

Shanti Construction (Guj.) Private Limited ^(Revised)

December 02, 2019

Ratings

Bank Facilities	Amount (Rs. crore)	Ratings ^[1]	Rating Action
Long Term Bank Facilities	15.90* (enhanced from 5.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Reaffirmed and outlook revised from Positive
Long Term / Short Term Bank Facilities	77.00 (enhanced from 62.00)	CARE BBB-; Stable / CARE A3 (Triple B Minus; Outlook: Stable / A Three)	Reaffirmed and outlook revised from Positive
Long Term / Short Term Bank Facilities	0.00* (15.75)	-	Reclassified from LT and Withdrawn
Total	92.90 (Rupees Ninety Two Crore and Ninety Lakh Only)		

*Rating assigned to Capex LC of Rs.15.75 crore has been withdrawn as part amount (Rs.6.27 crore) has been converted into Term Loan and balance amount has been surrendered by the company.

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Shanti Construction (Guj.) Private Limited (SCGPL) continues to derive strength from its experienced promoters and established track record in execution of mid-sized civil construction projects. The rating further continues to derive strength from healthy order book and comfortable leverage and debt coverage indicators.

The ratings, however, continue to be constrained by working capital intensive nature operations, moderate profitability, geographically concentrated operations, relatively low networth base which restricts overall financial flexibility and competition faced by SCGPL being part of fragmented and tender driven nature of industry. Ratings are further constrained by challenges involved in scaling up of resources to execute large order book and tight fund raising scenario faced by the construction sector.

Rating Sensitivities**Positive factors**

- Increase in Total Operating Income (TOI) to over Rs.250 crore on a sustained basis while timely executing large order book
- Improvement in PBILDT margin to over 9%-10% on a sustained basis
- Augmentation of capital base improving financial flexibility and free cash flow for funding of future operations of the company

Negative factors

- Further decline in scale of operations due to delay in execution of orders
- Significant increase in working capital requirement adversely affecting debt coverage as well as liquidity indicators of the company

Outlook: Stable

The outlook has been revised to Stable on account of lower than envisaged pace of order execution resulting in significant under achievement in total operating income (TOI) during FY19 and H1FY20 as compared to earlier expectations.

Detailed description of the key rating drivers**Key Rating Strengths****Experienced promoters**

The operations of SCGPL are managed by Mr. Dhansukh Devani and Mr. Kanaiyalal Devani who have vast experience of around two decades in the building construction industry. They were earlier associated with Shanti Construction Co. (SCC), which was incorporated in the year 1997, and have executed various

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

government and private sector projects in the building construction segment. They are supported by a team which possesses rich experience in the civil construction industry.

Established track record in the construction industry along with improved geographical diversification

SCGPL has an established track record of around nine years in the construction industry. It is approved as 'AA' class contractor (highest in a scale starting from AA to E) with Government of Gujarat (GoG). SCGPL has an established relationship and has successfully executed projects for various government bodies. Also, SCGPL has executed private residential building projects in Jamnagar. SCGPL has track record in execution of construction projects within the envisaged time and cost parameters.

The operations of SCGPL were previously geographically concentrated in the state of Gujarat. However, over the last few years SCGPL has tried to diversify geographically and recently expanded its operations in the state of Maharashtra.

Healthy order book albeit; geographical concentration risk

SCGPL's order book remains healthy at Rs.817.24 crore as on September 30, 2019, which translates to an order book/sales of 5.24x (average of TOI of last three year ended FY19). These orders are mainly from government entities including urban local bodies and state government undertakings, translating into limited counter-party credit risk for the company.

The company added three new contracts to the order book since last review totaling over Rs.350 crore in Nagpur and Ahmedabad. However, the order book of SCGPL continues to remain moderately geographically concentrated with over 40% of orders in Gujarat and remaining in Maharashtra, which results in risk associated with any natural calamities or political upheavals which may affect the order inflow in these regions. Furthermore, order concentration also remains moderate with top five orders forming around 72% to the total order book.

Comfortable leverage and debt coverage indicators

Total Debt/PBILDT though moderated from 0.49 times during FY18 to 1.33 times during FY19 mainly on account of increase in term debt of Rs.6 crore, it continued to remain comfortable. The debt coverage indicators of SCGPL were also comfortable during FY19 as indicated by PBILDT interest coverage of 5.73x during FY19.

