

## Press Release

**Ratilal Bhagwandas Construction Company**

September 23, 2021



### Rating Upgraded

<b>Total Bank Facilities Rated*</b>	Rs. 20.00 Cr.
<b>Long Term Rating</b>	ACUITE BB+/ Outlook: Stable (Upgraded from ACUITE BB)

\* Refer Annexure for details

### Rating Rationale

Acuité has upgraded the long-term rating to '**ACUITE BB+** (read as ACUITE double B plus)' from '**ACUITE BB** (read as ACUITE double B) on the Rs. 20.00 crore bank facilities of Ratilal Bhagwandas Construction Company (RBCC).

The rating was downgraded to ACUITE BB from ACUITE BB+ via rationale dated October 19, 2019. The downgrade was on account of information risk. However, the firm has now cooperated with Acuité in furnishing information required for the review process.

The rating takes into account firms experienced management and established track record of operations of over three decades. It also draws comfort from revenue visibility on account of adequate orders in hand of ~Rs. 90.00 crores as on June 2021 and healthy capital structure. The rating is constrained by the decline in operating profitability in FY2021 (Provisional) on account of spread of COVID 19 and tender based nature of operations. RBCC's ability to improve its scale of operations and profitability will continue to be a key rating sensitivity.

### About the Company

Pune-based, Ratilal Bhagwandas Construction Company (RBCC), was established on January, 1987 as a proprietorship firm and later converted into a partnership firm with Mr. Nitin Ratilal Karia and Mr. Anand Nitin Karia as partners on April, 1992. The firm is engaged in undertaking civil construction contracts for private entities.

### Analytical Approach

During the previous exercise Acuite had consolidated the business and financial risk profile of Ratilal Bhagwandas Construction Company Private Limited (RBCCPL) and Ratilal Bhagwandas Construction Company (RBCC) to arrive at the rating. This was done on account of common management, financial and operational linkages between the two entities. However the management has reduced the operations in the RBCCPL and going forward order execution will continue only in RBCC. Further, Acuité has withdrawn the rating of RBCCPL in rationale dated April 15, 2021 as per its withdrawal policy. Hence, Acuité has now considered the standalone business and financial risk profile of RBCC for arriving at the rating.

### Key Rating Drivers

#### Strengths

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

The firm is established by partners Mr. Nitin Ratilal Karia and Mr. Anand Nitin Karia. The firm has its presence in construction business for over three decades. The extensive experience of the partners is reflected through the established relationship with its customers and suppliers. The group has executed projects for various reputed clientele such as Mahindra and Mahindra, Godrej & Boyce Manufacturing Company Limited, Bharat Forge Limited and 3M India Limited.

However the firm's revenue has declined in FY2021 (Provisional) on account of spread of COVID 19 and subsequent lockdowns. Firm's revenue stood at Rs. 59.86 crore in FY2021 (Provisional) against Rs. 65.87 crore in FY2020. The firm's established presence in the market has helped the firm restrict de-growth

to ~9 percent in FY2021. Further, the firm has orders in hand of Rs. 90 crore as on June 30, 2021 thus giving adequate revenue visibility over the medium term. The majority of the orders in hand include price escalation clauses thus protecting the firm's margins from any volatility in the raw material prices.

Acuité believes that RBCC is likely to continue to benefit from its partners' extensive experience in the industry and comfortable order book position.

**• Healthy capital structure albeit low net worth base**

RBCC has healthy capital structure with low gearing although its net worth base remains low. Gearing remained low at 0.23 times as on March 31, 2021 (Provisional) against 0.14 times as on March 31, 2020. Total outside liabilities to tangible net worth stood low at 1.45 times as on March 31, 2021 (Provisional) against 1.49 times in the previous year. The net worth however remained low at Rs. 13.37 crore as on 31 March, 2021 (Provisional) as against Rs. 14.31 crore in the previous year. Further RBCC has closed down all external bank facilities and currently avail facilities against cash collaterals. However, the decline in operational performance on account of COVID 19 has led to decline coverage indicators. Interest coverage ratio stood at (1.01) times in FY2021 against 25.97 times in FY2020. This is primarily on account of decline in operating profitability in FY2021 (Provisional). Going forward coverage indicators are expected improve on account of improvement in operating profitability.

