

Press Release

India Commercial Services

August 24, 2021



Ratings Reaffirmed

Total Bank Facilities Rated*	Rs.21.00 Cr.
Long Term Rating	ACUITE BB-/Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed the long term rating of '**ACUITE BB- (read as ACUITE BB minus)**' and short term rating of '**ACUITE A4+ (read as ACUITE A four plus)**' on the Rs.21.00 Cr. bank facilities of India Commercial Services (ICS). The outlook is '**Stable**'.

The reaffirmation of ratings reflects moderate order book position, comfortable financial risk profile and adequate liquidity profile of the firm. The firm continues to derive strength from experienced promoters having established track record in business and long standing relationship with clients. However, the ratings are constrained by subdued financial performance in FY21 and lower revenue booking during Q1FY22, tender based nature of business, concentrated order book and risk of capital withdrawal.

About the rated entity

India Commercial Services (ICS) is a Jaipur based partnership firm established in the year 1978 by Mr. Hari Narayan Bargoti. He was later joined by Mr. Mohan Lal Bargoti and Mr. Rakesh Bargoti. The partners have an experience of more than 4 decades in the line of business. The firm has been providing services such as commissioning and testing of electrical lines, underground cabling, sub-station work, laying of underground steel gas pipeline and setting up of grid connected solar PV system.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced promoters with established track record in same line of business**

India Commercial Services (ICS) was promoted by Mr. Hari Narayan Bargoti in 1978. He has more than 4 decades of experience in the business. He was later joined by Mr. Mohan Lal Bargoti and Mr. Rakesh Bargoti, who has been carrying out the business operations at present. The partner's long standing presence in the market has enabled them in getting repeated tenders from client.

- Moderate order book with long standing relationship with Jaipur Vidyut Vitran Nigam Limited (JVVNL) and Jodhpur Vidyut Vitran Nigam Limited (JdVVNL)**

The total outstanding work order remained at Rs.76.52 crore as on June 15, 2021, of which around 98% orders are from JVVNL and JdVVNL. The firm has long standing relationship with JVVNL of around 3 decades and a decade with JdVVNL. The firm has successfully executed various work orders pertaining to installation of underground cable, substation and solar grid related work in past. ICS has been getting repeated orders from them.

- Comfortable financial risk profile**

The debt component of the firm comprises of vehicle loan and unsecured loans. The USL is being availed

from other entities in Rajasthan region. The debt-equity ratio remains at comfortable level; below unity. The same improved during FY21 (Prov.) on account of decline in USL to Rs.1.57 crore as on March 31, 2021 (Prov.) against Rs.3.0 as on March 31, 2020. The Net Cash Accrual/ Total debt continues to remain below unity at 0.55 times as on March 31, 2021 (Prov.) against 0.62 times as on March 31, 2020. The marginal deterioration is due to decline in Net Cash Accruals. Further, Total outstanding Liability/ Tangible Net worth on an average remained at 1.21 times during FY21 (Prov.) against 1.52 times during FY20. The debt-EBITDA has remained in the range of 1.36-1.53 times during FY20-21 (Prov.).

Weaknesses

- **Subdued financial performance during FY21 and Q1FY22 (Prov.) due to COVID impact**

The firm reported total operating income of Rs.13.39 crore during FY21 (Prov.) against Rs.79.22 crore in FY20. The operations of the firm were affected due to COVID-19 during FY21. As the firm receives major orders from State Government entities and tender based, the firm did not receive any such orders during H1FY21. Albeit, the firm received orders during Q4FY21, the work could not be commenced due to technical issues. Hence, the revenue generated during the year pertains to handing over of residual work and release of retention money. In line with revenue, EBITDA also decline during FY21 (Prov.) at Rs.1.83 crore as against Rs.4.86 crore during FY20. The EBITDA margin, doubled in FY21 (Prov.) to 13.68% against 6.14% in FY20. The same is due to decline in raw material cost on account of lower execution during FY21. The firm reported PAT of Rs.1.64 crore and Net Cash Accruals of Rs.1.98 crore during FY21 (Prov.).

