



Press Release

G Shankar

December 28, 2021

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	232.00 (increased from Rs. 190.00 crore)	IVR BBB / Negative (Pronounced as IVR Triple B with Negative Outlook)	Reaffirmed and Outlook revised from Positive to Negative
Short term Bank Facilities	158.00 (reduced from Rs. 200.00 crore)	IVR A3+	Reaffirmed
Total	390.00 (INR Three Hundred Ninety Crore Only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The outlook revision to the bank facilities of G Shankar factorstherevenue decline in FY2021 mainly on constrained execution on impeded project fund flow from the Government of Karnataka as the same were diverted to Covid relief. Given this, GoK through its entities has also restricted the new project launch as also 57% of debtors as on March 31,2021 as also 39% of debtors as on September 30,2021 remained above 365 days.

The reaffirmation of the ratings to the bank facilities of G Shankar continues to derive strength fromlong track record of the proprietor in the civil construction along with proven project execution capability coupled with reputed clientele, mostly government departments lowering counterparty risk. Further, the rating also factors in the moderate order book position reflecting satisfactory medium term revenue visibility, moderate profit margins andits comfortable debt metrics in FY2021 as also adequate operating cycle supported mainly by satisfactory credit period from its suppliers enabling to keep the external fund based working capital borrowings at suitable levels.

However, these rating strengths are constrained by geographical and sector concentration risks as it has executed irrigation projects in the state of Karnataka.Further, the tender driven nature of business coupled with highly fragmented & competitive construction sector results in moderate bid win ratios. The ratings also considersthe risks associated with proprietorship nature of constitution; any significant withdrawals may have a significant bearing on its capital structure.



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Key Rating Sensitivities:

Upward Factors

- Sustained revenue growth and substantial improvement in profitability
- Healthy order book and sustenance of the same
- Significant geographical diversification
- Adequate working capital utilisation levels and sustenance of the same
- Equity infusion

Downward Factors

- Significant stretch in the financial metrics along with decline in revenues
- Moderation in liquidity position with stretch in operating cycle
- Significant withdrawals impacting the debt metrics.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Extensive experience of the proprietor in the civil construction business

G Shankar, the Karnataka based civil construction firm is promoted by Mr. Gundami Shankar who has an extensive experience in the civil construction business as defined by the significant revenues in the past fiscals. G Shankar though primarily operates in Karnataka and has executed projects for irrigation water management corporations promoted by Government of Karnataka. Apart, Mr. Shankar has business interests in various industries through the group entities like Shamili Hydel Power Project Private Limited, Mulgunds Energy Pvt Ltd, Saleems Energy Pvt Ltd and Sandeeps Energy Pvt Ltd.

Satisfactory medium term revenue visibility basis the current order book position

The firm has an unexecuted order book position of Rs. 1,929.00 crore as on September 30, 2021, which are to be executed over a period of next 2 years providing a revenue visibility over medium term. The outstanding order book position stands at 3.20 times of TOI for FY2021. The projects to be executed are mainly for Government of Karnataka promoted irrigation water management entities like Visvesvaraya Jala Nigam Ltd, KBJNL, Karnataka Neeravari Nigam Limited and MID Mangalore which also limits counterparty credit risk to an extent..

Moderate profitability though some improvement in operating margin in FY2021



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The firm's operating margins have shown an increase to 9.04% in FY2021 vis a vis 7.37% in FY2020 driven by cost controls. RoCE also remained at 17.29% in FY2021 as compared to 17.20% in FY2020. Albeit expansion of the operating margins will be a key monitorable. The net profit margins remained moderate at 5.42% in FY2021 as compared to 5.39% in FY2020.

Comfortable capital structure and debt metrics

The capital structure of the firm remains comfortable mainly on adequate capital and low debt levels. The overall gearing ratio stood at 0.43 times as on March 31,2021 while the same had remained 0.57 times as on March 31,2020. In absence of any debt raising plans,the capital structure is expected to remain comfortable in the near term.The interest coverage, TD/GCA, TD/EBIDTA remained at 4.47x, 1.87 years, 1.47x in FY2021 while they remained at 5.76x, 1.88 years, 1.47x in the previous fiscal. Given the long term relationship, the creditors have also provided adequate credit period which has also supported the working capital requirements. Maintenance of modest borrowing levels will be a key monitorable going forward. The TOL/TNW also remained at 1.34 times in FY2021 and 1.94 times in FY2020 given the networth levels.

Adequate operating cycle in the past fiscals

GS firm follows monthly billing cycle for work done, accruals for which is received within 15 days of billing which has kept the debtor and inventory levels at adequate levels 54 & 24 days as on March 31,2021 and 45 & 15 days as on March 31,2020. Further, established relationship with suppliers has provided for the satisfactory credit period.

