

## Sethi Constructions

June 12, 2020

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long-term Bank Facilities	2.25	CARE B+; Stable (Single B Plus; Outlook: Stable)	Removed from Issuer Not Cooperating and reaffirmed
Short-term Bank Facilities	7.75	CARE A4 (A Four)	Removed from Issuer Not Cooperating and reaffirmed
<b>Total</b>	<b>10.00</b> <b>(Rupees Ten Crore only)</b>		

Details of instruments/facilities in Annexure-I

### Detailed Rationale & Key Rating Drivers

In the absence of minimum information required for the purpose of rating, CARE was unable to express an opinion on the rating of Sethi Constructions (SC) and in line with the extant SEBI guidelines, CARE revised the rating of bank facilities of the company to 'CARE B+; Stable/A4; ISSUER NOT COOPERATING'. However, the entity has now submitted the requisite information to CARE. CARE has carried out a full review of the rating and the rating remains at "B+; Stable/CARE A4".

The ratings assigned to the bank facilities of Sethi Constructions (SC) are constrained by its constitution as a partnership entity, small scale of operation and moderate profitability margins, risk associated with participating in tenders and intense competition in the industry and volatility associated with fluctuation in input prices. However, the aforesaid constraints are partially offset by its experienced partners with long track record of operations, healthy order book position and comfortable capital structure with satisfactory debt coverage indicators.

### Rating Sensitivities

#### Positive

- Sizable improvement in scale of operation (turnover beyond Rs.50.00 crore) on a sustained basis.
- Execution of orders in hand within stipulated time frame and collect receivables on a timely and regular basis.

#### Negative

- Any sizeable de-growth in scale of operations from present level (TOI below Rs.10.00 crore) on a sustained basis.
- Delays in execution of orders beyond stipulated time frame and delay in receipt of collection of receivables from customers on a sustained basis.

### Detailed Rationale & Key Rating Drivers

#### Key Rating Weaknesses

##### **Constitution as a partnership firm**

SC, being a partnership firm, is exposed to inherent risk of the partner's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/insolvency of the partners. Furthermore, partnership entities have restricted access to external borrowing as credit worthiness of partner would be the key factors affecting credit decision for the lenders. However, the firm has demonstrated proper succession planning in the past with Mr. D.K. Sethi being admitted as new partner on April 2018 after retirement of Mr. G. S. Sethi. Furthermore, the current partners are planning to convert the firm into a LLP in near future.

##### **Small size of operation with low profitability margin**

The scale of operations of the firm remained small marked by total operating income of Rs.12.61 crore (Rs.11.89 crore in FY19) with a PAT of Rs.0.59 crore (Rs.0.70 crore in FY19) in FY20 (Provisional). Marginal improvement in turnover during the period FY19 to FY20 was mainly on account of higher amount work order executed during the period. Furthermore, the total capital employed has also remained low at Rs.10.27 crore as on March 31, 2020. The profitability margin of the firm remained low marked by PBILDT margin of 7.18% (FY19: 12.78%) and PAT margin of 4.68% (FY19: 5.85%) in FY20 (Provisional).

The firm has started operation from April 20, 2020 onwards after the lockdown was imposed on March 25, 2020. Further, the firm procures raw materials (i.e. cement, bricks, stone chips etc.) from local suppliers which are also available in plenty. However, with the reverse migration of labours the firm is not able to run at full capacity. Furthermore, the firm has not booked any revenue during 2MFY21 as billing department from the central government was closed.

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

**Volatility associated with fluctuations in input prices**

The major input materials for the entity are bolder, bitumen, cement, TMT bar, bricks, sand etc. the prices of which are volatile. Further the orders executed by the firm does not contain price escalation clause on the orders. This apart, any increase in labour prices will also impact its profitability being present in a highly labour intensive industry.

**Risk associated with participating in tenders and intense competition in the industry**

The entity has to bid for the contracts based on tenders opened by the various governments and public sector units. Upon successful technical evaluation of various bidders, the lowest bid is awarded the contract. The entity receives projects which majorly are of a short to medium tenure (i.e. to be completed within maximum period of 12 to 15 months). Furthermore, orders are generally tender driven floated by government units indicating a risk of non-receipt of contract in a competitive industry.