ICS has reported revenue and PAT of Rs.1.21 crore and Rs.0.95 crore during Q1FY22 respectively.

- **Concentrated order book**

The order book of the firm is concentrated on clientele basis with around 98% of outstanding work order being from JVVNL and JdVVNL. In addition to this, the order book is also geographically concentrated as around 99% of work order is to be executed in Rajasthan. the top two orders aggregating Rs.57.05 crores from JdVVNL constitute around 68% of total outstanding work in hand. Hence, timely execution of these projects along with speedy realization of receivables are important in order to ensure smooth revenue stream.

- **Volatile working capital cycle**

The GCA days of the company remained at 511 days during FY21 (Prov.) against 144 days during FY20. However, the same is mainly due to lower revenue reported during FY21 (Prov.) as compared to FY20. The firm realizes its receivable in 25-30 days after it has been raised. The debtors' period is volatile during last three fiscal years (ranging between 2-44 days) due to uneven revenue streams.

The remaining amount is paid between 60-90 days from the date of materials received. However, due to lower cost of material consumed, the creditors period appears to be on higher side during FY21 (Prov.).

The average fund based utilization for last 7 months ending July 2021 remained at moderate level of 42.38%.

- **Highly competitive industry marked by tender based nature of business and risk of capital withdrawal**

The company's performance is susceptible to the tender based nature of business, where the business depends on the ability to bid for contracts successfully. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. Further, as the entity is partnership based, there have been capital withdrawal during FY21 (Prov.). Hence, any excess withdrawal would affect tangible net worth of the firm and related debt coverage indicators.

Rating Sensitivities

- Improving scale of operations along with the diversification of its order book on clientele and geographical front.
- Any delay in execution of projects impacting revenue stream of firm.

Material Covenants

None

Liquidity Position: Adequate

The liquidity of the firm is at adequate level with Net cash accruals of 1.92 crore during FY21. The same remained between Rs.3.-4.0 crores during FY19-20. Further, the debt repayment of the firm is at lower at Rs.09-0.18 crore

during FY19-FY21. This provides adequate liquidity cushion for firm. The firm has maintained also cash and bank balance of Rs.1.92 crore as on March 31, 2021 as against Rs.1.69 crore as on March 31, 2020, (Rs.0.38 crore as on March 31, 2019). The current ratio has remained above unity during FY19-FY21(Prov.).

However, as the firm recognizes revenue on receipt basis, the timely realization of receivables would be a key factor for financial performance of the ICS going ahead.

Outlook: Stable

Acuité believes that the company will continue to maintain a 'Stable' outlook over near to medium term owing to its experienced promoters and established position in market. The outlook may be revised to 'Positive' in case the company achieves higher than expected growth in revenues consummating increase in order book size, working capital management and debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case of a significant decline in revenues and operating profit margins, or deterioration in the capital structure and liquidity position on account of higher-than-expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	13.39	79.22
PAT	Rs. Cr.	1.64	3.85
PAT Margin	(%)	12.21	4.87
Total Debt/Tangible Net Worth	Times	0.25	0.48
PBDIT/Interest	Times	3.90	5.77

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

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
21-Dec-2020	Overdraft	Long Term	4.00	ACUITE BB- (Downgraded from ACUITE BB Issuer Not Cooperating)
	Bank Guarantee	Short Term	11.00	ACUITE A4+ (Issuer Not Cooperating)
26-Sept-2019	Overdraft	Long Term	4.00	ACUITE BB (Issuer Not Cooperating)
	Bank Guarantee	Short Term	11.00	ACUITE A4+ (Issuer Not Cooperating)
06-July-2018	Overdraft	Long Term	4.00	ACUITE BB (Issuer Not Cooperating)
	Bank Guarantee	Short Term	11.00	ACUITE A4+ (Issuer Not Cooperating)

***Annexure – Details of instruments rated**

Lender Name	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Bank of Baroda	Overdraft	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BB-/Stable (Reaffirmed)
Bank of Baroda	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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