Rating Rationale

Pawansut Construction

03 May 2018

Brickwork Ratings assigns BWR B+/A4 for the Bank Loan Facilities of Rs. 8.00 Crs of Pawansut Construction.('PC' or 'The Concern')

Particulars

Facility *	Amount (Rs. Crs)	Tenure	Rating^
Fund Based Cash Credit	3.00	Long Term	**BWR B+** (Pronounced as BWR Single B Plus) Outlook: Stable **Assigned**
Non-fund Based Bank Guarantee	5.00	Short Term	**BWR A4** (Pronounced as BWR A Four) **Assigned**
Total	**8.00** (Rupees Eight Crore Only)		

^ Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
*Annexure-I provides details of bank wise facilities

Rationale/Description of Key Rating Drivers/Rating sensitivities:
BWR has essentially relied upon the audited financial results of the Concern upto FY17, provisional financial information for FY18, publicly available information and information/clarifications provided by the management.

The rating draws strength from the proprietor's experience in the construction business and established Government clientele. The rating, however, is constrained by the small scale of operations, low capital, competition from larger players, exposure to risks arising from tender based operations, project completion risks, geographical concentration risk and working capital intensive operations.

Going forward the ability of the concern to increase its contract receipts and profitability, ensure timely completion of the projects, strengthen its overall credit risk profile and efficiently manage its working capital would remain the key rating sensitivities.

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).

Key Rating drivers

Credit strengths

- **Experienced management**

  The Concern benefits from the promoters' decade long experience in the civil and road construction business. It has an established track record of executing the projects in UP and Bihar.

- **Government Clientele**

  PC specializes in execution of government projects. Currently, the concern has 4 ongoing projects with expected contract receipts of around Rs. 50.00 Crs, expected to be realised in FY19.

Credit Weaknesses

- **Small scale of operations, tender driven operations and industry competition**

  PC's scale of operations is low with net contract receipts of Rs. 18.20 Crs in FY17 as against Rs. 27.72 Crs in FY16. The industry is characterised by intense competition and low entry barriers. Further, as the business is tender driven, the concern faces stiff competition, which limits its pricing flexibility , thereby placing pressure on its revenues and margins.

- **Geographical concentration**

  Operations are limited to certain parts of UP and Bihar only and hence, the concern faces geographical concentration risks.

- **Low capital**

  Proprietor's capital was low at Rs. 1.85 Crs as on 31st March 2017. Gearing was 2.96 times as on March 31 2017 as against 6.58 times as on March 31 2016, mainly due to reduction in unsecured loans.

- **Project Completion Risks**

  The concern operates in an industry dependent on government regulation. It faces project completion as well as price escalation risk. It is also exposed to regulatory risks and prone to changes in dynamic business environment.

Rating Outlook: Stable

BWR believes PC's 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 margins show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and margins show lower than expected figures.

Background:

Pawansut Construction is a proprietorship concern established in 2009 and based at Ghazipur, Uttar Pradesh. It is engaged in civil construction and undertakes construction of roads and drainages for Government departments of Bihar and Uttar Pradesh and North Eastern Railways. The Concern is registered as 'A' category contractor with CPWD (Central Public Works Department). Their operational area is 'Purvanchal', which comprises Eastern UP and Western Bihar. Mr. Abhishek Kumar Singh is the proprietor.

Financial Performance

During FY17, PC reported contract receipts of Rs. 18.20 Crs and PAT of Rs.0.41 Crs as against contract receipts of Rs. 27.72 Crs and PAT of Rs.0.78 Crs in FY16. On a provisional basis, the Concern reported contract receipts of around Rs. 12.00 Crs for FY18. Current ratio was 1.04 times as on March 31 2017. Overall gearing was moderate at 2.96 times as on March 31 2017 as against 6.58 times as on March 31 2016. ISCR and DSCR were 1.71 times and 1.32 times respectively as on March 31 2017. Key financial indicators are furnished in Annexure II.

Rating History for the last three years:

Sl. No.	Facility	Current Rating (April 2018)			Rating History		
		Type	Amount (Rs. Crs)	Rating	2017	2016	2015
1	Cash Credit	Long Term	3.00	**BWR B+** (Outlook:Stable) **Assigned**	N/A	N/A	N/A
2.	Bank Guarantee	Short Term	5.00	**BWR A4 Assigned**	N/A	N/A	N/A
	Total	**8.00**		**Rupees Eight Crores only**			

Status of Non cooperation with other CRA : CRISIL, vide its press release dt 25th July 2017, has migrated its ratings of the bank loan facilities of the concern to the Issuer Not cooperating category in view of its inability to undertake a rating surveillance in the absence of requisite information from the concern .

Any other information : Not applicable.

Hyperlink/Reference to applicable Criteria

- General Criteria
- Infrastructure Criteria
- Approach to Financial Ratios

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Annexure I

Details of Rated Bank Facilities

Bank	Facilities	Rated Amount (Rs Crs)
Punjab National Bank, Circle Office, Varanasi	Cash Credit	3.00
	Bank Guarantee	5.00
	Total	**8.00**

Annexure II

Key Financial Indicators

Particulars		FY16	FY17
Net Sales	(Rs. Cr)	27.72	18.20
EBITDA	(Rs. Cr)	2.23	2.68
PAT	(Rs. Cr)	0.78	0.41
Proprietors Capital	(Rs. Cr)	1.78	1.85
Total Debt:Proprietors Capital	(Times)	6.58	2.96
Current Ratio	(Times)	3.18	1.04

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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
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partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

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