



## Press Release

R B Ghodke

September 03, 2020

### Rating Reaffirmed

<b>Total Bank Facilities Rated*</b>	Rs. 30.00 crore
<b>Long Term Rating</b>	ACUITE BBB/ Outlook: Stable (Reaffirmed)
<b>Short Term Rating</b>	ACUITE A3+ (Reaffirmed)

\* Refer Annexure for details

### Rating Rationale

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

R. B. Ghodke (RBG), established in 1986 as a proprietorship concern is a Maharashtra-based firm promoted by Mr. Ramprasad Ghodke. The firm 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 profile of RBG to arrive at the 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 firm 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.124.85 crore as on 31st March, 2020 out of which Rs.13.50 crore worth of orders are already executed as on 30 June, 2020. Hence, the healthy order book provides modest revenue visibility for the firm over the medium term.

Acuité believes that the firm will continue to benefit through the promoter's extensive industry experience over the medium term.

- **Healthy financial risk profile**

RBG's financial risk profile is healthy marked by its moderate net worth, low gearing and healthy debt

protection measures. The net worth of the firm stood at Rs. 31.63 crore as on March 31, 2020 as against Rs. 17.71 crore as on March 31, 2019. The firm has followed a conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) levels of 0.86 times and 1.01times as on March 31, 2018, over the past three years. The leverage levels improved to 0.37 times as on March 31, 2020 (Provisional). The total debt of Rs. 11.60 crore as on 31 March 2020 (Provisional) comprised of working capital borrowings of Rs. 1.61 crore and balance is machinery and equipment loans.

Healthy profitability has led to an improvement in coverage indicators of the firm marked by debt-service-coverage-ratio of 8.83 times as on 31st March, 2020 (Provisional) as against 3.82 times as on 31st March, 2019 and interest coverage ratio of 11.65 times as on 31st March, 2020 (Provisional) as against 8.25 times as on 31st March, 2019. Further, healthy net cash accruals have resulted in lower dependence on its working capital limits, resulting in average utilization of 53.00 per cent over the last six months. Acuité believes that the financial risk profile will continue to remain healthy on account of profitability.

- **Efficient working capital operations**

The firm continues to efficiently manage its working capital requirement with Gross Current Asset days of 21 for FY2020 (Prov.) compared to 115 days in the previous year. On receipt of tender, the firm 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, the firm has efficiently managed its working capital. Further, the liquidity remains adequate because of comfortable cash accruals against debt repayment obligation over the medium term. The average cash credit utilization for the last six months stood at around ~53.00 per cent ended 30 June, 2020. Acuité believes that the working capital requirements will continue to remain comfortable over the medium term.

### **Weaknesses**

- **High dependence on government orders, however mitigated by established relations and efficient liaisoning with government authorities**

RBG does civil construction work mainly for the Maharashtra Government and indicates that the firm's revenues are highly dependent on the 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.

### **Rating Sensitivity**

- Significant deterioration in its working capital management.
- Improvement in operating performance leading to an overall improvement in the financial risk profile

### **Material Covenants**

None

### Liquidity: Adequate

RBG has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The firm generated cash accruals of ~Rs.15.50 crore last year, as against no major repayment obligation. The cash accruals of the firm are estimated to remain at around ~Rs. 17.35- 20.67 crore during 2021-23. The firm's operations are working capital operations are comfortable as marked by Gross Current Asset (GCA) days of 21 in FY 2020. The firm maintains unencumbered cash and bank balances of Rs.1.71 crore as on March 31, 2020. The current ratio of the firm stood moderate at 1.54 times as on March 31, 2020. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of healthy cash accrual while its maturing debt obligations are expected to be low over the same period.

### Outlook: Stable

Acuité believes that RBG will maintain a 'Stable' outlook and will continue to derive benefit over the medium term due to its extensive experience of promoters. The outlook may be revised to 'Positive', if the firm demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' if the firm generates lower-than-anticipated cash accruals, most likely as a result of a sharp decline in operating margins, or deterioration in working capital leading to higher reliance on external borrowings thereby impacting its financial risk profile, particularly its liquidity.

### About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	98.00	61.93
PAT	Rs. Cr.	11.98	7.54
PAT Margin (%)	(%)	12.23	12.17
Total Debt/Tangible Net Worth	Times	0.37	0.86
PBDIT/Interest	Times	11.65	8.25

### Status of non-cooperation with other CRA

None

### 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 (Up to previous three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
3-Jun-2019	Cash Credit	Long-Term	12.00 (enhanced from Rs.	ACUITE BBB/ Stable (Upgraded)

			9.00 crore)	
	Bank Guarantee	Short Term	18.00 (enhanced from Rs. 12.00 crore)	ACUITE A3+ (Reaffirmed)
10-Apr-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	ACUITE BBB/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	18.00	ACUITE A3+ (Reaffirmed)

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