

Press Release

Rawatsons Engineers Private Limited

October 24, 2019

Rating Reaffirmed



| | |
|-------------------------------------|------------------------------|
| Total Bank Facilities Rated* | Rs. 29.00 Cr. |
| Long Term Rating | ACUITE BB+ / Outlook: Stable |
| Short Term Rating | ACUITE A4+ |

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating of '**ACUITE BB+**' (read as **ACUITE double B plus**) and short-term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 29.00 crore bank facilities of RAWATSONS ENGINEERS PRIVATE LIMITED (REPL). The outlook is '**Stable**'.

Incorporated in 1981, REPL is a Kolkata-based company engaged in the civil construction business. It caters to Indian railways only. It carries out projects like foot over bridges, road over bridges, steel bridge girders and platform shelters. It is promoted by Mr. Pradeep Rawat, Mr. Prajesh Rawat and Mr. Damaru Rawat.

Analytical Approach

Acuite has considered standalone business and financial risk profile of REPL to arrive at the rating.

Key Rating Drivers

Strengths

• Experienced management

REPL started its operations in 1981 under the leadership of Mr. Pradeep Rawat, Mr. Prajesh Rawat and Mr. Damaru Rawat who possesses industry experience of over two decades. The extensive experience has enabled the company forge healthy relationships with customers and suppliers. Acuite believes that the company will continue to benefit from its experienced management and established relationships with customers.

• Improvement in scale of operations

The company has reported moderate revenue growth with compounded annual growth rate (CAGR) of around ~20.00 percent through the last three years ended 31 March, 2019 (Provisional). The company reported healthy revenue growth of ~61.94 percent with operating income of Rs.71.20 crore in FY2019 (Provisional) as against operating income of Rs.43.97 crore in FY2018. The operating margins of the company marginally increased to 6.92 percent in FY2019 (Provisional) from 6.16 percent in FY2018. However, it is still at lower level against 11.27 per cent in FY2017. Acuite believes that though the scale of operations and profitability has improved in FY2019 as against FY2018, it is still not at par with the FY2017. However, it is expected to improve further on back of healthy order book of Rs.175.55 crore which is to be executed by FY2020-2021.

• Moderate financial risk profile

The financial risk profile is moderate marked by moderate net worth and debt protection measures and low gearing. The net worth of the company is moderate at Rs.31.69 crore as on 31 March 2019 (Provisional) as against Rs.29.54 crore as on 31 March 2018. The gearing (debt to equity) of the company stood at 0.64 times as on March 31 2019 (Provisional) as against 0.65 times as on March 31 2018. Total debt of Rs.20.32 crore consists of term loan of Rs.4.87 crore, unsecured loans of Rs.3.31 crore and working capital facility of Rs.12.15 crore as on 31 March 2019 (Provisional). Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 0.90 times as on 31 March 2019 (Provisional) as against 0.95 times as on 31 March 2018. Interest Coverage Ratio (ICR) improved to 2.52 times in FY2019 (Provisional) from 1.62 times in FY2018. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.13 times as on 31 March 2019 (Provisional) as against 0.06 times as on 31 March 2018. Debt Service Coverage Ratio (DSCR) marginally deteriorated to 1.12 times in FY2019 (Provisional) from 1.35 times in FY2018.

Weaknesses

• Intensive working capital operations

The working capital of REPL is intensive in nature marked by high Gross Current Asset (GCA) days of 172 for FY2019 (Provisional) as against 272 in the previous year. Inventory days stood at 87 for FY2019 (Provisional) as against 161 for FY2018, further debtor days stood at 18 in FY2019 (Provisional) as against 14. However, the reliance on working capital facility is high, its utilization is around ~95 percent on an average for last 6 months ending September, 2019. Going ahead, the ability of the company to efficiently manage its working capital requirements will remain the key rating sensitivity.

• Tender based business

Major business is bagged through open tenders. Hence, the revenue earned is directly dependent upon the quantum of contracts bagged and executed during the year. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. The firm has to do tendering on competitive prices; this may affect the profitability of the company. This has resulted in fluctuating operating profit margins.

Rating Sensitivity

- Increase in scale of operations in the range of Rs.90.00 to 100.00 crore coupled with improvement in profitability in the range of 11.00 to 12.00 per cent.
- Deterioration in working capital operations marked by Gross Current Assets (GCA) days in the range of 300 to 350 days.

