

## Jaidhar Constructions

April 08, 2019

### Rating

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	5.59	<b>CARE BB-; Stable (Double B Minus, Outlook:Stable)</b>	<b>Assigned</b>
Short-term Bank Facilities	0.80	<b>CARE A4 (A Four)</b>	<b>Assigned</b>
<b>Total</b>	<b>6.39 (Rupees Six Crore and Thirty Nine lakhs only)</b>		

*Details of facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

The rating assigned to the bank facilities of Jaidhar Constructions (JC) are primarily tempered by small scale of operation and thin PAT margin, working capital intensive nature of operations due to elongated collection days, constitution of a partnership concern with risk of withdrawal of capital, highly fragmented and competitive business segment due to presence of numerous players and association of profits to the real estate industry. However, the rating derives comfort from Long track record and experience of the managing partner in cement industry for more than two decades, growth in total operating income and satisfactory PBILDT margin, satisfactory debt coverage indicators, moderate Capital Structure and stable outlook of Cement Industry

Going forward, the firm ability of the firm to improve its profitability, capital structure and debt coverage indicators, ability to improve its scale of operations, and ability to utilize its working capital requirements

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### ***Small scale of operation and thin PAT margin***

Despite of presence of the firm for 13 years, the scale of operations of the firm remained small marked by a total operating income (TOI) of Rs.15.86 crore in FY18 and tangible network of Rs. 4.48 crore as on March 31, 2018 as compared to other peers in the industry.

The PAT margin has been declining Y-o-Y and remained thin during the review period i.e., from 1.04% in FY16 to 0.53% in FY18 mainly on account of increase in interest expenses and depreciation provisions despite of healthy growth in operating profit as the entity has purchased new plant & machinery and vehicles for business purpose.

#### ***Working capital intensive nature of operations due to elongated collection days***

JC manufactures Ready Mix Concrete (RMC) in the two batch plants located in Medchal district and transports the same to the construction site. The firm procures aggregates (i.e. sand, gravel etc) from local suppliers and the cement is procured from Orient Cement and Vasavi Dutha located in and around Karimnagar, Telangana. The firm has to make 100% of advance payment for the purchase of Cement whereas 30-60 days of credit period is availed from other suppliers. Further, the firm allows a credit period of 15-30 days to its customers, however the collection days of the firm remained elongated during the review period as the firm extends the credit period to some of its customer to maintain the long term relationship with its existing customers and attracting new customers. The average inventory is stocked for around 15-20 days due to consistency constraints. Hence, the operating cycle also stood at 60 days as of FY18. The average working capital utilization of the firm stood at 98% for the last 12 months ended February 28, 2019.

#### ***Highly fragmented and competitive business segment due to presence of numerous players and association of profits to the real estate industry***

The firm is engaged into a fragmented business segment and competitive industry. The market consists of several small to medium-sized firms that compete with each other along with several large enterprises. There are several small sized firms in and around Medchal District, Telangana which compete with JC.

The end product of JC finds its application in the construction industry. And hence the business risk profile of JC is directly linked to that of the construction and real estate sector.

#### ***Constitution of a partnership concern with risk of withdrawal of capital***

The firm was established as a partnership concern and the risk of withdrawal of partner's capital prevails. There is parity between the existence of the firm and the life of the partners.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

### **Key Rating Strengths**

#### ***Long track record and Experience of the managing partner in cement industry for more than two decades***

JC was established in the year 2006 as a partnership firm by Mr. N Chandra Shekar Rao along with his wife Mrs. N Rukmini Devi as partners. Mr. N Chandra Shekar Rao, the Managing partner, who manages the various departments such as HR, Financial, Sales & Marketing etc., he is graduate by qualification, has more than two decades of experience in construction industry as he is one of directors in “M/s. Kasinath Metals Private Limited” which is engaged in the business of Stone Crushing Mrs. N Rukmini Devi (W/o Mr. N Chandra Shekar Rao), is also a graduate by qualification and has experience in construction business.

