

## Press Release

Pravesh Construction

November 21, 2018



### Rating Upgraded and Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs. 15.00 Cr.
<b>Long Term Rating</b>	ACUITE BB / Outlook: Stable (Upgraded from ACUITE BB-/ Stable)
<b>Short Term Rating</b>	ACUITE A4+ (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BB**' (**read as ACUITE double B**) from '**ACUITE BB-**' (**read as ACUITE double B minus**) and reaffirmed the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 15.00 crore bank facilities of Pravesh Construction (PC). The outlook is '**Stable**'.

The rating revision is in view of improvement in the firm's financial risk profile and healthy order book position with revenue visibility. The rating continues to draw comfort from the experienced management, reputed clientele base, improving debt protection metrics and profitability margins.

PC was established as a proprietorship firm by Mr. Pravesh Tiwari and later changed its constitution to partnership firm in December, 2017. The firm is currently promoted by Mr. Ramakant Tiwari and Mr. Umakant Tiwari who manages the day to day operations of the firm. The firm is engaged in designing and installation of railway safety and signaling systems i.e. panel interlocking, solid state interlocking, route relay interlocking majorly for Indian Railways.

### Analytical Approach

Acuité has considered the standalone business and financial risk profile of PC to arrive at the rating.

### Key Rating Drivers

#### Strengths

- **Experienced management and reputed clientele base**

PC was established in 1986 by Mr. Pravesh Tiwari and is currently managed by Mr. Ramakant Tiwari and Mr. Umakant Tiwari. The firm has established track record of more than three decades in the same line of business. The promoters possess vast experience of over three decades in this industry and are ably assisted by an experienced second line of management. The firm has strong order book of Rs.211.00 crore which is executable in near to medium term. The strong project execution capability of the firm has helped it secure repeat orders from reputed clients.

Acuité believes that PC will benefit from experienced management which will help the firm to maintain long standing relations with its customer such as Indian Railways and suppliers such as Ansaldo STS Transportation Systems India Private Limited, Siemens Rail Automation Private Limited, Bombardier Transportation Limited and Crompton Greaves Limited among others.

- **Healthy order book position**

PC has healthy order book position of Rs.211.00 crore as on 31 October, 2018 of which unexecuted work is to the tune of Rs.141.82 crore which gives comfortable revenue visibility over the medium term. The firm has booked revenue of Rs.29.12 crore for the period April to October, 2018.

- **Moderate financial risk profile**

The financial risk profile is moderate marked by tangible net worth of Rs.3.49 crore as on 31 March, 2018 as against Rs.1.90 crore in the previous year. The improvement in net worth is on account of addition of capital by the partners. The gearing stood at 1.43 times as on 31 March, 2018 as against 1.80 times in the previous year. The total debt of Rs.5.00 crore includes term loan from bank of

Rs.0.02 crore, working capital borrowing of Rs.2.90 crore and unsecured loan of Rs.2.08 crore. Interest Coverage Ratio (ICR) stood at 4.67 times in FY2018 as against 6.36 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 4.96 times as on 31 March, 2018 as against 7.15 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.28 times in FY2018 compared to 0.40 times in FY2017.

Going forward, Acuité expects the firm to maintain its financial risk profile in the absence of major debt funded capex plan.

## Weaknesses

- **Working capital intensive operations**

PC has working capital intensive operations due to requirement of various deposits mainly for bank guarantee. The firm's Gross Current Assets (GCA) stood at 236 days in FY2018 as against 166 days in FY2017, while the collection period stood at 42 days during FY2018 against 40 days in FY2017. Other current assets of Rs.10.57 crore for FY2018 comprises mainly of advances to suppliers and deposits against bank guarantee. Further, working capital is supported by high creditors of 214 days in FY2018.

Acuité believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

- **Off balance sheet exposure in the form of performance bank guarantees**

PC gives performance bank guarantee for the projects it undertakes such as Electronic Interlocking Circuits, Penal Interlocking among others which normally ranges from 5 percent to 10 percent of the total contract value. The outstanding bank guarantee position of the firm stood at Rs.12.00 crore as on 31 October, 2018 as against net worth of Rs.3.49 crore as on 31 March, 2018.

- **Tender based nature of operations and competitive industry**

The revenues of PC are generated through tender based orders floated by Indian Railways coupled with the increasing competition in the industry. The firm faces intense competition from other players in the sector. Risk become more pronounced as tendering is based on minimum amount of bidding on contracts. However, this risk is mitigated to an extent on account of extensive experience of the management.

## Outlook: Stable

Acuité believes that PC will maintain a 'Stable' business risk profile over the medium term. The firm will continue to benefit from its experienced management and revenue visibility on account of healthy order book. The outlook may be revised to 'Positive' in case the firm registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the firm's revenues or profit margins, or in case of deterioration in the financial risk profile and liquidity position.

## About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	24.21	23.19	14.60
EBITDA	Rs. Cr.	2.40	2.26	1.24
PAT	Rs. Cr.	1.26	1.22	0.66
EBITDA Margin	(%)	9.93	9.74	8.50
PAT Margin	(%)	5.20	5.28	4.55
ROCE	(%)	37.53	45.59	52.97
Total Debt/Tangible Net Worth	Times	1.43	1.80	2.04
PBDIT/Interest	Times	4.67	6.36	4.30
Total Debt/PBDIT	Times	1.83	1.38	2.36
Gross Current Assets (Days)	Days	236	166	194

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

None

## Any other information

None

## 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
20-Mar-2018	Cash Credit	Long Term	3.00	ACUITE BB- (Indicative)
	Proposed Cash Credit	Long Term	1.00	ACUITE BB- (Indicative)
	Bank Guarantee	Short Term	6.00	ACUITE A4+ (Indicative)
	Proposed Bank Guarantee	Short Term	5.00	ACUITE A4+ (Indicative)
23-Dec-2016	Cash Credit	Long Term	3.00	ACUITE BB- / Stable (Assigned)
	Proposed Cash Credit	Long Term	1.00	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	6.00	ACUITE A4+ (Assigned)
	Proposed Bank Guarantee	Short Term	5.00	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	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BB / Stable (Upgraded from ACUITE BB-/Stable)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BB / Stable (Upgraded from ACUITE BB-/Stable)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	9.00	ACUITE A4+ (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE A4+ (Reaffirmed)

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### **About Acuité Ratings & Research:**

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