Sree Siva Ram And Company

January 07, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	5.00 (enhanced from Rs.3.50)	CARE BB; Stable (Double B; Outlook: Stable)	Reaffirmed
Short-term Bank Facilities	3.50	CARE A4 (A four)	Reaffirmed
Total facilities	**8.50 (Rupees Eight crore and fifty lakh only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Sree Siva Ram And Company (SSRC) are continues to be constrained by the small scale of operations with decline in TOI during FY19, working capital intensive and tender based nature operations, client and geographic concentration risk and constitution of the entity as proprietor firm with inherent risk of withdrawal of capital. The ratings also factors in improved PBILDT margins albeit, decline in PAT margin, deterioration in debt coverage indicators albeit remained moderate. The ratings, however, derive its strengths from long track record and experience of proprietor for more than one decade in construction industry, comfortable capital structure and short term revenue visibility from its current order book and stable outlook of civil construction industry.

Key Rating Sensitivities

Positive Factors

- Improvement in the scale of operations by Rs. 15 crores while maintaining its profitability margins leads substantial increase in GCA.
- Improvement in inventory and collection days leads to lower utilization of debt resulted in improvement of TD/GCA 4.00x.

Negative Factors

Deterioration in capital structure marked by overall gearing ratio by 1.50x.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations with low networth base

The firm has a track record of fifteen years; however, the total operating income (TOI) of the firm remained small at Rs.21.84 crore in FY19 with moderately low worth base of Rs.6.40 crore as on March 31, 2019 as compared to other peers in the industry.

Decreasing total operating income during the review period

The TOI has decreased from Rs.32.27 crore in FY18 to Rs.21.84 crore in FY19 on account of delay in receipt of bills from the Government of AP and Telangana.

Working capital intensive nature of operations

The operating cycle days of the firm increased significantly from 96 days in FY18 to 188 days in FY19 due to increase in inventory levels i.e.,the average inventory period of the firm increased from 82 days in FY18 to 212 days in FY19 due to technical clearance pending from the state govt. authorities which resulted in increase in closing WIP. Generally, the firm maintains average inventory of one month to execute the current projects in timely manner. The average utilization of working capital facility was 85% for the last 12 months ended November 30, 2019.

Tender based nature of operations

The revenues of the firm are dependent on the ability of the firm to bid successfully for the tenders and execute the same effectively. However, the proprietor's long experience in the industry for more than one decade mitigates the risk to an extent. Nevertheless, there are numerous fragmented & unorganized players operating in the segment which makes the civil construction space highly competitive.

Client and geographic concentration risk

The firm has current order of Rs.47.77 crore from government of Telangana and Andhra Pradesh which reflects the geographic and customer concentration risk.

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

Profitability margins are susceptible to fluctuation in raw material prices, however, the firm enters contracts with price variation clause

Profitability margins are susceptible to fluctuation in raw material prices however, some comfort can be drawn from the fact that the firm has price variation clause in the contracts it has entered.

Constitution of the entity as proprietor firm with inherent risk of withdrawal of capital

The sole proprietor typically makes all the decisions and runs the entire business operation. If he becomes ill or disabled, there may be nobody else who can step in and keep the business going. Running a business single-handedly can also pose a risk due to heavy burden. Constitution as a proprietorship has the inherent risk of possibility of withdrawal of the capital at the time of personal contingency which can adversely affect its capital structure. The proprietor has withdrawn capital to the tune of Rs.0.70 crore in FY19.

Key Rating Strengths

Long track record and experience of proprietor for more than one decade in construction industry

Sree Siva Ram And Company was established in the year 2005 as a proprietorship firm by Mr.C. Sivaram. He is a graduate by qualification and has 15 years of experience in construction industry. Due to presence in the market for long period, the promoter has good relations with suppliers and through promoter’s experience in construction industry helps the firm to execute the work orders in timely manner.

Improved PBILDT margins during the review period albeit decline in PAT margins

The PBILDT margin of the firm has been increased from 6.07% in FY18 to 6.40% in FY19 due to better margin associated with projects executed in FY19 coupled with firm has stopped doing sub-contracts in which the margins are relatively low as compared to government contracts. However, PAT margin of the firm marginally reduced from 2.80% in FY18 to 2.67% in FY19 due to decrease in PBILDT in absolute terms coupled with increase in interest cost.

