

Press Release

R B Ghodke

June 03, 2019



Rating Upgraded

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

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating of '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BBB**'-'**(read as ACUITE triple B minus)**' and reaffirmed short term rating of '**ACUITE A3+**' (**read as ACUITE A three plus**) to the Rs. 30.00 crore bank facilities of R B Ghodke (RBG). The outlook is '**Stable**'.

The revision in rating reflects improvement in operating profitability, prudent working capital management and improving debt protection metrics. Acuité expects further improvement in operating revenues backed by healthy order book to be executed by December 2020.

R. B. Ghodke (RBG), established 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.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of RBG to arrive at this rating.

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 holds around three decades of experience in the civil construction industry. RBG is engaged in providing different types of civil construction in segments such as commercial structures, industrial buildings, bridges, water and drainage projects, dams under government and semi government entities. The promoter's extensive experience is also reflected through the healthy order book position at Rs.152.00 crore as on 30 May, 2019 out of which Rs.41.00 crore worth of orders are already executed as on 31 March, 2019. 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 promoter's extensive industry experience over the medium term.

- **Moderate financial risk profile**

RBG's financial risk profile is marked by its moderate net worth, low gearing and healthy debt protection measures. The net worth increased to Rs.18.27 crore as on 31 March, 2018 as against Rs.13.75 crore in the previous year on account of stable profitability leading to higher accretion to reserves. The firm's gearing is estimated to be low at 0.32 times as on 31 March, 2018 as against 0.24 times in the previous year. The company has followed a conservative financial policy in the past, as reflected by its peak gearing of around 0.32 times as on March 31, 2018. The total debt of Rs.5.90 crore consists of long term debt of Rs.4.59 crore, and Rs.1.31 crore of short term debt obligations. The healthy profitability levels has resulted in healthy net cash accruals of Rs.5.64 crore during 2016-18, while the debt levels have remained low at around Rs.5.90 crore during the same period, leading to healthy debt protection measures. The interest coverage ratio stood at 8.04 times in FY18 as against 13.49 times in the previous year. NCA/TD ratio stood 0.96 times in FY18. Acuité believes that the financial risk profile will continue to remain moderate on account of healthy cash accruals.

- **Efficient working capital management and adequate liquidity**

The firm continues to efficiently manage its working capital requirement with Gross Current Asset days of 100 for FY2018 compared to 72 days in the previous year. On receipt of tender, the company has to arrange for 5 percent of the tender value as bank guarantee. Principal deducts another 2.5 percent as retention amount from each running bill, taking the total retention money to 7.5 percent of the project cost. Despite blockage of funds as retention money and margin money for bank guarantees, firm has efficiently managed its working capital. Further, the liquidity remains adequate because of comfortable cash accruals against debt repayment obligation of Rs. 1.53 crore over the medium term. The average cash credit utilization for the last six months stood at around ~60.00 per cent ended 30 May, 2019. Acuité believes that the working capital requirements will continue to remain comfortable over the medium term.

Weaknesses

- **Uneven revenue trend due to tender based operations**

RBG registered operating income of Rs. 49.41 crore for FY2018 as against Rs.60.84 crore for FY2017. The company exhibits uneven trend in its operating income. Besides, the tender-based business makes it vulnerable to order cyclical. The company has reported operating income of Rs.59.88 crore during the period April, 2018 to March, 2019. RBG has unexecuted order book position of ~Rs.111.00 crore to be executed by December, 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 19.05 percent for FY2018 as against 15.91 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.

Liquidity Position

RBG has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of ~Rs.3.50 to Rs. 5.50 crore during the last three years through 2017 - 18, while its maturing debt obligations stood at Rs. 1.53 crore as on March 2018. The cash accruals of the company are estimated to remain at around ~Rs. 7.50 - Rs.10.00 crore during 2019-21. The company's operations are working capital operations are comfortable as marked by Gross Current Asset (GCA) days of 100 in FY 2018. The company maintains unencumbered cash and bank balances of Rs.0.26 crore as on March 31, 2018. The current ratio of the company stood moderate at 2.22 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 healthy cash accrual while its maturing debt obligations are expected to be in the range of Rs. 1.00 crore to Rs. 2.27 crore over the same period.

Outlook: Stable

Acuité believes that the outlook on RBG'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 Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	49.41	60.84	29.54
EBITDA	Rs. Cr.	9.41	9.68	5.65
PAT	Rs. Cr.	4.26	5.21	2.52
EBITDA Margin	(%)	19.05	15.91	19.13
PAT Margin	(%)	8.62	8.57	8.54
ROCE	(%)	39.35	45.12	25.39
Total Debt/Tangible Net Worth	Times	0.32	0.24	1.48
PBDIT/Interest	Times	8.04	13.49	9.92
Total Debt/PBDIT	Times	0.62	0.35	2.23
Gross Current Assets (Days)	Days	100	72	249

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

None

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
10-April-2018	Cash Credit	Long Term	9.00	ACUITE BBB-/ Stable (Assigned)
	Bank Guarantee	Short Term	6.00	ACUITE A3+ (Assigned)
	Proposed Cash Credit	Long Term	3.00	ACUITE BBB-/ Stable (Assigned)
	Proposed Bank Guarantee	Short Term	12.00	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	12.00 (enhanced from 9.00)	ACUITE BBB / Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	18.00 (enhanced from 12.00)	ACUITE A3+ (Reaffirmed)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Sanket Kotkar Analyst - Rating Operations Tel: 02249294073 sanket.kotkar@acuite.ratings.in	

About Acuité Ratings & Research:

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