

Press Release

Reliable Enterprises

October 23, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 8.00 Cr.
Long Term Rating	ACUITE B- / Outlook: Stable
Short Term Rating	ACUITE A4

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE B-**' (read as **ACUITE B minus**) and short term rating of '**ACUITE A4**' (read as **ACUITE A four**) to the Rs. 8.00 crore bank facilities of Reliable Enterprises (Reliable). The outlook is '**Stable**'.

Incorporated in 1999, Reliable Enterprises (Reliable) is a partnership firm engaged in civil construction business. It is operated by its Partners, Mr. Tarun Shah and Mr. Jaineet Shah. The firm majorly caters to Municipal Corporation of Greater Mumbai (MCGM) and Indian railways. It has an unexecuted order book of Rs.9.98 crore.

Analytical Approach

Acuite has considered standalone business and financial risk profile of RE to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

The firm has been in the civil construction business for more than a decade. The established track record of operations has helped maintain long standing relations with customers and suppliers, thus, ensuring regular flow of orders, though modest. The day to day operations are managed by its Managing Partner, Mr. Tarun Shah.

- **Steady growth in scale of operations**

The scale of operations are modest with operating income of Rs.11.92 crore in FY2018 (Provisional), though significant improvement from Rs.4.22 crore in FY2017. The firm has an unexecuted order book position of Rs.9.98 crore as on September 2018, and the same is expected to be executed by FY2019 which gives moderate revenue visibility in the near term.

Weaknesses

- **Working capital intensive operations**

The operations are working capital intensive since the firm is into construction activity. This is evident from the high Gross Current Assets (GCA) of 207 days in FY2018 (Provisional) as against 764 days in FY2017; though the year end receivable position is low at 5 days in FY2018 (provisional) and about 57 days in FY2017, the average realisation period is more than 60 days. High GCA is attributed to high amount of other current assets including retention money, statutory deposits, unbilled revenue among others. This lead to high utilisation of bank lines. Acuite believes that with meagre amount of cash accruals of below Rs.0.10 crore historically, and with increasing scale of revenues, the operations continue to be working capital intensive over the medium term.

- **Weak financial risk profile**

Reliable's financial risk profile is weak marked by low net worth and weak debt protection metrics. Its net worth is modest at Rs.3.35 crore as on 31 March, 2018 (Provisional) as against Rs.3.51 crore as on 31 March, 2017. It includes quasi equity of Rs.2.20 crore. Further, the debt protection metrics are weak as Interest Coverage Ratio (ICR) and net cash accruals to total debt (NCA/TD) stood at 1.09 and 0.02 times for FY2018 (Provisional) as against 1.19 and 0.02 times respectively for FY2017.

• Competitive and fragmented industry

The firm is engaged as civil contractor. The particular sector is marked by the presence of several mid to big size players. The firm faces intense competition from the other players in the sector is majorly driven by tender based nature of business. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent as the management has been operating in this industry for a decade.

Outlook: Stable

Acuite believes that Reliable will maintain a 'Stable' outlook over the medium term from the industry experience of its partners. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in Reliable's operating income or profitability. Conversely, the outlook may be revised to 'Negative' in case of any further stretch in its working capital management leading to further deterioration of its financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	11.92	4.22	3.95
EBITDA	Rs. Cr.	0.75	0.85	0.58
PAT	Rs. Cr.	0.03	0.09	0.08
EBITDA Margin	(%)	6.26	20.22	14.57
PAT Margin	(%)	0.25	2.21	1.99
ROCE	(%)	10.58	13.50	13.82
Total Debt/Tangible Net Worth	Times	0.91	1.53	1.59
PBDIT/Interest	Times	1.09	1.19	1.20
Total Debt/PBDIT	Times	3.62	5.54	4.77
Gross Current Assets (Days)	Days	207	764	481

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

None

Any other information

Not Applicable

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)

Not Applicable

*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	2.00	ACUITE B- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B- / Stable

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About Acuite Ratings & Research:

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