

Press Release

Radheshyam Agrawal

March 09, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 48.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable
Short Term Rating	SMERA A3+

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BBB-** (read as **SMERA BBB minus**)' and short term rating of '**SMERA A3+**' (read as **SMERA A three plus**) on the Rs. 48.00 crore bank facilities of Radheshyam Agrawal. The outlook is '**Stable**'.

Radheshyam Agrawal (RA) is engaged in civil construction. The firm, a Class A contractor, undertakes construction of roads, bridges, tunnels among others for PWD (Public Work Department), National Highway Authority of India (NHAI) and WRD (Water Resources Department).

Key Rating Drivers

Strengths

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

The Chhattisgarh-based RA, established in 1983 is engaged in civil construction. The firm was promoted by Mr. Radheshyam Agrawal, Mr. Bajrang Agrawal, Mr. Sanjay Kumar Agrawal and others who possess over three decades of experience in the civil construction industry. The promoters are also supported by an experienced second line of management.

- **Modest scale of operations with uneven revenues**

The operations of the firm are modest with operating income of Rs.90.32 cr in FY2016 as against Rs.98.22 cr in FY2015 and Rs.79.71 cr in FY2014. The firm achieved revenue of Rs.45.00 cr from April to December 2016.

- **Healthy order book position**

RA has order book position of Rs.530.34 cr expected to be executed within three years thus providing revenue visibility for the medium term. Further, RA is a class 'A' contractor (eligible to bid for unlimited tender value) and receives orders from government bodies including PWD (Public Works Department), National Highway Authority of India (NHAI) and WRD (Water Resources Department).

- **Comfortable profit margins**

RA has healthy and stable profitability marked by operating margin (EBITDA) of 12.45 percent and net profit margin of 6.52 percent in FY2015-16 as against operating margin of 12.57 percent and profit margin of 6.02 percent in FY2014-15. The firm maintains gross margin in the range of 15 to 25 percent.

- **Healthy financial risk profile**

The financial risk profile is marked by low gearing and healthy coverage indicators. The gearing (debt-to-equity ratio) stood at 0.34 times as on 31 March, 2016. The firm has ICR (Interest Coverage Ratio) of 4.52 times in FY2016 as against 4.44 times in FY2015. The firm has no plans to take on further debt and due to increased profitability of the firm, additional working capital borrowing is

not expected to have significant impact on coverage indicators.

- **Efficient working capital management and comfortable liquidity:**

RA has GCA (gross current assets) of 72 days in FY2016 as against 42 days in FY2015 on account of inventory days of 38 and debtor days of 34 for FY2016. The working capital cycle days also stood comfortable at 45 for FY2016 as against 19 days for FY2015. The firm has NCA (net cash accruals) of Rs.9.74 crore and unencumbered cash and bank balance of Rs.0.83 crore as on March 31, 2016. Further, the average utilisation of working capital limits stood at 92.20 percent from July to December 2016.

Weaknesses

- **High dependence on government departments**

RA caters to PWD (Public Work Department), National Highway Authority of India (NHAI) and WRD (Water Resources Department) in Chhattisgarh. The operations are tender-based. Any delay in project execution may result in higher working capital requirements. However, this risk is mitigated owing to the established relations of the firm with state government departments.

- **High customer concentration risk in the current order book**

RA has unexecuted order book position of Rs.530.00 cr out of which Rs.298.80 cr worth orders are from Ramky Infrastructure Limited (RIL) exposing the firm to high customer concentration risk. Further, the credibility of RIL remains susceptible and thus exposes RA to risks associated with uneven payment realisations. Hence, timely collection of receivables and its likely impact on the financial and business risk profiles of the firm will be key rating sensitivities.

- **Competitive and fragmented industry**

The firm is exposed to intense market competition in the civil construction industry.

- **Partnership constitution**

The rating factors in the partnership constitution of the firm exposing it to the inherent risk of capital withdrawal.

Analytical Approach

SMERA has considered the standalone business and financial risk profiles of Radheshyam Agrawal.

Outlook: Stable

SMERA believes that RA will maintain a stable outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the firm registers higher-than-expected growth in revenue and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue and profitability, deterioration in the financial risk profile or higher than expected working capital requirements.

About the Rated Entity - Key Financials

For FY2015-16, the firm reported profit after tax (PAT) of Rs.5.89 cr on operating income of Rs.90.32 cr, as compared with net profit of Rs.5.91 cr on operating income of Rs.98.22 cr in FY2014-15. The tangible net worth stood at Rs.38.29 cr as on March 31, 2016 as against net worth of Rs.26.11 cr a year earlier. (The tangible net worth includes subordinated quasi equity of Rs.4.25 cr for FY2016 and Rs.2.10 cr for FY2015)

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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	SMERA BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A3+
Proposed	Not Applicable	Not Applicable	Not Applicable	28.00	SMERA A3+

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