

Sakthi Constructions

January 23, 2020

Rating

Facilities	Amount (Rs. Crore)	Rating ¹	Rating Action
Long-term Bank Facilities	4.00	CARE B+; Stable (Single B Plus; Outlook : Stable)	Assigned
Shot-term Bank Facilities	8.00	CARE A4 (A Four)	Assigned
Total Facilities	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 Sakthi Constructions (SC) is primarily tempered 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. However, the rating derives comfort Long track record of operations with extensive experience of the partners, comfortable capital structure and satisfactory debt coverage indicators, moderate operating cycle, healthy order book position, and satisfactory profitability margins.

Key rating Sensitivities

Positive Factors

- Improvement in its profitability margins and capital structure i.e. PBILDT margin, and maintaining/ improvement of overall gearing ratio.
- Increasing the cash accruals significantly and/or reducing the debt levels to reduce Total debt to gross cash accruals on sustained basis.

Negative Factors

- Decline in the total operating income in sustained basis
- Bidding of fresh orders and delay in execution of the same will remain crucial for the overall financial risk profile 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 marked by its total operating income, at Rs.19.73 crore in FY19 (prov), and is in fluctuating trend. It has been declined by 58.95% from Rs. 48.07 crore, due to low execution of orders. Further, the firm has low networth base at Rs. 6.25 crore as on March 31, 2019 (Prov). 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. 15.00 Crores as on October 15, 2019. 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.

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 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.

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

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 0.31x and 0.30x respectively as on March 31, 2019 (Prov.) improved from 1.43x and 0.95x respectively as on March 31, 2018 mainly on account of lower utilization of working capital utilization levels as on balance sheet date, scheduled repayments of vehicle/equipment loans, and infusion of funds of Rs. 2.02Crore to the capital account by the partners. With decrease in debt levels coupled with sufficient cash accruals earned, the debt coverage indicators of the firm improved, compared to the previous year and stood satisfactory marked by its TD/GCA at 0.95x in FY19 (Prov.) as against 1.52x in FY18. The interest service coverage ratio also stood comfortable at 3.36x in FY19, and improved from previous year (9.52x) in FY18 due to increase in interest and finance costs coupled with low PBILDT earned.

Moderate operating cycle

The operating cycle of the firm stood satisfactory during the review period on account of satisfactory 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 accounting 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 70% for the last twelve months ended September 30, 2019.

Healthy order book position

SC has an outstanding order book to sales ratio of ~ 4.30x of FY19 TOI as on October 15, 2019 which is to be executed over the period of 6-12 months providing short 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.

Satisfactory profitability margins

The profitability margins of the firm are fluctuating in trend, ranging between 7.48% - 14.56% as the TOI has also shown fluctuations year on year. However, the same has been improved in FY19 (Prov.) on account of execution of high margin orders. Also the major operating expenses are being absorbed by material purchases, labour charges and other overhead expenses for execution of work orders. Notably, it is tender based business and in order to bid for the orders, the firm has to be lenient in fixing price margins. Furthermore, PAT margin stood satisfactory, however, fluctuated in the range of 5.59% to 8.51% during review period. With increase in PBILDT Margin, PAT margin has also improved by 522 bps in FY19 (Prov), and stood at 8.51%, though the interest and finance costs increased compare to previous year.

Liquidity Analysis- Adequate

Adequate liquidity characterized by sufficient cushion in accruals viz-a-viz repayment obligations and moderate cash balance of Rs. 0.20Crore. 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 3.71x as on March 31, 2019 (prov).

Analytical Approach: Standalone**Applicable criteria**

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

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

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

[Criteria for Short Term Instruments](#)

[CARE's Methodology for Infrastructure Sectors](#)

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. Base in Erode, the firm is engaged into execution of bridge and irrigation works for state Government. 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)	FY18 (A)	FY19 (P)
Total Operating Income	48.07	19.73
PBILDT	3.60	2.87
PAT	2.69	1.68
Overall gearing (times)	1.43	0.31
Interest coverage (times)	9.52	3.36

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

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 B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	8.00	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Bank Overdraft	LT	4.00	CARE B+; Stable	-	-	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	8.00	CARE A4	-	-	-	-

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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