**Key Rating Strengths****Experienced partners with long track record of operations**

Sethi Constructions started its business from the year 1972 and thus has satisfactory track record of operations. Since its inception the firm is engaged in civil, mechanical and electrical works on behalf of various public and private entities. Mr. Harmeet Singh Sethi has more than a decade of experience in civil construction industry. He looks after the day to day operations of the entity along with other two partners named Mr. H.K. Sethi and Mr. D.K. Sethi and other technical and non-technical professionals who are having long experience in this industry.

**Satisfactory order book position of the entity**

The entity has satisfactory order book position of Rs.60.33 crore (which is 4.78x of FY20 turnover) as on May 30, 2020, which is expected to be completed by June, 2021.

**Comfortable capital structure with satisfactory debt coverage indicators**

Capital structure of the firm has improved marginally in FY20 (provisional) and the same continues to remain comfortable marked by overall gearing ratio of 0.34x as on March 31, 2020. The same has shown improvement as on March 31, 2020 over March 31, 2019 on account of introduction of capital by the partners amounting to Rs.0.31 crore during FY20 and lower cash credit utilization as on balance sheet closing date coupled with lower reliance on mobilization advance during the said period.

The debt coverage indicators remained satisfactory during last three years (FY18-FY20). Furthermore, the interest coverage ratio remained satisfactory during last three years and stood at 6.04x in FY20 (Provisional). The total debt to GCA remained moderate at 3.52x as on March 31, 2020.

**Liquidity: Adequate** - Liquidity is marked by sufficient cushion in accruals vis-a-vis repayment obligations. Cash balance stood low at Rs.0.18 crore as on March 31, 2020. The average utilization of working capital limit remained low at 37% during last 12 months ended May, 2020 supported by above unity current ratio. Moreover, the entity has not requested the bank for moratorium of interest payment on working capital facilities for the month of March and April and May which could be availed under the terms of recent RBI circular.

**Analytical approach:** Standalone

**Applicable Criteria**

[Criteria on assigning 'outlook' and 'credit watch'](#)

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

[Rating Methodology – Construction Sector](#)

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

[Criteria for Short Term Instruments](#)

**About the Entity**

Sethi Construction (SC), was established in the year 1972, is a Kolkata (West Bengal) based partnership firm, promoted by the Sethi family. Since its inception the firm is engaged in civil, mechanical and electrical works on behalf of various public and private entities. Sethi Construction is 'S class' certified civil constructor with the Military Engineer Services(MES)and Defence Research Development Organisation (DRDO) the firm has also established relation with the Private department like Belani Projects Limited and Simplex Infrastructures Limited.

Mr. Harmeet Singh Sethi has more than a decade of experience in civil construction industry. He looks after the day to day operations of the entity along with other two partners named Mr. H.K. Sethi and Mr. D.K. Sethi and other technical and non-technical professionals who are having long experience in this industry.

Brief Financials (Rs. crore)	FY19 (A)	FY20(Prov.)
Total operating income	11.89	12.61
PBILDT	1.52	0.91
PAT	0.70	0.59
Overall gearing (times)	0.64	0.34
Interest coverage (times)	2.32	6.04

A: Audited, Prov.=Provisional

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-Cash Credit	-	-	-	2.25	CARE B+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	7.75	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	2.25	CARE B+; Stable	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (28-Mar-20)	1)CARE BB-; Stable (24-Dec-18)	-
2.	Non-fund-based - ST-Bank Guarantees	ST	7.75	CARE A4	-	1)CARE A4; ISSUER NOT COOPERATING* (28-Mar-20)	1)CARE A4 (24-Dec-18)	-

**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.

## Contact us

### **Media Contact**

Mradul Mishra

Contact no.: +91-22-6837 4424

Email ID: [mradul.mishra@careratings.com](mailto:mradul.mishra@careratings.com)

### **Analyst Contact:**

Name: Soumen Das

Contact No.: 033-40581907

Email: [soumen.das@careratings.com](mailto:soumen.das@careratings.com)

### **Relationship Contact**

Name: Sambit Das

Contact no. : 033 4058 1904

Email ID: [sambit.das@careratings.com](mailto:sambit.das@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.

### **Disclaimer**

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

**\*\*For detailed Rationale Report and subscription information, please contact us at [www.careratings.com](http://www.careratings.com)**