

Press Release

Bharat Engineering Construction Company Private Limited

November 01, 2018

Rating Downgraded

Total Bank Facilities Rated*	Rs. 61.25 Cr. (Enhanced from Rs. 46.25 crore)
Long Term Rating	ACUITE B+ / Outlook: Stable (Downgraded from ACUITE BB /Stable)
Short Term Rating	ACUITE A4 (Downgraded from ACUITEA4+)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating to '**ACUITE B+**' (**read as ACUITE B plus**) from **ACUITE BB** (**read as ACUITE double B**) and short term rating to '**ACUITE A4**' (**read as ACUITE A four**) from **ACUITE A4+** (**read as ACUITE A four plus**) to the Rs. 61.25 crore bank facilities of Bharat Engineering Construction Company Private Limited (BECCPL). The outlook is '**Stable**'.

The downgrade in the rating is driven by deterioration of its financial risk profile, particularly significant drop in operating income and elongation of its working capital cycle. Drop in scale of operations has resulted in deterioration of financial risk profile with debt-EBITDA has increased to 6.87 times in FY18 as against 4.88 times in FY18, debt protection metrics also declined with Debt service coverage ratio dropped to 1.44 times in FY18 as against 2.06 times in FY17.

The Tamil Nadu-based, BECCPL was incorporated in 2006 by Mr. H. Syed Abdul Kader and Mr. M.S. Thaika Sahib. The company undertakes infrastructure projects related to water supply, sewerage and solid waste management apart from constructing roads, bridges, flyovers and dams. The company has also executed a real estate project 'Alpha Lotus Towers' at Avadi (Chennai) in FY2017.

Analytical Approach

Key Rating Drivers

Strengths

- **Experienced management**

The Directors, Mr. H. Syed Abdul Kader and Mr. M.S. Thaika Sahib have more than three decades of experience in executing infrastructure projects.

- **Moderate financial risk profile**

BECCPL has moderate financial risk profile marked by net worth of Rs.32.85 crore in FY2018 as against Rs.32.80 crore in FY2017. The gearing (debt to equity ratio) stood at 1.31 times as on 31 March, 2018 as against 1.36 times as on 31 March, 2017. The total debt of Rs.42.91 crore mainly includes working capital borrowings of Rs.36.76 crore and short term loans from promoters of Rs. 5.75 crore as on 31 March, 2018 (Provisional). The debt protection metrics deteriorated with interest coverage ratio (ICR) of 1.51 times and debt service coverage ratio (DSCR) at 1.44 times in FY2018 as against ICR of 2.29 times and DSCR of 2.06 times in FY2017. Further, the NCA/TD stood at 0.04 times as on 31 March, 2017 as against 0.10 times in the previous year.

Weaknesses

- **Tender based business**

The profit margins are susceptible to the tender based nature of business and intense competition in the industry.

- **Declining scale of operation**

The company's scale of operation is declining with operating income declined to Rs.49.60 crore in FY2017-18 compared to Rs.89.79 crore in FY2016-17.

- **Working capital intensive operations**

BECCPL's operations are working capital intensive with gross current assets (GCA) of 532 days in FY2018 as against 321 days in FY2017. This is mainly on account of high inventory of 354 days in FY2018 and 216 days in FY2017. The average cash credit limit utilisation has been around 100 per cent in the last six months ended Sep 2018.

Outlook: Stable

Acuité believes that BECCPL will maintain a stable outlook over the medium term owing to its established track record and experienced management. The outlook may be revised to 'Positive' if the company registers significant increase in revenue and working capital management apart from maintaining profitability. Conversely, the outlook may be revised to 'Negative' in case the company scale of operations declines further or reports deterioration in its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	49.60	89.79	81.10
EBITDA	Rs. Cr.	6.05	9.06	15.48
PAT	Rs. Cr.	0.65	1.73	5.94
EBITDA Margin	(%)	12.19	10.09	19.09
PAT Margin	(%)	1.32	1.93	7.32
ROCE	(%)	6.64	8.97	19.69
Total Debt/Tangible Net Worth	Times	1.31	1.36	1.19
PBDIT/Interest	Times	1.51	2.29	2.85
Total Debt/PBDIT	Times	6.87	4.88	2.45
Gross Current Assets (Days)	Days	532	321	414

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.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
23-Aug-2017	Cash Credit I	Long Term	20.50	ACUITE BB / Stable (Reaffirmed)
	Cash Credit II	Long Term	10.75	ACUITE BB / Stable (Reaffirmed)
	Bank Guarantee	Short Term	15.00	ACUITE A4+ (Reaffirmed)
	Cash Credit I	Long Term	20.50	ACUITE BB / Stable (Assigned)

11-Jul-2016	Cash Credit II	Long Term	10.75	ACUITE BB / Stable (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A4+ (Assigned)

***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 I	Not Applicable	Not Applicable	Not Applicable	20.50	ACUITE B+/Stable (Downgraded)
Cash Credit II	Not Applicable	Not Applicable	Not Applicable	10.75	ACUITE B+/Stable (Downgraded)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A4 (Downgraded)
Proposed Bank Facilities	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE B+/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Praveen Kumar Analyst - Rating Operations Tel: 022-67141148 praveen.kumar@acuiteratings.in	

About Acuité Ratings & Research:

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