



Rating Rationale

Adishakthi Constructions.

21 May 2019

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 5.94 Crores of Adishakthi Constructions.

Particulars

Facilities	Previous Amount (₹ Crs)	Present Amount (₹ Crs)	Tenure	Previous Ratings (20 th July 2018)	Present Ratings*
Fund Based					
Secured Overdraft	2.20	2.20	Long Term	BWR B+ (Outlook: Stable) Pronounced As BWR Single B Plus Assigned	BWR B+ (Outlook: Stable) Pronounced As BWR Single B Plus Reaffirms
Term Loan	0.85	0.74			
Non Fund Based					
Inland Bank Guarantee	3.00	3.00	Short Term	BWR A4 Pronounced As BWR A Four Reaffirms	BWR A4 Pronounced As BWR A Four Reaffirms
Total	6.05	5.94	INR Five Crores and Ninety Four Lakhs Only		

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Ratings Reaffirms

Rationale/Description of Key Ratings Drivers/Ratings Sensitivities:

BWR has essentially relied upon the audited financials upto FY18, provisional financials of FY19, publicly available information and information/clarifications provided by the firm's management.

The ratings draws strength from the experience of promoters in the civil construction business, moderate debt service coverage metrics, profitability margins, liquidity position and reputed clientele. However, the ratings are constrained by the lender has confirmed Y-O-Y declining

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revenue, exposure to competition coupled with small scale of operations, low capital structure, susceptibility to volatile raw material prices, low geographic concentration in the revenue stream, constitution as a partnership entity, susceptibility to changes in Government regulations and working capital intensive nature of operations

Going forward, the ability of the firm to service debt obligations on time, to increase its scale of operations, improve its profitability, strengthen its overall credit profile and manage its working capital efficiently would be the key rating sensitivities.

Description of Key Rating Drivers

Credit Strengths:

- **Promoters' experience in civil construction business:** The promoters have more than two decades of experience in the civil construction business, which has helped them to understand local market dynamics and established relationships with customers and suppliers.
- **Moderate debt service coverage metrics:** Moderate debt service coverage metrics marked by, interest service coverage ratio and debt service coverage ratio were around Rs.2.00 times and 1.22 times respectively as on 31st March 2018.
- **Moderate profitability margins:** Moderate profitability margins marked by, net profit margin and operating margin were around Rs.4.31 times and 12.63 times as on 31st March 2018.
- **Moderate order book position:** Adishakthi Construction (AC) has moderate revenue visibility backed by an order book position of around 52 Crs crs as on May 2019.
- **Reputed clientele:** The firm executes contracts primarily for established clients like State Government related BT roads, periodic renewals and road widenings.
- **Efficient working capital management and moderate liquidity:** The cash conversion cycle stood negative at 29 days in FY18 on account of receivable, inventory and payables days of 64, 92 and 185 respectively. The firm's current ratio stood at 1.08 times in FY18.

Credit Risks:

- **Declining scale of operations in a highly competitive industry**
AC's revenue has continuously declined from Rs.35.10 Crs in FY16 to Rs.26.16 Crs in FY17 and Rs.8.65 Crs in FY18 due to delay in execution of order book position and

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receivables collection. On a provisional basis, revenue for FY19 is also reported to be low at around Rs.30.00 Crs.

Low capital structure: Capital structure is low with partners capital and moderate gearing ratio were around Rs.4.95 Crs and 0.81 times respectively as on 31st March 2018.

- **Susceptibility to volatility in raw material prices:** Revenue and profitability will remain susceptible to fluctuations in raw material prices such as cement, steel and iron etc.
- **Presence in highly competitive industry and tender driven nature of the business:** The construction industry is highly fragmented with the presence of many organized and unorganized players. Further, tender driven nature of business places pressure on the profitability of the firm
- **Constitution as partnership firm:** Constitution as partnership firm has the inherent risk of possible withdrawal of the capital by partners which can adversely affect its capital structure.
- **Low geographic concentration in the revenue stream:** The firm generates its revenue from the projects in the State of Telangana.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: Stable

BWR believes the **Adishakathi Constructions.** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Firm

Adishakathi Constructions (ASC) was established as a partnership firm in 1998, Nizamabad, Telangana. The firm is engaged in laying of roads by utilising hot mix plant, building works, civil, electrical and mechanical works and manufacturing and sale of metal stone. The firm had

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an order book position of around Rs.52 Crs as on May 2019, to be executed in the next 18 months.

Mr. Nagesh Reddy N is the Managing Partner of the firm.

Firm Financial Performance

Adishakthi Constructions reported revenue of Rs.8.65 Crs with a PAT of Rs.0.37 Crs for FY18 as against Rs.26.16 Crs with PAT of Rs.1.66 Crs in FY17. The revenue was decreased due to non execution of order book position and delay on receivables from the State Government. On a provisional basis, the firm reported the revenue of around Rs.30.00 Crs for FY19. Partners capital was low Rs.4.95 crore as on 31st March 2018. Total Debt was Rs.4.01 crore and moderate current ratio was at 1.08 times as on 31st March 2018. ISCR and DSCR were around 2.91 times, as on 31st March 2018.

Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Operating Revenue	₹ Cr	8.65	26.16
EBITDA	₹ Cr	1.09	1.98
PAT	₹ Cr	0.37	1.66
Partners Capital	₹ Cr	4.95	5.17
Total Debt/Partners Capital	Times	0.81	0.47
Current Ratio	Times	1.08	1.80

Rating History for the last three years

S.No	Instrument /Facility	Current Ratings (May 2019)			Ratings History		
		Type	Amount (₹ Crs)	Ratings	2018 20 th July 2018	2017	2016
1	Secured Overdraft (Fund Based)	Long Term	2.20	BWR B+ Outlook: Stable Pronounced As BWR Single B Plus Reaffirms	BWR B+ Outlook: Stable Pronounced As BWR Single B Plus Assigned	NA	NA
2	Term Loan (Fund Based)		0.74				
3	Inland Bank Guarantee (Non Fund Based)	Short Term	3.00	BWR A4 Pronounced As BWR A Four Reaffirms	BWR A4 Pronounced As BWR A Four Assigned	NA	NA
Total			5.94	₹ Five Crores and Ninety Four Lakhs Only			

Status of Non Cooperation with other CRA: Not Applicable

Any other information: Not Applicable

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Short Term Debt](#)

Analytical Contacts	Investor Contacts
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<p>K S Nagaraj Associate Director - Ratings B : +91 80 4040 9940 nagaraj.ks@brickworkratings.com</p> <p>Prashanth B Ratings Analyst B : +91 40 2331 0161 / 2331 0071 prashanth.b@brickworkratings.com</p>	<p>Satish Nair Director - Global Market Development & Investor Relations M : +91 7738875550 B : +91 80 6745 6666 satish.n@brickworkratings.com</p>
1-860-425-2742	

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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER

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