Press Release

Bharat Rail Automations Private Limited

April 22, 2021

Rating Upgraded, Withdrawn

Total Bank Facilities Rated*	Rs. 95.00 Cr.
Long Term Rating	ACUITE BBB+/ Outlook: Stable (Upgraded from BBB/Stable)
Short Term Rating	ACUITE A2 (Upgraded from A3+)

** Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating to **'ACUITE BBB+' (read as ACUITE triple B plus)** from **'ACUITE BBB' (read as ACUITE triple B)** and its short-term rating to **'ACUITE A2' (read as ACUITE A two) from 'ACUITE A3+' (read as ACUITE three plus)** on the Rs. 65.00 crore bank facilities of Bharat Rail Automations Private Limited (BRPL). The outlook remains **'Stable'**.

Acuité has also withdrawn the long-term rating of **'ACUITE BBB+' (read as ACUITE triple B plus)** and short-term rating of **'ACUITE A2' (read as ACUITE A two)** on the Rs. 30.00 crore bank facilities of BRPL.

The rating upgrade takes into account the significant growth in the revenue through FY2018-2020 and healthy financial risk profile of BRAPL. Revenue has shown a compounded annual growth of around 55 percent for the period mentioned above. The entity also has been able to maintain operating profitability. The rating also draws comfort from the revenue visibility provided by a strong order of Rs. 273 crore from various departments of Indian Railways. The rating is constrained by the working capital intensity of operations increasing BRAPL's dependence on external debt. BRPL's ability to maintain its scale of operations and profitability will be a key rating sensitivity.

About the Company

BRPL 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 signalling systems i.e. installation of SSI, Panel interlocking and Route Relay Interlocking, Automatic Signalling etc.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of BRPL for arriving 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 three years through 2018-20. The company's revenue grew at a CAGR of ~55 percent to Rs. 144.92 crore over the aforementioned period. BRPL's unexecuted order book position remains healthy at Rs. 273.00 crore as on March, 2021. 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.

• **Healthy financial risk profile**
BRPL's financial risk profile remains healthy albeit moderate net worth. Gearing remain low and debt protection measures healthy. The net worth improved to Rs. 47.73 crore as on 31 March, 2020 as against Rs. 40.33 crore in the previous year on account of higher accretion to reserves and infusion of quasi capital. BRPL gearing stood at 0.44 times as on 31 March 2020 as compared to 0.45 times as on 31 March, 2019. 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. 21.23 crore consists entirely of working capital debt. The healthy revenue growth coupled with moderate profitability levels has resulted in healthy net cash accruals of Rs. 7.39 crore during 2019-20, while the debt levels have remained low at around Rs. 21.23 crore during the same period, leading to healthy debt protection measures. The interest coverage ratio improved to 3.27 times in FY2020 as against 2.96 times in the previous year. NCA/TD ratio stood 0.35 times in FY2020.

For 11M FY2021, the gearing remained at ~0.44 times and interest coverage stood at ~3.85 times and going forward with no significant increase in debt it expected to remain in the range of 0.44 – 0.50 times.

Acuité expects BRPL's financial risk profile to remain stable over the medium term in absence of no significant debt funded capex.

Weaknesses

• **Working capital intensive nature of operations**
BRPL's operations are working capital intensive as reflected by Gross Current Assets (GCA) days which stood at 226 days in FY2020 as compared to 309 days in FY2019. There has been an improvement in GCA days in FY2020, however, they still remain high driven primarily by retention money and security deposits. Debtor days improved to 36 in FY2020 from 128 in FY2019. Inventory days stood at 104 in FY2020 against 93 in FY2019. Working capital requirement is funded through bank lines that have been ~80 percent utilized over the six months through February 2021.

Acuité believes the group's ability to improve working capital management efficiency will remain a key rating sensitivity.

• **Tender based nature of operations and competitive industry**
The revenues of BRAPL are generated through tender based orders floated by Indian Railways coupled with the increasing competition in the industry.

Liquidity Position: Adequate

BRPL has adequate liquidity marked by adequate net cash accruals. The company generated cash accruals of Rs. 2.89 to Rs. 7.39 crore during the last three years through 2018 - 20. The cash accruals of the company are estimated to remain at around Rs. 5.80 to Rs. 9.10 crore during 2021-23. BRPL's operations are moderately working capital intensive with GCA of 226 days. This makes the company dependent on external borrowing to fund its working capital operations, with average bank limit utilization remaining at ~70 percent for the 6 months ending February 2021. Company maintains unencumbered cash and bank balances of Rs.0.78 crore as on March 31, 2020. The current ratio of the company stood at 2.43 times as on March 31, 2019. Acuité believes that the liquidity of the company is expected to remain adequate over the medium term on account of adequate cash accruals constrained to some extent by moderate working capita intensity of operations.

Rating Sensitivities

- Ability to maintain scale of operations and profitability
- Ability to improve working capital management efficiency

Material Covenants
None

Outlook: Stable
Acuité believes that the outlook on BRPL's rated facilities will remain stable over the medium term on account of its promoter's 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 Group - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	144.92	111.39
Profit after Tax (PAT)	Rs. Cr.	7.34	5.93
PAT Margin	(%)	5.06	5.32
Total Debt/Tangible Net Worth	Times	0.44	0.45
PBDIT/Interest	Times	3.27	2.96

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
03-Feb-2020	Cash Credit	Long Term	20.00	ACUITE BBB/Stable (Upgraded)
	Proposed Cash Credit	Long Term	13.00	ACUITE BBB/Stable (Upgraded)
	Bank Guarantee	Short Term	45.00	ACUITE A3+ (Upgraded)
	Proposed Bank Guarantee	Short Term	17.00	ACUITE A3+ (Upgraded)
24-Apr-2019	Cash Credit	Long Term	20.00	ACUITE BBB-/Stable (Reaffirmed)
	Proposed Cash Credit	Long Term	13.00	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	45.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Guarantee	Short Term	17.00	ACUITE A3 (Reaffirmed)

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 (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	13.00	ACUITE BBB+ (Withdrawn)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A2 (Upgraded)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	17.00	ACUITE A2 (Withdrawn)

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