

Press Release

Bhavna Property Developers Limited

October 16, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB**' (**read as ACUITE double B**) and short-term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 20.00 crore bank facilities of BHAVNA PROPERTY DEVELOPERS LIMITED (BPDL). The outlook is '**Stable**'.

The reaffirmation of rating reflects significant growth in operating income with CAGR of 29 per cent for the period FY2016-FY2019 (Provisional), however, the operating margins has declined to 6.25 per cent in FY2019 (Provisional) from 22.25 per cent in FY2017. The revenues of the company improved to Rs. 64.29 crore in FY2019 (Provisional) from Rs. 19.79 crore in FY2018 and Rs. 6.72 crore in FY2017. However, the coverage indicators have remained comfortable. Further, the Total outside liabilities to Tangible Net Worth (TOL/TNW) ratio deteriorated to 1.63 times as on 31 March 2019 (Provisional) from 1.12 times as on 31 March, 2018. The company has a healthy order book position of Rs. 306.76 crore (including Rs. 98.16 crore at L1 Level) to be executed by FY2021, thereby giving the revenue visibility over near to medium term. Acuité believes that any further decline in profitability margins will remain a key rating sensitivity.

Gujarat-based, Bhavna Property Developers Limited (erstwhile Bhavna Construction) was established as a proprietorship firm in 1984 by Mr. Karsanbhai M. Prajapati. Later in 1995, the constitution changed to private limited company. The company is engaged in execution of civil construction contracts for Gujarat Government. BPDL is registered as Class AA+ - Special Category 1 contractor with Government of Gujarat's Roads and Building Department. The directors of the company are Mr. Karsanbhai M. Prajapati, Mr. Minesh Prajapati and Mr. Tushar Prajapati.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of BPDL to arrive at the rating.

Key Rating Drivers

Strengths

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

Gujarat-based, BPDL was established as a proprietorship firm in 1984; thus, the company has an operational track record of over three decades in the civil construction industry. Mr. Karsanbhai M. Prajapati, Managing Director, is also the promoter of the company and has an experience of over three decades in the same line of business. Further, Mr. Minesh Prajapati and Mr. Tushar Prajapati have an experience of over a decade in the aforementioned line of business. The long track record of operations and experience of the management have helped the company develop healthy relationships with its customers and suppliers. Acuité believes that BPDL will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Average financial risk profile**

The financial risk profile of BPDL is average marked by average net worth, moderate gearing and debt protection metrics. The net worth of the company stood at Rs. 9.95 crore as on 31 March, 2019 (Provisional) as against Rs. 6.97 crore as on 31 March, 2018. The total debt of Rs. 9.76 crore as on 31 March, 2019 (Provisional) comprises of Rs. 0.25 crore of long term debt and Rs. 9.51 crore of short

term borrowings. The gearing stood comfortable at 0.98 times as on 31 March, 2019 (Provisional). The interest coverage ratio stood moderate at 3.71 times as on 31 March, 2019 (Provisional) as against 2.51 times as on 31 March, 2018. The net cash accruals of the company stood at Rs. 2.57 crore against no debt obligation for the same period. Further, the Total outside liabilities to Tangible Net Worth (TOL/TNW) ratio stood at 1.63 times as on 31 March, 2019 (Provisional), which has deteriorated from 1.12 times as on 31 March, 2018. Acuité believes that the financial risk profile of the company is expected to remain average backed by average net cash accruals and in absence of any major debt funded capex in near to medium term.

- **Efficiently managed working capital operations**

The company has efficiently managed its working capital operations marked by Gross Current Assets (GCA) of 60 days for FY2019 (Provisional) as against 116 days for FY2018. The debtors stood at 30 days for FY2019 (Provisional) as against 59 days for FY2018. Acuité believes that the company's ability to maintain its working capital efficiently will remain a key to maintain stable credit profile.

Weaknesses

- **Profitability susceptible to fluctuations in raw material prices**

The prices of the main raw materials – iron, steel and cement – are highly volatile in nature with raw material cost constituting around 62 per cent of the total revenue. Hence, any adverse movement in raw material prices can impact profitability. The same is reflected in continuous decline in operating margin from 22.25 per cent in FY2017 to 10.44 per cent in FY2018 and 6.25 per cent in FY2019 (Provisional). Acuité believes that any further decline in profitability margins will remain a key rating sensitivity.

- **Intense competition from established players**

BPDL is exposed to intense competition from organised and unorganised players in the civil construction industry. Besides, the tender-based business makes it vulnerable to order cyclical. Further, the operations are limited only to Gujarat, thereby exposing the company to geographic concentration risk. However, the company has unexecuted order book of Rs. 306.76 crore (including Rs. 98.16 crore at L1 Level) to be executed by FY2021, showing the revenue visibility over near to medium term.

Rating Sensitivities

- Substantial improvement in scale of operation, while maintaining profitability margin of around 8-9 per cent over the medium term.
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile.

Any Material Covenants

None

Liquidity Position: Adequate

The company has adequate liquidity marked by moderate net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs. 2.57 crore for FY2019 (Provisional) against no maturing debt obligations for the same period. The cash accruals of the company are estimated to remain in the range of around Rs. 3.00 crore to Rs. 7.00 crore during 2020-22 against no expected major repayment obligation. The company's working capital operations are efficiently managed marked by gross current asset (GCA) days of 60 days for FY2019 (Provisional). The company maintains unencumbered cash and bank balances of Rs. 0.67 crore as on 31 March 2019 (Provisional). The current ratio stood at 1.25 times as on 31 March, 2019 (Provisional). Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual against no major debt repayments over the medium term.

Outlook: Stable

Acuité believes that BPDL will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations and experienced management. The outlook maybe revised to 'Positive' in case the company registers higher-than-expected growth in its revenues and profitability, while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	64.29	19.79	6.72
EBITDA	Rs. Cr.	4.02	2.07	1.49
PAT	Rs. Cr.	2.07	0.59	0.15
EBITDA Margin	(%)	6.25	10.44	22.25
PAT Margin	(%)	3.21	2.97	2.25
ROCE	(%)	23.48	11.76	8.39
Total Debt/Tangible Net Worth	Times	0.98	0.98	1.18
PBDIT/Interest	Times	3.71	2.52	1.94
Total Debt/PBDIT	Times	2.19	3.18	4.66
Gross Current Assets (Days)	Days	60	116	90

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

Not applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios and Adjustments - <https://www.acuite.in/view-rating-criteria-20.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
18-Dec-2018	Cash Credit	Long Term	15.00	ACUITE BB (Indicative)
	Bank Guarantee	Short Term	5.00	ACUITE A4+ (Indicative)
09-Oct-2017	Cash Credit	Long Term	15.00	ACUITE BB / Stable (Assigned)
	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	15.00	ACUITE BB / Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A4+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Priyal Jain Analyst - Rating Operations Tel: 022-49294043 priyal.jain@acuite.in	

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (Erstwhile SMERA Ratings Limited) is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Acuité ratings are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind arising from the use of its ratings. Acuité ratings are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.