

Press Release

R B Ghodke

10 April, 2018



Rating Assigned

Total Bank Facilities Rated*	Rs. 30.00 Cr.
Long Term Rating	SMERA BBB-/ Outlook: Stable
Short Term Rating	SMERA A3+

* Refer Annexure for details

Rating Rationale

SMERA has assigned the long term rating of '**SMERA BBB-**' (read as SMERA triple B minus) and short term rating of '**SMERA A3+**' (read as SMERA A three plus) on the Rs.30.00 crore bank facilities of R B Ghodke. The outlook is '**Stable**'.

R. B. Ghodke (RBG), incorporated in 1986 as a proprietorship concern is a Maharashtra-based company promoted by Mr. Ramprasad Ghodke. The company undertakes civil construction contracts for the Maharashtra government for construction of canals, dams and barrages. Later in 2007, the firm was converted into a partnership concern.

Key rating drivers

Strengths

Established track record of operations and experienced management: RBG has been executing civil construction contracts in Maharashtra for more than two decades. The company is led by the Chairman, Mr. Ramprasad Ghodke who possess around three decades of experience in the civil construction industry.

Comfortable financial risk profile: The financial risk profile is comfortable marked by tangible networth of Rs.13.75 crore as on 31 March, 2017 as against Rs.8.55 crore in the previous year. The gearing stood at 0.24 times on 31 March, 2017 as against 1.48 times in the previous year. The total debt of Rs.3.37 crore includes working capital funds of Rs.3.37 crore. The Interest Coverage Ratio (ICR) stood at 13.49 times for FY2017 as against 9.92 times in FY2016. The total liabilities to tangible networth (TOL/TNW) stood at 0.49 times as on 31 March, 2017 as against 2.37 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 1.86 times in FY2017 compared to 0.29 times in FY2016.

Efficient working capital management and adequate liquidity: The company continues to efficiently manage its working capital requirement with Gross Current Asset (GCA) days of 12 for FY2017 compared to 176 in the previous year. Further, the liquidity remains adequate because of comfortable cash accruals against no debt repayment obligation over the medium

term. The average cash credit utilization for the last six months stood at around 67.59 per cent ended 28 February, 2018.

Weaknesses

Uneven revenue trend due to tender based operations: RBG registered operating income of Rs. 60.84 crore for FY2017 as against Rs.29.54 crore for FY2016. The company exhibits uneven trend in its operating income. Besides, the tender-based business makes it vulnerable to order cyclicalities. The company has reported operating income of Rs.49.00 crore during the period April, 2017 to February, 2018. RBG has unexecuted order book position of Rs.122.9 crore to be executed by March, 2020 that provides moderate revenue visibility over the medium term.

Profitability susceptible to fluctuations in input cost: The input cost i.e. power cost, labour cost and raw materials (iron, steel and cement) are highly volatile in nature with labour cost constituting around 75 percent of the total revenue as the company sub-contracts its work. Hence, any adverse movement in input costs can impact profitability. However, the company reported EBITDA margin of 15.91 percent for FY2017 as against 19.13 percent in the previous year.

High dependence on government orders, however mitigated by established relations and efficient liaisoning with government authorities: RBG does civil construction work mainly for Maharashtra Government and indicates that the company's revenues are highly dependent on number and value of tenders floated by State Government. Moreover, any further delays in the project execution of current projects along with the delayed receipt from government and site related issues are likely to result in higher working capital requirements. However, this risk is mitigated, as RBG has established relations with State Government departments which resulted in timely realizations and winning of tenders at regular intervals.

Analytical approach:

SMERA has considered the standalone business and financial risk profiles of R. B. Ghodke to arrive at the rating.

Outlook – Stable

SMERA believes that the outlook on RBG's rated facilities will remain 'Stable' over the medium term on account of its promoter's extensive experience and established operational track record. The outlook may be revised to 'Positive' in case of significant growth in revenue and profitability while effectively managing its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in net cash accruals, deterioration in the financial and liquidity profile due to higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	60.84	29.54	25.12
EBITDA	Rs. Cr.	9.68	5.65	5.09
PAT	Rs. Cr.	5.21	2.52	1.16
EBITDA Margin	(%)	15.91	19.13	20.27

PAT Margin	(%)	8.57	8.54	4.64
ROCE	(%)	45.12	25.39	53.47
Total Debt/Tangible Net Worth	Times	0.24	1.48	2.05
PBDIT/Interest	Times	13.49	9.92	8.26
Total Debt/PBDIT	Times	0.35	2.23	1.96
Gross Current Assets (Days)	Days	12	176	81

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

None

Any other information:

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smerra.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smerra.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smerra.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

<https://www.smerra.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure - Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	9.00	SMERA BBB-/Stable
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	SMERA BBB-/Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	SMERA A3+
Proposed Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00	SMERA A3+

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