Material Covenants

None.

Liquidity Position

REPL has adequate liquidity marked by net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.2.58 crore in FY2019 (Provisional) as against Rs.1.07 crore in FY2018 and Rs.1.97 crore in FY2017, while its maturing debt obligation was around Rs.1.81 crore for FY2019 (Provisional), Rs.2.07 crore for FY2018 and Rs.0.26 crore for FY2017. The company's working capital operations are intensive marked by gross current asset (GCA) days of 172 in FY2019 (Provisional). Further, the reliance on working capital borrowings is high, the cash credit limit in the company remains utilized at ~95 percent during the last 6 months' period ended September, 2019. The company maintains unencumbered cash and bank balances of Rs.0.06 crore as on March 31, 2019 (Provisional). The current ratio of the company stands at 1.79 times as on March 31, 2019 (Provisional).

Outlook: Stable

Acuite believes that REPL will maintain a 'Stable' business profile in the medium term, while benefitting from its experienced management and growth in operations. The outlook may be revised to 'Positive' if REPL shows significant improvement in financial risk profile and revenues while maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in-case of further deterioration in financial risk profile.

About the Rated Entity - Key Financials

| | Unit | FY19 (Provisional) | FY18 (Actual) | FY17 (Actual) |
|-------------------------------|---------|--------------------|---------------|---------------|
| Operating Income | Rs. Cr. | 71.20 | 43.97 | 49.46 |
| EBITDA | Rs. Cr. | 4.93 | 2.71 | 5.58 |
| PAT | Rs. Cr. | 2.16 | 0.64 | 2.73 |
| EBITDA Margin | (%) | 6.92 | 6.16 | 11.27 |
| PAT Margin | (%) | 3.03 | 1.47 | 5.52 |
| ROCE | (%) | 10.02 | 6.26 | 14.43 |
| Total Debt/Tangible Net Worth | Times | 0.64 | 0.65 | 0.56 |
| PBDIT/Interest | Times | 2.52 | 1.62 | 3.45 |
| Total Debt/PBDIT | Times | 3.70 | 5.70 | 2.40 |
| Gross Current Assets (Days) | Days | 172 | 272 | 212 |

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

None.

Any other information

Acuite is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Manufacturing Entities - <https://www.acuite.in/view-rating-criteria-4.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 |
|-------------|---------------------------------|------------|------------------|---|
| 02-Aug-2018 | Cash Credit | Long Term | 10.00 | ACUITE BB+ / Stable (Downgraded from ACUITE BBB-/Stable) |
| | Proposed Bank Facility | Long Term | 1.50 | ACUITE BB+ / Stable (Assigned) |
| | Bank Guarantee | Short Term | 14.00 | ACUITE A4+ (Downgraded from ACUITE A3) |
| | Standby Line of Credit | Short Term | 1.50 | ACUITE A4+ (Downgraded from ACUITE A3) |
| | Proposed Bank Facility | Short Term | 2.00 | ACUITE A4+ (Downgraded from ACUITE A3) |
| 28-Apr-2017 | Cash Credit | Long Term | 10.00 | ACUITE BBB-/Stable (Reaffirmed) |
| | Standby Line of Credit | Short Term | 1.50 | ACUITE A3 (Assigned) |
| | Bank Guarantee | Short Term | 17.00 | ACUITE A3 (Reaffirmed) |
| | Proposed Short Term Loan | Short Term | 0.50 | ACUITE A3 (Assigned) |
| 10-Feb-2017 | Cash Credit | Long Term | 8.00 | ACUITE BBB-/Stable (Reaffirmed) |
| | Bank Guarantee | Short Term | 12.00 | ACUITE A3 (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 |
|------------------------|------------------|----------------|----------------|-----------------------------|----------------------------------|
| Cash Credit | Not Applicable | Not Applicable | Not Applicable | 10.00 | ACUITE BB+ / Stable (Reaffirmed) |
| Standby line of credit | Not Applicable | Not Applicable | Not Applicable | 1.50 | ACUITE BB+ / Stable (Reaffirmed) |
| Bank Guarantee | Not Applicable | Not Applicable | Not Applicable | 17.00 | ACUITE A4+ (Reaffirmed) |
| Proposed Bank Facility | Not Applicable | Not Applicable | Not Applicable | 0.50 | ACUITE A4+ (Reaffirmed) |

Contacts

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About Acuité Ratings & Research:

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