Acuité expects RBCC's going forward capital structure to remain stable on account of management's conservative leverage policy and coverage indicators to improve with improvement in profitability.

## Weaknesses

**• Tender based nature of operations**

The revenues of the firm are generated through tender-based orders floated by counter parties coupled with the increasing competition in the industry. The revenue has direct impact on successful bidding of order and competitive pricing provided to surpass competition from other players in the industry.

**• Competitive and fragmented industry**

The firm is engaged as civil contractor. The particular sector is marked by the presence of several mid to big size players. The firm faces intense competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of biding of contracts. However, this risk is mitigated to an extent as management operating in this environment for last 2 decades.

## Liquidity Position: Adequate

RBCC's net cash accrual have remained negative for FY2021 (Provisional) on account of decline in profitability against Rs. 3.54 crore in FY2020. The firms had no significant repayment obligations for the same period. Going forward the firm is expected generate net cash accruals in the range of Rs. 3.00 to Rs. 4.50 crore for period FY2022-FY2023 against no significant repayment obligations for the same period. The firms operations are moderately working capital intensive marked by gross current assets of 140 days in FY2021 (Provisional). However its reliance on external working capital limits is limited as it has liquid investment of Rs. 9 crore as on March 31, 2021 (Provisional). Acuité expects RBCC's liquidity to remain adequate over the medium term on account of adequate cash accruals and liquid investments constrained to some extent by moderate working capital intensity of operations.

## Rating Sensitivities

- Ability to improve scale of operations and profitability
- Ability to maintain healthy capital structure

## Material Covenants

None

### Outlook: Stable

Acuité believes that the outlook on RBCC's rated facilities will remain stable over the medium term on account of its partners' extensive experience, established operational track record and healthy capital structure. The outlook may be revised to 'Positive' in case of substantial and sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the financial and liquidity profile.

### About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20 (Actual)
Operating Income	Rs. Cr.	59.86	65.87
Profit after Tax (PAT)	Rs. Cr.	(0.44)	3.42
PAT Margin	(%)	(0.74)	5.19
Total Debt/Tangible Net Worth	Times	0.23	0.14
PBDIT/Interest	Times	(1.01)	25.97

### 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>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities – <https://www.acuite.in/view-rating-criteria-51.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. Crore.)	Ratings/Outlook
15-Apr-2021	Bank Guarantee	Long Term	8.00	ACUITE BB/Stable (Downgraded; Issuer not co-operative)
	Proposed Bank Guarantee	Long Term	12.00	ACUITE BB/Stable (Downgraded; Issuer not co-operative)
19-Oct-2019	Bank Guarantee	Long Term	8.00	ACUITE BB+/Stable (Upgraded)
	Proposed Bank Guarantee	Long Term	12.00	ACUITE BB+/Stable (Upgraded)
13-Feb-2019	Bank Guarantee	Long Term	5.10	ACUITE BB (Issuer not co-operative)
	Proposed Bank Guarantee	Long Term	14.90	ACUITE BB (Issuer not co-operative)

**\*Annexure – Details of instruments rated**

<b>Lenders Name</b>	<b>Name of the Facilities</b>	<b>Date of Issuance</b>	<b>Coupon Rate</b>	<b>Maturity Date</b>	<b>Size of the Issue (Rs. Cr.)</b>	<b>Ratings/Outlook</b>
State Bank of India	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE BB+/Stable (Upgraded from ACUITE BB)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BB+/Stable (Upgraded from ACUITE BB)

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**About Acuité Ratings & Research:**

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