

Press Release

Ratilal Bhagwandas Construction Company

December 15, 2022



Rating Upgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	20.00	ACUITE BBB- Stable Upgraded	-
Total Outstanding Quantum (Rs. Cr)	20.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has upgraded the long-term rating to '**ACUITE BBB-**' (read as **ACUITE triple B Minus**) from '**ACUITE BB+**' (read as **ACUITE double B plus**) on the Rs. 20.00 crore bank facilities of Ratilal Bhagwandas Construction Company (RBCC). The Outlook is '**Stable**'.

Rationale for Rating Upgrade

The rating upgradation takes into account the augmentation in business risk profile of the firm reflected by improvement in operating income during FY2022. The improvement was majorly led by increase in execution of orders during the period. Also, the firm has started executing sizeable projects from FY2022 such as mechanical, civil and other electrical projects. Furthermore, the profitability of the company also witnessed improvement during the period compared against losses in the preceding year.

The rating also factors in the experienced management and established track record of operations of the firm over three decades. The rating also draws comfort from the healthy capital structure with moderate net worth and low gearing of the firm. The liquidity position of the firm continues to remain adequate with efficient working capital management. However, the rating remains constrained by the geographical concentration of its projects, competitive & fragmented industry and tender based nature of operations.

About the Company

Ratilal Bhagwandas Construction Company established on 1993. The firm is engaged in construction and civil work of factory buildings, shed and corporate offices. The Present Partners of the company are Mr. Nitin Karia, Mr. Anand Karia and Mrs. Ami Karia. The Registered Office of the firm is in Pune.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of Ratilal Bhagwandas Construction Company (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 M/s. Jabil Circuit India Private Limited, M/s. JCB India Ltd., M/s. Graviss Foods Private Limited, and Godrej & Boyce Manufacturing Company Limited. Furthermore, the revenue increased to Rs.135.14 crore as compared to Rs.59.87 crore in FY2021 majorly led by increase in execution of orders during the period. Also, the firm has started executing sizeable projects from FY2022 such as mechanical, civil and other electrical projects. The firm has an unexecuted order book outstanding of Rs.93.41 crore as on 1st November 2022. Out of the same, Rs.72.10 crore is expected to be achieved by the end of FY2023. Also, they have currently 4 projects in L1 from Pune worth Rs.207 crore providing adequate revenue visibility over the medium term. Furthermore, profitability of the firm also improved marked by operating margin of 6.02 times in FY2022 as compared to losses incurred in FY2021.

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

>Healthy Financial Risk Profile albeit low net worth

The financial risk profile of the firm stood healthy marked by moderate net worth, low gearing, and healthy debt protection metrics. The tangible net worth stood at Rs.17.84 crore as on 31 March 2022 as against Rs.13.26 crore as on 31 March, 2021 and Rs.14.31 crore as on 31 March, 2020. The total debt of the company stood low at Rs.1.44 crore including Rs.0.03 crore of long-term debt and Rs.1.41 crore of Unsecured loans as on 31 March, 2022. The gearing (debt-equity) stood low at 0.08 times as on 31 March 2022 as compared to 0.12 times as on 31 March, 2021 and 0.14 times as on 31 March, 2020. The debt protection matrices remain comfortable marked by Interest Coverage Ratio of 57.77 times for FY2022 as against and Debt Service Coverage Ratio (DSCR) of 37.38 times in FY2022. However, the Total outside Liabilities/Total Net Worth (TOL/TNW) deteriorated and stood at 2.08 times as on 31 March, 2022 as against 1.34 times as on 31 March, 2021 and 1.49 times as on 31 March, 2020. Net Cash Accruals to Total Debt (NCA/TD) stood at 4.02 times for FY2022 as against (0.18) times for FY2021 and 1.71 times for FY2020.

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.

>Working capital management: Efficient

The working capital management of the firm remained efficient marked by GCA days of 87 days in FY2022 as against 96 days in FY2021 and 128 days in FY2020. The debtor days stood at 52 days in FY2022 as against 32 days in FY2021 and 35 days in FY2020. The average credit period allowed to customers of 30-45 days. The creditor days stood at 215 days in FY2022 as against 220 days in FY2021 and 265 days in FY2020. The average credit period allowed by suppliers is 30-45 days. The inventory holding period of the company stood at 26 days in FY2022 as against 48 days in FY2021 and 59 days in FY2020.

Acuité expects the working capital management to remain efficient over the medium term on account of better management of inventory.

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 bidding of contracts. However, this risk is mitigated to an extent as management operating in this environment for last 2 decades.

Rating Sensitivities

- Ability to improve scale of operations and profitability.
- Ability to maintain healthy capital structure and adequate liquidity position

Material covenants

None.

Liquidity Position: Adequate

The firm's liquidity position is adequate, marked by sufficient net cash accruals against repayment obligations. The firm generated net cash accruals of Rs.5.77 Crore in FY2022 against no matured debt obligations. In addition, it is expected to generate a sufficient cash accrual in the range of Rs.8.01-10.12 crores over the medium term against expected matured debt obligations of Rs.0.02 crore during the same period. Furthermore, the working capital management of the company is efficient marked by GCA days of 87 days in FY2022 as against 96 days in FY2021 and 128 days in FY2020. The company maintains unencumbered cash and bank balances of Rs.0.91 crore as on March 31, 2022. The current ratio stands at 1.23 times as on March 31, 2022. The company doesn't have any CC/BG/OD limit from bank. As and when required, the company takes BG/OD against 100% FDR. Current BG O/s as on November 2022 against 100% FDR is Rs.8.60 crore.

Acuité believes that the liquidity of the firm to remain adequate over the medium term on account of adequate cash accruals and liquid investments.

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, healthy capital structure and adequate order book position. 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	135.14	59.87
PAT	Rs. Cr.	5.61	(0.41)
PAT Margin	(%)	4.15	(0.68)
Total Debt/Tangible Net Worth	Times	0.08	0.12
PBDIT/Interest	Times	57.77	(0.81)

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->

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite'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
23 Sep 2021	Proposed Bank Facility	Long Term	8.00	ACUITE BB+ Stable (Upgraded from ACUITE BB)
	Proposed Bank Guarantee	Long Term	12.00	ACUITE BB+ Stable (Upgraded from ACUITE BB)
15 Apr 2021	Bank Guarantee	Long Term	8.00	ACUITE BB (Downgraded and Issuer not co-operating*)
	Proposed Bank Guarantee	Long Term	12.00	ACUITE BB (Downgraded and Issuer not co-operating*)
19 Oct 2019	Proposed Bank Guarantee	Long Term	12.00	ACUITE BB+ Stable (Upgraded from ACUITE BB)
	Bank Guarantee	Long Term	8.00	ACUITE BB+ Stable (Upgraded from ACUITE BB)
13 Feb 2019	Bank Guarantee	Long Term	5.10	ACUITE BB (Issuer not co-operating*)
	Proposed Bank Guarantee	Long Term	14.90	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
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE BBB- Stable Upgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BBB- Stable Upgraded

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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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