Comfortable capital structure

The capital structure of the firm marked by debt equity and overall gearing ratio remained comfortable and below unity during the review period on account of increase in tangible networth due to year-on-year accretion of profit along with low debt levels. However the overall gearing ratio marginally deteriorated from 0.77x as on March 31, 2018 to 0.87x as on March 31, 2019 respectively due to increase in debt levels on account of increased unsecured loans.

Moderate debt coverage indicators albeit deterioration

The debt coverage indicators of the firm although deteriorated, remained moderate during review period. The total debt/GCA has deteriorated from 4.61x in FY18 to 7.70x in FY19 due to increase in debt levels on account of increased unsecure loans. The PBILDT interest coverage ratio deteriorated from 4.36x in FY18 to 2.47x in FY19 due to decrease in PBILDT absolute terms.
TD/CFO of the firm has improved and stood at 8.62x in FY19 due to increase in cash flow from operation on account of decrease in working capital changes by way decreasing trade receivables and inventory.

Short term revenue visibility from its current order book position

The firm has satisfactory order book of Rs.47.77 crore as on December 30, 2019 and the same is likely to be completed by September 2020.

Liquidity-Adequate:

Adequate liquidity characterized by sufficient cushion in accruals vis-à-vis repayment obligations and cash balance of Rs.1.16 Crore as on March 31, 2019. The Liquidity ratio of 1.46x and Quick Ratio of 0.54x as on March 31, 2019. The average utilization of Overdraft facility was 85% for the last 12 months ended November 30, 2019.

Stable outlook of civil construction industry

The construction industry contributes around 8% to India’s Gross domestic product (GDP). Growth in infrastructure is critical for the development of the economy and hence, the construction sector assumes an important role. The sector was marred by varied challenges during the last few years on account of economic slowdown, regulatory changes and policy paralysis which had adversely impacted the financial and liquidity profile of players in the industry. The Government of India has undertaken several steps for boosting the infrastructure development and revive the investment cycle. The same has gradually resulted in increased order inflow and movement of passive orders in existing order book. The focus of the government on infrastructure development is expected to translate into huge business potential for the construction industry in the long-run. In the short to medium term (1-3 years), projects from transportation and urban development sector are expected to dominate the overall business for construction companies. The implementation of Goods and Service Tax might result in short run operational issues and pressure on working capital until the process is streamlined. Going forward, companies with better financial flexibility would be able to grow at a faster rate by leveraging upon potential opportunities.

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]

Background
Sree Siva Ram And Company (SSRC) was established in the year 2005 as a proprietorship firm by Mr.C. Sivaram. The firm has its registered office located at Hyderabad, Telangana. SSRC is engaged in construction works like school and college buildings, godowns etc. The firm procures its work orders through online tenders from state government of Andhra Pradesh and Telangana. Further, the firm procures raw material from domestic entities. At present, the firm has order book position of Rs.47.77 crore as on December 30, 2019 and the same is likely to be completed by September 2020.

Brief Financials (Rs. crore)	31-03-2018	31-03-2019
	A	A
Total operating income	32.27	21.84
PBILDT	1.96	1.40
PAT	1.37	0.87
Overall gearing (times)	0.77	0.87
Interest coverage (times)	4.36	2.47

A: Audited

Status of non-cooperation with previous CRA: Nil

Any other information: Not Applicable

Rating History (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
Non-fund-based - ST-Bank Guarantees	-	-	-	2.50	CARE A4
Fund-based - LT-Bank Overdraft	-	-	-	2.50	CARE BB; Stable
Fund-based - LT-Bank Overdraft	-	-	-	2.50	CARE BB; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	1.00	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.	Non-fund-based - ST-Bank Guarantees	ST	2.50	CARE A4	-	1)CARE A4 (06-Feb-19)	-	-
2.	Fund-based - LT-Bank Overdraft	LT	2.50	CARE BB; Stable	-	1)CARE BB; Stable (06-Feb-19)	-	-
3.	Fund-based - LT-Bank Overdraft	LT	2.50	CARE BB; Stable	-	-	-	-
4.	Non-fund-based - ST-Bank Guarantees	ST	1.00	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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