

Press Release

Bharat Rail Automations Private Limited

April 24, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 95.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs. 95.00 crore bank facilities of Bharat Rail Automations Private Limited (BRPL). The outlook is '**Stable**'.

Bharat Rail Automations Private Limited was established as a partnership firm by Mr. Bhupesh Dhabalia and Mr. Bharat Dhabalia in 1986 and converted to a private limited entity in 2004. The Mumbai-based company caters to the Indian Railways and undertakes installation of railway safety and signaling systems i.e. installation of SSI, Panel interlocking and Route Relay Interlocking, Automatic Signaling.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of BRPL to arrive at the rating.

Key Rating Drivers

Strengths

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

BRPL is promoted by Mr. Bhupesh Dhabalia and Mr. Bharat Dhabalia who also manages the day to day operations of the company. The company is empaneled as a Class-I signaling contractor and has ISO 9001:2008 certification for Design of Signaling Equipment System and Installation, Testing & Commissioning of Signaling Projects. Both the directors more than three decades of experience in the said line of business. The promoters' extensive experience is also reflected through the healthy revenue growth over the last 4 years through 2017-18. The company's revenue grew at a CAGR of ~10 percent to Rs.59.92 crore over the aforementioned period. BRPL's order book position remains healthy at Rs.440.00 crore as on December, 2018 out of which Rs.152.00 crore worth of orders are already executed and the outstanding order value stood at Rs.288.00 crore as on December, 2018. Hence, the healthy order book provides modest revenue visibility for the company over the medium term. Acuité believes that the company will continue to benefit through the promoters' extensive industry experience over the medium term.

- **Reputed customer base**

BRPL caters to reputed clientele such as Railway Project Management Unit (IRPMU), Mumbai Railway Vikas Corporation Limited, Rites Limited and Metro Rail Corporation Limited to name a few. Hence, the entire revenue is generated from State Government and Central Government; thus, providing low counter party risk, the company, however, is exposed to delay in realisation of receivables.

- **Moderate financial risk profile**

BRPL's financial risk profile is marked by its moderate net worth, low gearing and moderate debt protection measures. The net worth improved to Rs.32.90 crore as on 31 March, 2018 as against Rs.30.14 crore in the previous year on account of stable revenue and increasing profitability, leading to higher accretion to reserves. The company's gearing is estimated to be low at 0.57 times as on 31 March, 2018 as against 0.66 times in the previous year. The company has followed a conservative financial policy in the past, as reflected by its peak gearing of around 0.57 times as on March 31, 2018. The total debt of Rs.18.68 crore consists of Rs.18.68 crore of short term debt obligations. The healthy revenue growth coupled with moderate profitability levels has resulted in healthy net cash accruals of

Rs.2.89 crore during 2016-18, while the debt levels have remained low at around Rs.18.68 crore during the same period, leading to healthy debt protection measures. The interest coverage ratio stood at 2.05 times in FY18 as against 2.13 times in the previous year. NCA/TD ratio stood 0.15 times in FY18. Acuité believes that the financial risk profile will continue to remain moderate on account of healthy cash accruals and minimal reliance on debt.

Weaknesses

- **Profitability susceptible to fluctuations in input cost**

The input cost i.e. power cost, labour cost and raw materials. They are highly volatile in nature with labour cost and raw material constituting around ~70 percent of the total revenue as the company sub-contracts partial order book. Hence, any adverse movement in input costs can impact profitability. However, the company reported EBITDA margin of 11.46 percent in FY2018 as against 9.65 percent in the previous year.

- **Working capital intensive nature of operations**

The operations of BRPL are working capital intensive reflected by high Gross Current Assets (GCA) which stood at 335 days, driven by debtors of 102 days and inventory of 66 days as on March 31, 2018. Also, on receipt of tender, the company has to arrange for 5 percent of the tender value as cash or bank guarantee. Principal deducts another 10 percent as retention amount from each running bill, taking the total retention money to 15 percent of the project cost. Working capital requirement is funded through bank lines that have been 85 percent utilised over the six months through March 2019. Creditors were at 106 days as on March 31, 2018. Acuité believes that the operations of BRPL are likely to remain working capital intensive over the medium term.

- **Tender based nature of operations and competitive industry**

The revenues of BRPL are generated through tender based orders floated by Indian Railways coupled with the increasing competition in the industry.

Liquidity Position

BRPL has adequate liquidity marked by moderate net cash accruals. The company generated cash accruals of Rs.2.00 to Rs. 2.90 crore during the last three years through 2017 - 18. The cash accruals of the company are estimated to remain at around Rs.4.00 to Rs. 5.50 crore during 2019-21. The company's working capital operations are intensive as marked by Gross Current Asset (GCA) days of 335 in FY 2018. The company maintains unencumbered cash and bank balances of Rs.0.47 crore as on March 31, 2018. The current ratio of the company stood below average at 2.04 times as on March 31, 2018. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual.

Outlook: Stable

Acuité believes that the outlook on BRPL's rated facilities will remain 'Stable' over the medium term on account of its promoters' extensive experience, moderate financial risk profile and established operational track record. 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 most likely as a result of higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	59.92	62.96	54.38
EBITDA	Rs. Cr.	6.87	6.07	4.72
PAT	Rs. Cr.	2.77	2.69	1.84
EBITDA Margin	(%)	11.46	9.65	8.68
PAT Margin	(%)	4.62	4.28	3.38
ROCE	(%)	13.60	14.58	24.93
Total Debt/Tangible Net Worth	Times	0.57	0.66	0.50
PBDIT/Interest	Times	2.05	2.13	1.96
Total Debt/PBDIT	Times	2.66	2.93	2.56

Gross Current Assets (Days)	Days	335	308	293
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Status of non-cooperation with previous CRA (if applicable)

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.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
05-Feb-2018	Cash Credit	Long Term	20.00	ACUITE BBB- / Stable (Assigned)
	Proposed Cash Credit	Long Term	13.00	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Short Term	45.00	ACUITE A3 (Assigned)
	Proposed Bank Guarantee	Short Term	17.00	ACUITE A3 (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	20.00	ACUITE BBB- / Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB- / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A3 (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A3 (Reaffirmed)

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About Acuité Ratings & Research:

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