

Press Release

B N Chavan

May 02, 2017

Rating Assigned

Total Bank Facilities Rated*	Rs. 17.00 Cr.
Long Term Rating	SMERA BB / Outlook: Stable
Short Term Rating	SMERA A4+

** Refer Annexure for details*

Rating Rationale

SMERA has assigned long-term rating of '**SMERA BB**' (read as **SMERA BB**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 17.00 crore bank facilities of B N Chavan. The outlook is '**Stable**'.

The Pune-based BN Chavan (BNC), a proprietorship concern was established in 2002. The firm is a Class-1 contractor and undertakes road construction contracts apart from laying and repairing drainage lines for government entities.

Key Rating Drivers

Strengths

- **Established track record of operations**

BNC was established in 2002 as a proprietorship firm by Mr. B N Chavan. The promoter possesses extensive experience in the civil construction business.

- **Long term association with government agencies**

BNC has executed projects for Public Works Department, Pune Municipal Corporation, Maharashtra. Since the firm deals with a government entity, counter-party default risk remains minimal. With the promoter's extensive industry experience, the firm has been able to establish long-term relationship with its client.

- **Healthy financial risk profile**

BNC has healthy financial risk profile. The gearing stood at a low of 0.80 times as on 31 March, 2016 as compared to 0.85 times as on 31 March, 2015. The total debt mainly consists of working capital borrowings. BNC has healthy coverage indicators with interest coverage ratio (ICR) of 2.43 times for FY2016 and 2.31 times for FY2015.

Weaknesses

- **Moderate scale of operations**

The scale of operations is moderate despite the firm being in the construction business from the last 16 years. The firm achieved operating income of Rs.18.22 cr in FY2015-16 as compared to Rs.17.96 cr in FY2014-15. Being a civil contractor, the revenue of BNC depends on the number of successful bids and the tenders being released in the financial year.

- **Competitive and fragmented industry**

The firm faces intense competition from other players in the civil construction sector. The risk is more pronounced considering the tender based system and the minimum amount of bidding of contracts. However, the risk is mitigated to an extent as the management has been operating in the

industry for around 16 years.

• **Working capital intensive business**

The operations are working capital intensive with cash credit utilisation at 95 per cent. The firm caters mainly to government entities. The receivable days are high - around 111 days in FY2015-16. The gross current assets stood at 112 days as on 31 March, 2016 as compared to 137 days as on 31 March, 2015.

Analytical Approach

SMERA has considered the standalone financial and business risk profiles of B N Chavan to arrive at the rating.

Outlook: Stable

SMERA believes that BNC will maintain a 'Stable' outlook in the medium term on account of its experienced promoter. 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, BNC reported profit after tax (PAT) of Rs.0.83 cr on operating income of Rs.18.22 cr as against PAT of Rs.0.55 cr on operating income of Rs.17.96 cr in FY2014-15. The net worth stood at Rs.10.20 cr as on 31 March, 2016 as against Rs.9.26 cr as on 31 March, 2015.

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

CRISIL, vide release dated October 30, 2015 has suspended its ratings. 'The suspension of ratings is on account of non-cooperation by BNC with CRISIL's efforts to undertake a review of the ratings outstanding. Despite repeated requests by CRISIL, BNC is yet to provide adequate information to enable CRISIL to assess BNC's ability to service its debt. The suspension reflects CRISIL's inability to maintain a valid rating in the absence of adequate information'.

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	3.50	SMERA BB / Stable
Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.50	SMERA BB / Stable

Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	SMERA A4+
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Contacts

Analytical	Rating Desk
Vinayak Nayak Head – Ratings Operations Tel: 022-67141190 vinayak.nayak@smera.in	Varsha Bist Sr. Executive Tel: 022-67141160 varsha.bist@smera.in
Vishal Choudhary Senior Analyst - Rating Operations Tel: 022-67141159 vishal.choudhary@smera.in	

ABOUT SMERA

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