677
 Tel: +91-11-4533 3200
 E-mail: swati.agrawal@careratings.com

PUNE

Mr. Pratim Banerjee
 9th Floor, Pride Kumar Senate,
 Plot No. 970, Bhamburda, Senapati Bapat Road,
 Shivaji Nagar, Pune - 411 015.
 Cell: +91-98361 07331
 Tel: +91-20- 4000 9000
 E-mail: pratim.banerjee@careratings.com

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