#### ***Growth in total operating income and satisfactory PBILDT margin***

The total operating income of the firm increased at Compounded Annual Growth Rate (CAGR) of 26.89% during FY16-FY18. The scale of operations marked by total operating income increased from Rs.9.85 crore in FY16 to Rs.15.86 crore in FY18 due to increase in order execution and increase in price per cubic meter along with favorable market conditions, coupled with better production, resulted in growth in total operating income during the review period. Also, the firm has achieved turnover of Rs.17.66 crore during 11MFY19 (April 2018- February 2019). The PBILDT margin of JC has been fluctuating in the range of 11%-16% during the review period on account of fluctuation in other manufacturing and selling expenses, despite of increase in scale of operations, however remained satisfactory.

#### ***Satisfactory debt coverage indicators***

The debt coverage indicators marked by total debt /GCA stood comfortable at 4.54x as on March 31, 2018, however, deteriorated from 3.68x as on March 31, 2016 on account increase in total debt levels as the firm availed new secured loans for the purchase of construction equipment and vehicles, despite of healthy growth in cash accruals during review period. Due to aforementioned reason, the interest coverage ratio although deteriorated from 3.57x in FY16 to 2.77x in FY18 stood satisfactory. The Total debt/CFO stood at 2.93x on account of increase in operating profits along with increase in sundry debtors and creditors as on closing balance sheet date.

#### ***Moderate capital structure***

Financial risk profile marked by debt equity remained below unity during the review period and stood at 0.89x as on March 31, 2018. However, the overall gearing stood modest at 1.50x as of March 31, 2018 and deteriorated from 0.64x as on March 31, 2016. The firm has availed secured loan for the purchase of construction equipment and vehicles. Also, with an increase in the operations, the working capital requirement also increased during FY18, which resulted in increase in total debt.

#### ***Liquidity Analysis***

The current ratio of the firm is above unity during the review period and stood at 1.01x as on March 31, 2018 due to relatively high current assets as compared to current liabilities mainly on account high sundry debtors and closing stock. The firm has very limited % of working capital facility to meet the liquidity requirements.

#### **Analytical Approach** : Standalone

#### **Applicable criteria**

[Criteria on assigning Outlook to Credit ratings](#)

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

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

[Rating Methodology – Manufacturing Companies](#)

[Criteria for Short Term Instruments](#)

#### **About the Company**

Jaidhar Constructions (JC) was established as a partnership concern by Mr. N Chandra Shekar Rao along with his wife Mrs. N Rukmini Devi in November 2006. The promoters are also the directors of “M/s. Kasinath Metals Private Limited” which is engaged in the business of Stone Crushing. During the initial two year of operations (2006-2008) the firm is engaged in the business of Supply of construction material. Whereas in the year 2008, upon establishment of a plant at Keesara Mandal, the firm started manufacturing of Ready Mix Concrete (RMC) and cement Bricks which finds its application in the construction sector. The firm has two plants located in Medchal(manufacturing of RMC and Cement Bricks) and one plant at Bupalpally(Job work), Telangana and 44 vehicles operating for transportation of RMC to the construction site. The customers of JC include construction companies, contractors and real estate developers. The installed capacity of JC stood at 20,000 cubic meter per month of each plant located at Medchal District with actual production of 5000 cubic meter per month as of March 13, 2019. JC has around 135 employees working in the batch plants. The firm sells RMC in its own brand name, 'JRMCC'. JC has obtained a ISO 9001:2008 Certification and meets RMC Capability Certification from the

Quality council of India (QCI). The registered office of the firm is located in Secunderabad, Telangana. The firm generates 45% of the revenue through brick manufacturing and the balance 55% through Sale of RMC.

Brief Financials (Rs. crore)	FY17(A)	FY18(A)
Total operating income	12.75	15.86
PBILDT	2.01	2.38
PAT	0.08	0.08
Overall gearing (times)	1.38	1.50
Interest coverage (times)	2.86	2.77

A: Audited

**Status of non-cooperation with previous CRA:** NIL

**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](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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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-Term Loan	-	-	March 2024	3.09	CARE BB-; Stable
Fund-based - LT-Bank Overdraft	-	-	-	2.50	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	0.80	CARE A4

**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-Term Loan	LT	3.09	CARE BB-; Stable	-	-	-	-
2.	Fund-based - LT-Bank Overdraft	LT	2.50	CARE BB-; Stable	-	-	-	-
3.	Non-fund-based - ST-Bank Guarantees	ST	0.80	CARE A4	-	-	-	-

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