

Press Release

India Commercial Services

November 18, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	17.00	-	ACUITE A4+ Reaffirmed
Bank Loan Ratings	4.00	ACUITE BB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	21.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed the long term rating of '**ACUITE BB-** (read as **ACUITE double B 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**'.

Rationale for reaffirmation

Rating reaffirmation takes into account the established track record of the firm, liquidity position and comfortable financial risk profile of the firm. However, rating is constrained by the subdued revenue profile in the last 2 years and the working capital intensive nature of operations. Although the firm has healthy order book position in hand however there is a risk factor regarding the pace of execution of the project that might affect the revenue visibility in the coming times.

About the Company

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

Acuite 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.

Comfortable financial risk profile

Firm's financial risk profile is moderate marked by moderate net worth and comfortable debt protection metrics. Tangible net worth stood at Rs. 14.74 Cr as on 31st March 2022 as against Rs. 14.44 Cr in FY 2021. Net worth declined from Rs. 16.07 Cr in FY 2020 to Rs. 14.44 Cr in FY 2021 due to withdrawal from partner's capital account. Total debt of Rs. 2.44 Cr in FY 2022 consists of Rs. 0.27 Cr of vehicle loans and Rs. 2.17 Cr of working capital limits. Debt to Equity ratio improved and remained comfortable at 0.17 times in FY 2022 as against 0.25 times in FY 2021. Interest Coverage ratio improved from 2.94 times in FY 2021 to 3.70 times in FY 2022. NCA/TD stood at 0.56 times while TOL/TNW stood at 1.08 times in FY 2022. In the absence of any debt funded capex plan the financial risk profile is expected to remain comfortable in the near term.

Weaknesses

Volatile working capital cycle

Firm's operations are working capital intensive marked by GCA days of 477 in FY 2022. High GCA days is a result of stretched debtors and moderately high inventory period. Inventory holding period increased from 8 days in FY 2020 to 85 days in FY 2021 and moderated to 79 days in FY 2022. Debtor days increased from 2 days in FY 2020 to 44 days in FY 2021 and further stretched to 230 days in FY 2022. The stretch in debtors in FY 2022 was because of the delayed payments from private sector entities. Since the firm had to execute private work orders in FY 2022, the standing debtors from those entities as on 31st March 2022 remained high. However, the firm has realized majority of the outstanding amount and as on 31st October 2022 debtors stood at 1.05 Cr. Firms creditor period has stood high. Creditor days in FY 2021 stood at 1077 days and in FY 2022 stood at 332 days. Firm has two types of creditors, one is for materials and the other is for labour and machinery component. Firm pays the material suppliers on time as per the credit terms with the suppliers which ranges from 45-60 days. For labour contractors firm withhold 30% of the payment of every project as security which the firm pays after 1-2 years of project completion. Bank limit utilization of Overdraft facility of Rs. 4.00 Cr of Bank of Baroda remained at 51.89% for the period between April 2021 to August 2022.

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 and FY22. 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

Firm has adequate liquidity position. In FY 2022 firm generated net cash accrual of Rs. 1.28 Cr against maturing debt obligation of Rs. 0.11 Cr in FY 2022. Going forward the firm is expected to generate NCA of Rs. 8.06 Cr and Rs. 9.38 Cr in FY 2023-24 against maturing debt obligation

of Rs. 0.11 Cr and Rs. 0.12 Cr in each respective year. Bank limit utilization is moderate at 51.89% for the period between April 2021 to August 2022. Firm has investments of Rs. 3.95 Cr in mutual funds in FY 2022. Cash and bank position stood at Rs. 1.38 Cr for FY 2022.

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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	16.49	13.46
PAT	Rs. Cr.	0.97	0.85
PAT Margin	(%)	5.90	6.28
Total Debt/Tangible Net Worth	Times	0.17	0.25
PBDIT/Interest	Times	3.70	2.94

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

None

Any other information

None.

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Aug 2021	Bank Guarantee	Long Term	17.00	ACUITE A4+ (Reaffirmed)
	Secured Overdraft	Long Term	4.00	ACUITE BB- Stable (Reaffirmed)
21 Dec 2020	Bank Guarantee	Short Term	11.00	ACUITE A4+ (Issuer not co-operating*)
	Secured Overdraft	Long Term	4.00	ACUITE BB- (Downgraded and Issuer not co-operating*)
26 Sep 2019	Bank Guarantee	Short Term	11.00	ACUITE A4+ (Issuer not co-operating*)
	Secured Overdraft	Long Term	4.00	ACUITE BB (Issuer not co-operating*)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Bank of Baroda	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	17.00	ACUITE A4+ Reaffirmed
Bank of Baroda	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	4.00	ACUITE BB- Stable Reaffirmed

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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