Key rating weakness

Significantly lower TOI during FY19 and H1FY20 and moderate profitability

SCGPL's TOI on year-over-year basis declined by ~21% during FY19 mainly on account of slower execution of select orders due to delayed clearances and design approvals. Contract receipt continued to remain modest at Rs.66.53 crore during H1FY20. This is in contrast to earlier expectations of some growth in scale of operations during FY19 and FY20. PBILDT margins though improved marginally continued to remain relatively moderate around 7.09% during FY19. However, price escalation clauses protect the profitability of SCGPL to an extent.

Fragmented nature of the industry with stiff competition in government funded projects and challenging fund raising scenario

Indian construction sector is highly fragmented with presence of many mid and large sized players which increases competition in small to mid-sized civil construction projects. Moreover, bid driven nature of operations also increases competitive pressures. With the increase in order book of construction companies, availability and retention of skilled manpower has also become a major challenge. Moreover, construction companies' ability to tie up enhanced working capital limits is also crucial in light of challenging fund raising scenario.

Adequate liquidity albeit with working capital intensive operations and limited financial flexibility

Liquidity of SCGPL remains adequate with scheduled repayments of around Rs.3-6 crore annually from FY20-22, low CC utilization of around 10% and comfortable collection efficiency. Nevertheless, operations remained working capital intensive with funds blocked in retention money, security deposit and margin money for availing non-fund based limits. SCGPL largely avails non-fund based limits mainly to provide performance guarantee. Utilization of non-fund based limits was 90% for the enhanced limit of Rs.67 crore. Gradual increase in the working capital limits, commensurate with growth in scale of operations, shall remain crucial from credit perspective.

The operating cycle remained negative, primarily on account of higher credit period extended from suppliers and sub-contractors leading to moderate TOL/TNW of 2.27 times as on March 31, 2019. Further, SCGPL had relatively low networth base of Rs.22.13 crore as on March 31, 2019 which restricts overall financial flexibility.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Outlook to Credit Ratings

CARE's Policy on Default Recognition

Criteria for Short Term Instruments

Financial ratios – Non-Financial Sector

Rating Methodology for manufacturing companies

Policy on withdrawal of ratings

About the Company

Incorporated in June 2010, Jamnagar-based Shanti Construction (Guj.) Private Limited (SCGPL) is engaged in the business of building construction for government and private sector projects in the state of Gujarat. SCGPL was initially promoted by Mr. Dhansukh Devani and Mr. Mansukh Devani. Subsequently, they decided to split and Mr. Dhansukh Devani took charge of SCGPL and Mr. Mansukh Devani took charge of the other firm of the group i.e. Shanti Construction Co. Over the years, SCGPL has successfully carried out civil construction as well as turnkey works for Low Income Group (LIG) housing, hospitals, colleges, hostels, fire stations, police residential quarters across the state of Gujarat. Also, SCGPL has won large sized contracts in Pune and Nagpur for construction and development of affordable housing units for EWS and LIG under the Pradhan Mantri Awas Yojna.

(Rs. Crore)

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	194.16	152.52
PBILDT	12.61	10.81
PAT	6.34	5.30
Overall gearing (times)	0.35	0.63
Interest coverage (times)	7.30	5.73

A: Audited

During H1FY20 company booked an income of Rs.66.53 crore

Status of non-cooperation with previous CRA: NA

Any other information: Not Applicable

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	-	-	-	6.00	CARE BBB-; Stable
Fund-based/Non-fund-based-LT/ST	-	-	-	77.00	CARE BBB-; Stable / CARE A3
Fund-based/Non-fund-based-LT/ST*	-	-	-	0.00	Withdrawn
Fund-based - LT-Term Loan	-	-	July 2022	6.27	CARE BBB-; Stable
	-	-	March 2021	3.63	

*Reclassified from LT to LT/ST and withdrawn

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	6.00	CARE BBB-; Stable	-	1)CARE BBB-; Positive (14-Dec-18)	1)CARE BBB-; Stable (26-Mar-18)	-
2.	Fund-based/Non-fund-based-LT/ST	LT/ST	77.00	CARE BBB-; Stable / CARE A3	-	1)CARE BBB-; Positive / CARE A3 (14-Dec-18)	1)CARE BBB-; Stable / CARE A3 (26-Mar-18)	-
3.	Fund-based/Non-fund-based-LT/ST*	LT/ST	-	-	-	1)CARE BBB-; Positive (14-Dec-18)	-	-
4.	Fund-based - LT-Term Loan	LT	9.90	CARE BBB-; Stable	-	-	-	-

*Reclassified from LT to LT/ST and withdrawn

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 clarification

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