



Rating Rationale

V. Shanmugam

19 Feb 2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 10.85 Crores of V. Shanmugam.

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	8.35	Long Term	BWR B (Pronounced as BWR Single B) (Outlook: Stable)
Non Fund Based	2.50	Short Term	BWR A4 (Pronounced as BWR A Four)
Total	10.85	INR Ten Crores and Eighty Five Lakhs Only	

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

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the concern's audited financial statements upto FY18 and publicly available information and the information/clarifications provided by the concern.

The ratings draws strength from experienced management, liquidity and long standing relationship with customers. However, the rating is constrained by low scale of operations and high gearing ratio. Further being a proprietorship concern, any withdrawals of the capital by the proprietor for any contingencies would adversely impact the capital structure which would be a rating sensitivity.

Going forward, the ability of the concern to increase its operating margins, profitability and manage its working capital efficiently will be the key rating sensitivities.

Description of Key Rating Drivers

Credit Strengths:

- **Experienced Management:** Mr.V.Shanmugam is the proprietor of the concern and has more than 15 years of experience in undertaking civil construction works in Tamil Nadu
- **Liquidity:** ISCR and DSCR are at moderate levels at 1.79 times and 1.23 times in FY18 respectively
- **Long Standing Relationship with customers:** Since the concern has been in existence from 2003, it has established long standing relationship with its clients

Credit Risks:

- **Low Scale of operations:** Net sales has declined from Rs.63.37Cr in FY17 to Rs.15.65 in FY18 due to change in business model. Concern has decided to execute government orders through a partnership firm viz JSR Constructions (incorporated in 2017 by family members of Mr.V.Shanmugam)
- **High gearing ratio:** Gearing ratio is on the higher side at 1.72 times in FY18
- **Constitution of the entity as a proprietorship concern:** V.Shanmugam being a proprietorship concern, is exposed to inherent risk of capital withdrawal at the time of personal contingency which will affect its capital structure

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 **V. Shanmugam** 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 Concern

V.Shanmugam is a proprietorship concern situated in Karur, Tamil Nadu and established in 2003. Mr.V.Shanmugam is the proprietor of the concern and has more than 15 years of experience in executing civil construction works in Tamil Nadu. Till 2017, V.Shanmugam was undertaking civil construction works in Tamil Nadu, primarily for the state government's housing board, slum clearance board and public works Department. A new partnership firm viz J.S.R construction was incorporated by the family members of Mr.V.Shanmugam in 2017 for the purpose of carrying out civil construction works for government projects while V.Shanmugam will undertake construction works for private contracts.



V.Shanmugam is focusing on completing the work in hand viz state government projects that were undertaken by them during 2016-17 period. From 2017 onwards, new government projects were undertaken by J.S.R constructions. Concern expects to complete the work in hand worth of Rs.25.00Cr by March 2019. Concern has stated that it will be signing a new contract for a private housing project in March 2019. The proposed project reportedly involves construction of 64 flats with an estimated value of Rs.40.00Cr

Financial Performance of the concern

The concern's net revenue from operations is Rs.15.65Cr in FY18 and Rs.63.37Cr in FY17. Net profit margin reported at 4.31% in FY18. Tangible net worth stood at Rs.6.38Cr as at the end of March 31, 2018

Key Financial Indicators

Key Parameters	Units	2018	2017	2016
Result Type		Audited	Audited	Audited
Operating Revenue	₹ Cr	15.65	63.37	58.56
EBITDA	₹ Cr	1.53	2.74	2.33
PAT	₹ Cr	0.67	2.03	1.66
Tangible Net worth	₹ Cr	6.38	5.80	5.67
Total Debt/Tangible Net worth	Times	1.72	1.32	1.42
Current Ratio	Times	1.18	1.18	1.58

Rating History for the last three years

S.No	Instrument /Facility	Current Rating (2019)			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	2018	2017	2016
	Overdraft	Long Term	5.00	BWR B (Pronounced as BWR Single B) (Outlook: Stable)	NIL	NIL	NIL
	Cash Credit	Long Term	3.35		NIL	NIL	NIL
	Bank Guarantee	Short Term	0.50	BWR A4 (Pronounced as BWR A Four)	NIL	NIL	NIL
	Letter of Credit	Short Term	2.00		NIL	NIL	NIL
	Total		10.85	₹ Ten Crores and Eighty Five Lakhs Only			



Hyperlink/Reference to applicable Criteria

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

For any other criteria obtain hyperlinks from website

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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.

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