

**Rating Rationale**

**Shreeji Construction Co**

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹. 13.50 Crores of Shreeji Construction Co.**

**Particulars**

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (April, 2019)	Present
Fund Based	7.50	7.50	Long Term	BWR BB-	BWR BB- [Reaffirmed]
Non-fund Based	6.00	6.00	Short Term	BWR A4	BWR A4 [Reaffirmed]
<b>Total</b>	<b>13.50</b>	<b>13.50</b>	<b>INR Thirteen Crores and Fifty Lakhs Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings  
Complete details of Bank facilities is provided in Annexure-I

**Rationale/Description of Key Rating Drivers/Rating sensitivities:**

BWR has essentially relied upon the audited financial statements of Shreeji Constructions Co(SCC) upto FY18, FY19, provisional financial FY20, projected financial statements upto FY22, publicly available information and clarification provided by the organisation’s management.

The rating derives strength from the promoter’s experience, order book position providing revenue visibility and moderate financial risk profile. However, the rating is constrained by limitations of a partnership firm, working capital intensive nature of operations and strained profitability, geographical concentration of revenues and highly competitive industry.

Going forward, the ability of the organisation to improve the scale of operations, profitability, liquidity profile, capital structure by infusion of capital and timely debt servicing will be the key rating sensitivity.

**Description of Key Rating Drivers**

**Credit Strengths:**

**Promoter’s experience:**

The promoters have an experience of more than two decades in the construction sector. The firm is a registered “AA” class contractor with the Road & Building Department, Government of Gujarat.

**Order book position:**

The firm has a partly executed order book of around Rs. 88.79crs as of September 2020 expected to be executed over the next 12-18 months providing revenue visibility over the medium term.



## **Credit Risks:**

### **Limitations of a partnership firm:**

The constitution of SCC is a partnership firm formed in 1995. The firm has a long track record of operations however the limitations related to withdrawal of capital by the partners will be there.

### **Working capital intensive nature of operations and relatively thin profitability:**

Working capital intensive nature of business with the busy season from October to February is indicated by the current ratio of 0.89x in FY19, however, the margins are covered by fixed deposit receipts. The firm's profitability is vulnerable to fluctuations in input prices in some projects, without price escalation clause, further, the firm also faces criticality in timely completion and delivery as per contract terms in order to avoid late delivery claims.

### **Geographical concentration of revenues:**

SCC has been in the civil contract works business for almost two decades; however, almost 100 per cent of its revenue is from projects in Gujarat. This makes revenue growth dependent on regional impetus on infrastructure development. The firm books 100 per cent of its revenue from the R & B department of Gujarat.

### **Highly competitive industry:**

The industry is highly fragmented and competitive due to tender based order procurement. High competitive intensity in the civil construction space as well as the project order based nature of the business, with the risk of reduction in workflow in case of any prolonged down-cycle in the road construction sector, which remains the major revenue contributor for the company.

### **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 **Shreeji Construction Co** 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 Company**

Surat-based (Gujarat), Shreeji Constructions Company is a partnership firm incorporated in 1995 and was founded by Mr Labhubhai Dangsiya. The current partners are Mr Piyush Dangsiya, Ms Truptiben Dangsiya, and Ms Hansaben Dangsiya. SCC is a turnkey civil contractor engaged in Road Construction. SCC is a registered "AA" Class contractor with Road & Building (R&B) department, Government of Gujarat. The execution timeline of the work orders of the firm remains between 8-11 months. The firm sub contracts 20% of its work orders to other local subcontractors.



**Company Financial Performance**

In FY19 the firm earned a revenue of Rs 52.56 cr with a PAT of Rs 1.49 cr vis-a-vis Rs 35.91 cr & Rs 1.30 cr in FY18. As informed by the management the revenue of the firm is Rs. 46.61 crs in FY20, the profitability stands at Rs. 1.49 crs as per provisional financials in FY20.

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]**

S.No	Facility	Current Rating (2020)			Rating History		
		Type	Amount (₹ Crs)	Rating	30April2019	8June2018	2017
1	Fund Based	Long Term	7.50	BWR BB- [Reaffirmed]	BWR BB-	BWR BB-	NA
2	Non Fund Based	Short Term	6.00	BWR A4 [Reaffirmed]	BWR A4	BWR A4	NA
	Total		13.50	₹Thirteen Crores and Fifty Lakhs Only			

**Status of non-cooperation with previous CRA - CARE BB-/A4 (Outlook: Stable) issuer non co-operation as on 04<sup>th</sup> January 2018, due to absence of minimum information required for the purpose of rating.**

**Key Financial Indicators**

Key Parameters	Units	2019	2018
Result Type		Audited	Audited
Operating Revenue	₹ Cr	52.56	35.91
PAT	₹ Cr	1.49	1.30
Tangible Net worth	₹ Cr	10.01	8.72
Total Debt/Tangible Net worth	Times	0.52	0.50
Current Ratio	Times	0.89	0.92

**Hyperlink/Reference to applicable Criteria**

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



Analytical Contacts	Investor and Media Relations
<p><b>Parth Agrawal</b>  <b>Rating Analyst</b>  <b>B :+91 79 66174046 / 47</b>  parth.a@brickworkratings.com</p> <p><b>Dileep Singh</b>  <b>Director - Ratings</b>  <b>B :+91 79 66174046 / 47</b>  dileep.s@brickworkratings.com</p>	<p>Liena Thakur  Assistant Vice President - Corporate  Communications  +91 84339 94686  liena.t@brickworkratings.com</p>

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