



RATING RATIONALE

9 Oct 2019

SMD Engineers & Contractors

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹ 22.50 Crores of SMD Engineers & Contractors

Particulars:

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (Apr 2018)	Present
Fund Based	5.00	4.50	Long Term	BWR BB Stable	BWR BB Stable (Reaffirmed)
Non Fund Based	18.00	18.00	Short Term	BWR A4	BWR A4 (Reaffirmed)
Total	23.00	22.50	INR Twenty Two Crores and Fifty Lakhs Only		

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

** Details of Bank facilities is provided in Annexure-I

RATING ACTION / OUTLOOK

Brickwork Ratings has reaffirmed the long-term rating of BWR BB with Stable Outlook and reaffirmed the short term rating of BWR A4.

The rating upgrade has factored the revenue growth of the firm in FY19 and moderate financial risk profile apart from the proprietor's business experience and clientele base of the firm. The ratings, however, is constrained by the firm's moderate scale of operations, inherent risk pertains to proprietorship concern and its tender based nature of operations.

The rating has been assigned a stable outlook considering the revenue visibility of the current order book position of the firm and its maintained profitability over the past financial years.

KEY RATING DRIVERS

BWR has principally relied upon the audited financial results up to FY18, and provisionals of FY19 of SMD Engineers & Contractors, publicly available information and information/clarification provided by the firm.

Credit Strengths:

- Proprietor of the firm has two decades of experience in the civil construction sector. The long track record in the industry and maintained relationship with clients has resulted in steady inflow of work orders. The order book position of the firm of ₹ 141.82 Cr, acquired during FY18, is scheduled to be executed by FY20.
- On account of high value orders acquired during FY18 and healthy execution of the same during FY19 has resulted in revenue growth of 68% from ₹ 24.60 Cr in FY18 to ₹ 41.53 Cr in FY19. With improved revenue, the firm has registered an operating profit margin of 10.26% and net profit margin of 3.57% in FY19.
- The debt profile of the firm comprises of working capital loans and with net cash accruals to total debt of 0.14 times in FY19, the interest coverage ratio stands moderate at 2.27 times in FY19. On account of retained profits and infusion of funds, the net worth of the firm stands improved from ₹7.75 Cr in FY18 to ₹ 9.73 Cr in FY19 with comfortable debt equity of 1.28 times in FY19.
- Clientele of the firm, primarily includes government entities and thus the firm exposed to low counterparty credit risk.

Credit Risks:

- With a track record of more than a decade in the industry, the scale of operations of the firm stands moderate at an average of ₹ 31.28 Cr in last three financial years.
- Nature of operations being tender-based with competition from other organised players, has restricted the pricing power of the firm. The concern being a proprietorship firm is exposed to risk of capital withdrawal.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone performance of SMD Engineers & Contractors and has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale)

RATING SENSITIVITIES

Going forward, the ability of the firm of timely execution of acquired orders and retain the steady inflow of orders to sustain its revenue growth, while maintaining profitability and improve its cash accruals will be the key rating sensitivities.

Positive: The rating may be upgraded if there is a substantial improvement in revenues of the firm from current scale of ₹ 41.53 Cr in FY19 while maintaining the similar profit margins, registered during FY19 business operations.

Negative: The rating may be adversely affected if revenues of the firm deteriorates from existing level and also, if there is any adverse development in its financial risk profile.

LIQUIDITY POSITION

The firm has moderate liquidity position. Receivable days of the firm, though improved, stands stretched from 83 days in FY18 to 63 days in FY19 and with low working capital limits, the working capital utilization stands at 100% at present. The firm has cash and cash equivalents amounting to ₹ 8.48 Cr in FY19 and current ratio of 1.89 times in FY19.

COMPANY PROFILE

M/s. SMD Engineers & Contractors (SEC) was established as proprietorship in 2006. The registered office of the firm is located at Rajajinagar, Bangalore, Karnataka. The firm is engaged in the business of EPC (Engineering, procurement and construction) construction of roads, buildings, development of sites and layouts, laying pipelines/drainages etc. for the Government Bodies. Mr Maleeksab A Bagawan is the proprietor of the firm. The proprietor hails from Badami in North Karnataka and settled in Bangalore, hence the proprietor has orders from North Karnataka districts like Bagalkot, Belgaum and Bijapur as well as from Bangalore.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY18	FY19
Result Type		Audited	Provisional
Revenue	₹ Cr	24.60	41.53
EBITDA	₹ Cr	2.66	4.26
PAT	₹ Cr	1.10	1.48
Tangible Net worth	₹ Cr	7.75	9.73
Total Debt/Tangible Net worth	Times	1.50	1.28
Current Ratio	Times	1.75	1.89

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NIL

NON-COOPERATION WITH PREVIOUS RATING AGENCY: None

RATING HISTORY

Facilities	Current Rating (2019)			Rating History		
	Tenure	Amount (₹ Cr)	Rating	19.07.2019	18.04.2018	2017
Fund Based	Long Term	4.50	BWR BB Stable (Reaffirmed)	Rating Not Reviewed	BWR BB Stable	Not Rated
Non Fund Based	Short Term	18.00	BWR A4 (Reaffirmed)		BWR A4	
Total		22.50	INR Twenty Two Crores and Fifty Lakhs Only			

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

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

Analytical Contacts	Investor and Media Relations
<p>G Rajaram Primary Analyst Board: +91 80 4040 9940 Ext: 344 rajaram.g@brickworkratings.com</p> <p>A P Kamath Sr. Director – Ratings Board: +91 80 4040 9940 apkamath@brickworkratings.com</p>	<p>M : +91 7738875550 B : +91 22 6745 6666 investordesk@brickworkratings.com</p>

ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1.	Union Bank of India	SOD - BD	4.50	-	4.50
2.		Bank Guarantee	-	18.00	18.00
TOTAL					22.50

Total Rupees 22.50 Crores only

For print and digital media

The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

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

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons