

Press Release

Ratilal Bhagwandas Construction Company Private Limited

October 19, 2019

Rating downgraded



Total Bank Facilities Rated*	Rs. 35.00 Cr.
Long Term Rating	ACUITE BB+ / Outlook: Stable (Downgraded from ACUITE BBB+/Indicative)

* Refer Annexure for details

Rating Rationale

Acuite has downgraded long-term rating to '**ACUITE BB+**' (read as **ACUITE double B plus**) from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) on the Rs. 35.00 crore bank facilities of Ratilal Bhagwandas Construction Company Private Limited. The outlook is '**Stable**'.

The rating downgrade reflects slowdown in business operations in Ratilal Bhagwandas Construction Company Private Limited (RBCCPL). The management is curtailing work orders in RBCCPL and undertaking new orders in RBCC as a part of strategic arrangement and plans to shut down the business in RBCCPL.

About the company

The Pune-based Ratilal Bhagwandas Construction Company Private Limited (RBCCPL), incorporated on 1991, is engaged in undertaking civil construction contracts for private entities. The management is transferring all work orders in partnership firm, RBCC as a part of business arrangement.

Change in Analytical Approach

During the previous rating exercise, Acuite had considered the standalone business and financial risk profile of RBCC on account of management stated posture to manage the businesses separately. However, Acuite has now consolidated the business and financial risk profiles of Ratilal Bhagwandas Construction Company (RBCC) and Ratilal Bhagwandas Construction Company Private Limited (RBCCPL) as the management has now changed their stance on the management of group companies separately and are planning to curtail orders in RBCCPL after completion of current orders and take new work orders in RBCC only. Thus there will be financial alignment between the entities. Further, RBCCPL has extended its corporate guarantee to the RBCC. Acuite has consolidated the business and financial risk profile to arrive at this rating. Extent of consolidation: Full.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The group is promoted by Mr. Nitin Ratilal Karia and Mr. Anand Nitin Karia. The group has its presence in construction business for over three decades. The extensive experience of the promoters is reflected through the established relationship with its customers and suppliers. The group has executed projects for various reputed clientele such as Mahindra and Mahindra, Godrej & Boyce Manufacturing Company Limited, Bharat Forge Limited amongst others. On the back of the stable and repeat orders by the key customers, the revenues have seen a compound annual growth rate (CAGR) of about 14 per cent over the past three years through FY2019 at Rs.95.62 crores in FY2019. The group has an unexecuted order book of about Rs.53.85 crore resulting in adequate revenue visibility.

Acuite believes that Ratilal Bhagwandas Group is likely to continue to benefit from its promoters' extensive experience in the industry.

- **Above average financial risk profile**

The group has above average financial risk profile marked by moderate net worth, debt protection metrics and coverage indicators. The group's networth is moderate at Rs.20.48 crore as on March 31, 2019 (Provisional). The group has low gearing position at 0.13 times as on 31 March, 2019 (Provisional) as against 0.16 times as on 31 March, 2018. The leverage levels continue to remain low on account of low reliance on working capital limits. Total debt outstanding at Rs. 2.73 crore includes unsecured loans of Rs. 2.69 crore as on 31 March, 2019 (Provisional). The debt protection metrics stood healthy marked by interest coverage ratio at 50.76 times and DSCR at 31.30 times for FY2019 (Provisional). It has healthy return indicator marked by ROCE margins at 35.21 per cent for FY2019 (Provisional). Acuite expects the financial risk profile to remain above average on account of moderate networth, healthy debt protection metrics and low debt exposure.

Weaknesses

- **Tender based nature of operations**

The revenues of the group are generated through tender-based orders floated by counter parties coupled with the increasing competition in the industry. The revenue has direct impact on successful bidding of order and competitive pricing provided to surpass competition from other players in the industry.

- **Competitive and fragmented industry**

The group is engaged as civil contractor. The particular sector is marked by the presence of several mid to big size players. The group faces intense competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent as management operating in this environment for last 26 years.

Rating Sensitivities

- Delay in Project execution
- Order book Position

Material Covenants

TOL/TNW- 1.86 times

Current Ratio- 1.49 times

Interest coverage ratio- 24.29 times

Any adverse deviation by more than 20% from the stipulated levels will be treated as non-compliance of financial covenants.

Liquidity Position- Adequate

The group has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The group generated cash accruals of Rs. 4.37 crore for FY2019 (Provisional) while its maturing debt obligations were nil for the same period. The cash accruals of the group are estimated to remain in the range of around Rs. 5.73 crore to Rs. 8.06 crore during 2020-22 against nil repayment obligation. The group's working capital operation is efficient marked by gross current asset (GCA) days of 97 days for FY2019 (Provisional). The current ratio stood at 2.16 times as on 31 March, 2019 (Provisional). Acuite believes that the liquidity of the group is likely to remain moderate over the medium term on account of moderate cash accrual against no major debt repayments over the medium term.

Outlook: Stable

Acuite believes that the group will maintain a 'Stable' business risk profile on account of its established operational track record and reputed clientele. The outlook may be revised to 'Positive' in case the group is able to achieve significant growth in revenue along with improvement in profitability and significant improvement in financial risk profile. The outlook may be revised to 'Negative' in case of delay in project execution, deterioration in the working capital cycle or stretched liquidity position.

About the Rated Entity - Consolidated Key Financials

	Unit	FY19 (Prov.)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	95.62	65.39	73.68
EBITDA	Rs. Cr.	6.58	0.26	5.96
PAT	Rs. Cr.	3.90	(0.52)	3.87
EBITDA Margin	(%)	6.88	0.40	8.09
PAT Margin	(%)	4.08	(0.80)	5.25
ROCE	(%)	35.21	2.41	78.48
Total Debt/Tangible Net Worth	Times	0.13	0.16	-
PBDIT/Interest	Times	50.76	4.19	33.87
Total Debt/PBDIT	Times	0.37	2.55	-
Gross Current Assets (Days)	Days	97	94	103

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure Entities- <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
19-Nov-2018	Bank Guarantee	Long Term	27.00	ACUITE BBB+ (Indicative)
	Letter of Credit	Long Term	1.00	ACUITE BBB+ (Indicative)
	Proposed Bank Guarantee	Long Term	7.00	ACUITE BBB+ (Indicative)
18-Sep-2019	Bank Guarantee	Long Term	27.00	ACUITE BBB+ (Indicative)
	Letter of Credit	Long Term	1.00	ACUITE BBB+ (Indicative)
	Proposed Bank Guarantee	Long Term	7.00	ACUITE BBB+ (Indicative)
6-Jun-2016	Bank Guarantee	Long Term	27.00	ACUITE BBB+ / Stable (Reaffirmed)
	Letter of Credit	Long Term	1.00	ACUITE BBB+ / Stable (Reaffirmed)
	Proposed Bank Guarantee	Long Term	7.00	ACUITE BBB+ / Stable (Reaffirmed)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE BB+/ Stable (downgraded from ACUITE BBB+)

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About Acuité Ratings & Research:

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