

Press Release

Ridhi Enterprises

August 14, 2019



Rating Reaffirmed

Total Bank Facilities Rated*	Rs. 22.00 Cr. (Enhanced from Rs. 12.00 Cr.)
Long Term Rating	ACUITE BB- / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs. 22.00 crore bank facilities of RIDHI ENTERPRISES. The outlook is '**Stable**'.

Mumbai-based, Ridhi Enterprises (RE) was established as a proprietorship firm in 1997 but later changed its constitution to partnership firm in 2015. The firm is promoted by Mr. Haresh Kumar Shah and Mr. Bhumiit Haresh Shah. RE is a registered Class A - Category I contractor with Municipal Corporation of Greater Mumbai (MCGM). RE executes civil contracts such as storm water drain, sewerage operations, road repairs, school and government building repairs.

Analytical Approach

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

Key Rating Drivers

Strengths

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

RE was established in 1997 as a proprietorship firm, which later got converted into partnership firm in 2015. Thus, the firm has an operational track record of over two decades in infrastructural construction industry. The partners of the firm have an experience of over two decades in the aforementioned line of business. The long track record of operations and experience of management have helped the firm maintain healthy order book position of Rs. 40.29 crore, thereby giving a revenue visibility for near to medium term. Acuité believes that RE will sustain its existing business profile on the back of established track record of operations and experienced management.

- **Average financial risk profile**

The financial risk profile of the firm stood average marked by average net worth, debt protection metrics and coverage indicators. The net worth of RE stood at Rs. 21.96 crore (includes quasi equity of Rs. 14.86 crore) as on 31 March, 2019 (Provisional) as against Rs. 18.95 crore (includes Rs. 13.25 crore of quasi equity) as on 31 March, 2018. The gearing (debt-equity) stood at 0.02 times as on 31 March, 2019 (Provisional) as against 0.04 times as on 31 March, 2018. The total debt of Rs. 0.54 crore as on 31 March, 2019 (Provisional) is working capital borrowings. The coverage indicators stood average marked by Interest Coverage Ratio (ICR), which stood at 2.08 times for FY2019 (Provisional) as against 1.93 times for FY2018. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 2.98 times in FY2019 (Provisional) and 1.87 times in FY2018. Debt to EBITDA stood at 0.17 times in FY2019 (Provisional) as against 0.26 times in FY2018. Acuité believes that the financial risk profile of the firm is expected to remain average backed by average net cash accruals and in absence of any major debt funded capex in near to medium term.

Weaknesses

- **Modest scale of operations**

The operating income of the firm has grown at a CAGR of 23 per cent for the period FY2015-FY2019 (Provisional). The revenues increased to Rs. 37.21 crore in FY2019 (Provisional) from Rs. 24.54 crore in FY2018 and Rs. 10.93 crore in FY2017. This is mainly on account of increased tender allocation from

government. RE has unexecuted order book position of Rs. 40.29 crore to be executed by FY2021 providing 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. Hence, any adverse movement in input costs can impact the profitability. EBITDA margin stood at 7.35 per cent for FY2019 (Provisional) as against 9.39 per cent in the previous year.

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

RE does civil construction work for MCGM which indicates that the firm's revenues are highly dependent on number and value of tenders floated by the 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 RE has established relations with the State Government departments, which resulted in timely realisations and winning of tenders at regular intervals.

Liquidity Position

RE has adequate liquidity marked by adequate net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs. 1.61 crore for FY2019 (Provisional) against no maturing debt obligations for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs. 2.00 crore to Rs. 3.00 crore during 2020-22 against no repayment obligation. The firm has working capital intensive operations as marked by high GCA days of 222 days for FY2019 (Provisional). The firm maintains unencumbered cash and bank balances of Rs. 0.09 crore as on March 31, 2019 (Provisional). The current ratio stood at 17.84 times as on March 31, 2019 (Provisional). Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash accruals to its maturing debt obligation.

Outlook: Stable

Acuité believes that the firm will maintain a 'Stable' outlook over the medium term on the back of its established track record of operations, experienced management and healthy order book position. The outlook may be revised to 'Positive' in case the firm registers higher- than-expected growth in its revenues and profitability while maintaining its liquidity position. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or in case of deterioration in the firm's financial risk profile or significant elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	37.21	24.54	10.93
EBITDA	Rs. Cr.	2.74	2.30	1.60
PAT	Rs. Cr.	1.56	1.21	0.70
EBITDA Margin	(%)	7.35	9.39	14.67
PAT Margin	(%)	4.18	4.93	6.38
ROCE	(%)	14.44	14.21	14.05
Total Debt/Tangible Net Worth	Times	0.02	0.04	0.01
PBDIT/Interest	Times	2.08	1.93	1.48
Total Debt/PBDIT	Times	0.17	0.26	0.08
Gross Current Assets (Days)	Days	222	390	592

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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-Jul-2018	Proposed Cash Credit	Long Term	0.50	ACUITE BB- / Stable (Assigned)
	Cash Credit	Long Term	0.50	ACUITE BB- / Stable (Assigned)
	Bank Guarantee	Short Term	8.00	ACUITE A4+ (Assigned)
	Proposed Bank Guarantee	Short Term	3.00	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	0.50	ACUITE BB- / Stable (Reaffirmed)
Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	0.50	ACUITE BB- / Stable (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A4+ (Reaffirmed)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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