



Rating Rationale

Sri Matha Constructions

31 May 2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 10.80 Crores of Sri Matha Constructions.

Particulars

Facilities	Amount (₹ Crs)	Tenure	Ratings*
Fund Based			
Secured Overdraft	6.00	Long Term	BWR C (Pronounced As BWR C)
Non Fund Based			
Bank Guarantee	4.80	Short Term	BWR A4 Pronounced As BWR A Four
Total	10.80	INR Ten Crores and Eighty Lakhs Only	

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

Ratings Assigned

Rationale/Description of Key Ratings Drivers/Ratings Sensitivities:

BWR has essentially relied upon the audited financials upto FY18, provisional financials of FY19, projected financials of FY20 and FY21, 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 industry, moderate profitability and debt service coverage metrics. However, the ratings are constrained by the lender has confirmed that there are some instances delays in payments due to liquidity issues faced by the firm, low scale of operations, inadequate liquidity position, exposure to competition coupled with susceptibility to volatility of raw material prices, low geographic concentration in the revenue stream 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.

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Description of Key Rating Drivers

Credit Strengths:

- **Promoters' experience in the construction industry:** The promoters have more than a decade of experience in the construction of buildings, roads and civil engineering works, which has helped them to understand local market dynamics and established relationships with customers and suppliers.
- **Moderate profitability margins:** Moderate profitability margins marked by, net profit margin and operating margin were around Rs.4.48% and 25.49% as on 31st March 2018.
- **Moderate debt service coverage metrics:** Moderate debt service coverage metrics marked by, interest service coverage ratio and debt service coverage ratio were around 1.37 times and 1.25times as on 31st March 2018.

Credit Risks:

- **Declining scale of operations in a highly competitive industry**
SMC's revenue has continuously declined from Rs.20.51 Crs in FY16 to Rs.17.66 Crs in FY17 and Rs.9.61 Crs in FY18. On a provisional basis, revenue for FY19 is also reported to be low at around Rs.12.00 Crs. The construction industry is sensitive to the shifting business cycles.
- **Low capital structure:** Capital structure is low with partners capital and gearing ratio were around Rs.3.29 Crs and 2.48 times, respectively as on 31st March 2018.
- **Low order book position:** Sri Matha Constructions has low revenue visibility backed by an order book position of around 10 Crs Crs as on May 2019 and it will be executed next 24 months.
- **Delays in materialization of Receivables on time resulting in delays in debt obligation:** BWR has noticed that there instances of delayed payments due to liquidity issues faced by the firm. Presently the account classification is standard and conduct of the account is satisfactory.
- **Inefficient working capital management and inadequate liquidity:** The cash conversion cycle elongated stood at 118 days in FY18 on account of receivable, inventory and payables days of 111, 67 and 61 respectively. The firm's current ratio stood inadequate at 0.63 times in FY18.
- **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.
- **Low geographic concentration in the revenue stream:** The firm generates most of 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 **Sri Matha 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

Sri Matha Constructions (SMC) was established as a partnership firm in December 2003, Warangal, Telangana. The main objective of the firm is construction of Buildings, Roads and Civil Engineering Projects. The firm is doing I & CAD projects, R & B Department and Panchayat Raj Department projects as a division with in State and Central Government of India. The firm is registered with the Office of the Engineer - In - Chief (Admn Wing) I & CAD Department, Government of Telangana to undertake civil contracts under special class contractor. The registration is validity of five years from the date of registration. The firm had an order book position of around Rs.10 Crs as on May 2019, to be executed in the next 24 months.

Mr. Donthi Madhava Reddy is the Managing Partner of the firm.

Firm Financial Performance

SMC reported revenue of Rs.9.61 Crs with a PAT of Rs.0.43 Crs for FY18 as against Rs.17.66 Crs with PAT of Rs.0.78 Crs in FY17. On a provisional basis, the firm reported the revenue of around Rs.12.00 Crs for FY19. Partners capital was low at Rs.3.29 crore as on 31st March 2018. Total Debt was Rs.8.14 crore and inadequate current ratio was at 0.63 times as on 31st March 2018. ISCR and DSCR were around 1.37 times and 1.25 times, as on 31st March 2018.

Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Operating Revenue	₹ Cr	9.61	17.66
EBITDA	₹ Cr	2.45	2.40
PAT	₹ Cr	0.43	0.78
Partners Capital	₹ Cr	3.29	2.93
Total Debt/Partners Capital	Times	2.48	2.50
Current Ratio	Times	0.63	0.90

Rating History for the last three years

S.No	Instrument /Facility	Current Ratings (May 2019)			Ratings History		
		Type	Amount (₹ Crs)	Ratings	2018	2017	2016
1	Secured Overdraft (Fund Based)	Long Term	6.00	BWR C Pronounced As BWR C	NA	NA	NA
2	Bank Guarantee (Non Fund Based)	Short Term	4.80	BWR A4 Pronounced As BWR A Four	NA	NA	NA
	Total		10.80	₹ Ten Crores and Eighty 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](#)

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For print and digital media

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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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