

## Press Release

### Bhati Associates Private Limited

August 24, 2020



#### Rating Downgraded

<b>Total Bank Facilities Rated*</b>	Rs. 21.00 Cr. (Enhanced from Rs.18.00 Cr.)
<b>Long Term Rating</b>	ACUITE BB- /Stable (Downgraded)
<b>Short Term Rating</b>	ACUITE A4 (Downgraded)

\* Refer Annexure for details

#### Rating Rationale

Acuité has downgraded the long-term rating to '**ACUITE BB-**' (**read as ACUITE double B minus**) from '**ACUITE BB**' (**read as ACUITE double B**) and the short term rating to '**ACUITE A4**' (**read as ACUITE A four**) from '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 21.00 Crore bank facilities of Bhati Associates Private Limited (BAPL). The outlook is '**Stable**'.

#### Reason for Downgrade:

The revision in the rating is driven by the substantial decline in the business profile of the company marked by a decline in operating income and operating profits leading to deterioration in the financial risk profile of the company. The company's revenues have significantly declined in FY2020 to Rs.8.72 crore from Rs.24.40 Crore in FY2019. The decline in revenues is majorly on account of delays in project execution which is majorly on account of hurdles faced by the company in and around the local project site. Further, the company has achieved revenues of ~Rs.6.00 crore in 4MFY2021. The company reported an overall decline in profitability margins to 3.78 percent in FY2020 (Provisional) from 5.69 percent in FY2019 to 3.78 percent in FY2020 (Provisional). The decline in operating income coupled with a decline in the profitability has led to a deterioration in the financial risk profile of the company. The debt protection indicators have deteriorated marked by ICR and Debt/EBITDA, which stood at 1.81 and 5.46 respectively for FY2020 (Provisional) as against 2.43 and 3.59 times respectively in FY2019. Any further decline in revenue and profitability levels leading to significant deterioration of financial risk profile will be a key rating sensitivity factor.

Bhati Associates Private Limited (BAPL) was established in 1996 as a proprietor firm based in Delhi by Mr. Harish Chowdhary. In 2004 the firm was converted to private Limited company and was promoted by Mr. Harish Chowdhary and Mr. Satish Chowdhary. BAPL is a civil contractor for government authorities. BAPL business includes infrastructure construction like Roads, Highways, Building for government authorities on a tender basis.

#### Analytical Approach

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

#### Key Rating Drivers

##### Strengths

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

Bhati Associates Private Limited (BAPL) was established in 1996 as a proprietor firm based in Delhi by Mr. Harish Chowdhary. In 2004 the firm was converted to private Limited company and was promoted by Mr. Harish Chowdhary and Mr. Satish Chowdhary. Hence has its presence in the construction business for over two decades. Mr. Harish Chowdhary has 20 years of experience in civil work and Mr. Satish Chowdhary has 22 years of experience in civil work. Due to experienced management, the company has been able to maintain long term relationship with its customers since its inception.

Acuité believes that BAPL will continue to benefit from its experienced management.

## Weaknesses

- **Deterioration in working capital management**

The working capital cycle of BAPL has deteriorated in FY2020 over FY2019 marked by Gross Current Assets (GCA) days of 632 for FY2020 (Provisional) as against 214 for FY2019. GCA days have increased due to a rise in debtors collection period from 52 days in FY2019 to 240 days in FY2020 (Provisional). The increase in debtor is predominantly on account of last quarter project execution. The inventory days have also increased and stood at 239 days in FY2020 (Provisional) as against 82 days in FY2019.

Acuité believes the ability of the company to manage its working capital cycle will be a key rating sensitivity.

- **Average financial risk profile**

BAPL financial risk profile of the company remained average marked by moderate net worth and average debt protection metrics. The net worth of the company stood at Rs.9.92 crore as on 31 March 2020 (Provisional) as against Rs.9.59 crore as on 31 March 2019. The gearing level (debt-equity) stood at 1.53 times as on 31 March 2020 (Provisional) as against 1.65 times as on 31 March 2019. The total debt of Rs.15.16 crore as on 31 March 2020 (Provisional) consists of long term debt of Rs.0.69 Crore, Unsecured loans from promoters of Rs.6.46 crore and working capital borrowings of Rs.8.00 crore. The interest coverage ratio (ICR) declined to 1.81 times in FY2020 (Provisional) as against 2.43 times in FY2019 due to low EBITDA during the year. NCA/TD (Net Cash Accruals to Total Debt) ratio declined to 0.07 times in FY2020 (Provisional) as against 0.17 times in FY2019. Debt to EBITDA stood at 5.46 times in FY2020 (Provisional) as against 3.59 times in FY2019. This is mainly due to low net cash accruals, low EBITDA and high external debt during the year. Any further deterioration in the financial risk profile of the company will impinge a negative biased toward the rating.

### Outlook: Stable

Acuité believes that BAPL will maintain a 'Stable' outlook over the medium term owing to its established presence in the ginning industry and experienced management. The outlook may be revised to 'Positive' if the scale of operations increases substantially while improving its operating profitability and financial risk indicators. Conversely, the outlook may be revised to 'Negative' if BAPL's profitability further declines, leading to deterioration in the financial risk profile.

### Material Covenant

None

### Rating sensitivity

- Any further deterioration in revenues or profitability margins
- Any deterioration in the working capital management will have a negative bias on the rating.

### Liquidity position: Stretched

Company has stretched liquidity marked by low net cash accruals to its maturing debt obligations. BAPL generated cash accruals of Rs.1.13 Crore in FY2020 (Provisional) as against debt maturity obligation of Rs.0.69 Crore for the year. The company's working capital operations are highly intensive, marked by Gross Current Asset (GCA) days of 632 days in FY2020 (Provisional). Further, the company is fully utilizing the working capital limit for the last 6 months ending June-2020. The company maintains unencumbered cash and bank balances of Rs.0.06 Crore as on 31 March 2020 (Provisional). The current ratio stands at 2.03 times as on 31 March 2020 (Provisional).

### About the Rated Entity - Key Financials

	Unit	FY20 (Provisional)	FY19 (Actual)
Operating Income	Rs. Cr.	8.72	24.40
PAT	Rs. Cr.	0.33	1.39
PAT Margin	(%)	3.78	5.69
Total Debt/Tangible Net Worth	Times	1.53	1.65
PBDIT/Interest	Times	1.81	2.43

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

BAPL's rating was flagged off as Issuer not cooperating with CRISIL, through its rating rationale dated January 14, 2020. The reason provided by CRISIL is non-furnishing of information by BAPL.

**Any other information**

Not Applicable

**Applicable Criteria**

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

**Note on complexity levels of the rated instrument**

<https://www.acuite.in/view-rating-criteria-55.htm>

**Rating History (Up to last three years)**

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
July 25, 2019	Cash Credit	Long Term	8.00	ACUITE BB (Indicative)
	Bank Guarantee/Letter of Guarantee	Short Term	10.00	ACUITE A4+ (Indicative)
June 01, 2018	Cash Credit	Long Term	8.00	ACUITE BB/Stable (Assigned)
	Bank Guarantee/Letter of Guarantee	Short Term	10.00	ACUITE A4+ (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	8.00	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)
Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4 (Downgraded from ACUITE A4+)
Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.85	ACUITE A4 (Downgraded from ACUITE A4+)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.15	ACUITE BB-/Stable (Downgraded from ACUITE BB/Stable)

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### About Acuité Ratings & Research:

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