Key Rating Weaknesses

Decline in revenue in FY2021 on constrained execution

The total operating income of the firm declined to Rs.758.02 crore in FY2021 from Rs. 1005.11 crore in FY2020, mainly on account of limited execution of orders due to the lockdown imposed by the Government during COVID-19 first wave & second wave as there was restriction on material and labor movement. Further, the earmarked funds for the projects had to be diverted to COVID relief constraining fund flow. The Government of Karnataka promoted irrigation water management entities - Visvesvaraya Jala Nigam Ltd, KBJNL, Karnataka Neeravari Nigam Limited and MID Mangalore have not declared new projects especially majorly in the past half year. Decline in the pandemic intensity is expected to provide for funds for projects albeit the government is expected to launch new projects. The firm in 6MFY2022 has registered revenues of Rs. 258.16 crore and expects revenues of Rs. 990.00 crore in FY2022 through execution of the in-hand orders.



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- **High geographic concentration with projects mainly in Karnataka; Intense competition in the construction industry due to tender-based contract awarding system**

The firm mainly executes projects for various water management corporation promoted by Govt. of Karnataka implying geographical concentration risks. Geographical diversification would be a key monitorable, going forward. The domestic civil construction industry remains fragmented with a large number of entities. With significant number of entities bidding for a limited number of tenders, it leads to a moderate success ratio for the projects on offer.

Risks associated with sole proprietorship nature of business

Given the firm's constitution as a sole proprietorship, it is exposed to discrete risks including the possibility of withdrawal of capital and keyman risks. This nature of business also limits the firm's flexibility to tap additional external channels of financing.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure companies

Financial Ratios & Interpretation (Non- Financial Sector)

Liquidity – Adequate

The firm's liquidity is expected to remain adequate given the modest repayments in the near term in the range of Rs. 0.64 crore to Rs. 3.38 crore as against expected accruals of Rs. 81.11 crore to 119.22 crore in the period FY2022 -24. Additional accruals are expected to provide for the liquidity. The fund based working capital utilisation remains 47% average for the 12 months period ending September 2021 which also provides for the short-term liquidity while the non-fund based working capital utilization remains at 97.74% on an average for the period of 12 months ending September 2021. The free cash balance as on September 30, 2021, remains at 2.91 crore. Additionally, extent of withdrawal given the proprietorship nature of the constitution and maintenance of satisfactory operating cycle will also be key to the liquidity of the firm and a will be a key monitorable going forward.

About the Firm

G Shankar (GS) is proprietorship firm established in 1990 by Mr. Gundami Shankar. GS is class-I PWD contractor engaged into execution of civil construction for irrigation projects



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primarily for Government of Karnataka promoted irrigation water management corporations namely Krishna Bhagya Jala Nigam Ltd, Karnataka Neeravari Nigam Ltd, Minor Irrigation Department and Visvesvaraya Jala Nigam Ltd. Mr. G Shankar is also the director and promoter of Shamili Hydrel Power Project Private Limited incorporated in 2006, engaged in the power generation through hydrel power plant situated on the bank of Virahi river with the power generation capacity of 12 MW per hour.

G Shankar also operates convention centres at “Shamili Inn” at NH 66, Ambalpadi, Udupi District, “Shamili Shanaya” at Brahmavar Udupi District, and “Shalini Shankar” convention centre in Halady, Udupi District. But the convention centres contribute marginally to the total income.

Financials (Standalone):

For the year ended*/As on	31-03-2020	31-03-2021
	Audited	Audited
Total Operating Income	1005.11	758.02
EBITDA	74.10	68.53
PAT	54.55	41.24
Total Debt	125.79	100.63
Tangible Net Worth	221.46	234.19
EBITDA Margin (%)	7.37	9.04
PAT Margin (%)	5.37	5.42
Overall Gearing Ratio (x)	0.57	0.43

* Classification as per Infomerics’ standards.

Status of non-cooperation with previous CRA: Vide Press release dated May 19, 2021, CRISIL ratings have moved the ratings to non-cooperation category.

Any other information: NA

Rating History for last three years:

S. No.	Facilities	Current Rating (FY 2021-22)			Rating History for last 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	LongTerm	222.00	IVR BBB/	IVR BBB/ Positive	--	--



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S. No.	Facilities	Current Rating (FY 2021-22)			Rating History for last 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
2.	Term Loan	LongTerm	10.00	Negative	(October 14, 2020)		
3.	Bank Guarantee	Short Term	158.00	IVR A3+	IVR A3+ (October 14, 2020)	--	--

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

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unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

Annexure 1: Details of Facilities

Name of Facilities	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facilities (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facility- Cash Credit	-	-	-	222.00	IVR BBB/ Negative
Long Term Bank Facility- Term Loan	-	-	March, 2023	10.00	IVR BBB/ Negative
Short Term Bank Facility – Bank Guarantee	-	-	-	158.00	IVR A3+

Annexure 2: List of companies considered for consolidated analysis: Not Applicable.

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-g-shankar.pdf>

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Facilities	Complexity Indicator
1.	Cash Credit	Simple
2.	Term Loan	Simple
3.	Bank Guarantee	Simple

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it based on complexity and a note thereon is available at www.infomerics.com.