

Press Release

Reliable Enterprises

January 06, 2020



Rating Reaffirmed

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

Acuité has reaffirmed the 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 (RE). 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.15.71 crore and it is expected to receive order worth Rs.14.78 crore.

Analytical Approach

Acuité has considered the standalone financial and business 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 who has an experience of over a decade in civil construction business.

Acuité believes that RE will continue to benefit from its experienced management and established relationships with customers and suppliers.

Weaknesses

- **Decline in scale of operations:**

The firm reported decline in revenue by ~51.56 percent with operating income of Rs.8.21 crore in FY2019 as against operating income of Rs.16.95 crore in FY2018. However, the operating margins of the firm increased to 6.51 percent in FY2019 from 4.41 percent in FY2018.

Acuité believes that the scale of operations of the firm is expected to improve at the back of moderate order book.

- **Intensive working capital management:**

The working capital of RE is intensive in nature marked by high Gross Current Asset (GCA) days of 285 for FY2019 as against 154 in the previous year. This is on account of increased in debtor days which stood at 44 for FY2019 as against 4 for FY2018, further inventory days stood nil in FY2019 and FY2018. Further, current assets stood at Rs.5.20 crore in FY2019 as against Rs.6.91 crore in FY2018. However, the reliance on working capital facility is moderate, its utilization is around ~75 percent on an average for last 6 months ending November, 2019. Going ahead, the ability of the firm to efficiently manage its working capital requirements will remain the key rating sensitivity.

• **Average financial risk profile:**

The financial risk profile is average marked by modest net worth and moderate debt protection measures and gearing. The net worth of the firm is modest at Rs.3.47 crore as on 31 March 2019 as against Rs.3.38 crore as on 31 March 2018. The gearing (debt to equity) of the firm stood at 0.83 times as on March 31 2019 as against 0.91 times as on March 31 2018. Total debt of Rs.2.89 crore consists of unsecured loans of Rs.1.97 crore and working capital facility of Rs.0.92 crore as on 31 March 2019. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood moderate at 1.16 times as on 31 March 2019 as against 1.58 times as on 31 March 2018. Interest Coverage Ratio (ICR) stood at 1.14 times in FY2019 as against 1.08 times in FY2018. Net Cash Accruals/ Total Debt (NCA/TD) stood at 0.03 times as on 31 March 2019 as against 0.02 times as on 31 March 2018. Debt Service Coverage Ratio (DSCR) stood at 1.14 times in FY2019 as against 1.08 times in FY2018.

Acuité believes that the financial risk profile of PCPL will continue to remain moderate over the medium term on account of its improving scale of operations and net cash accruals.

• **Tender based business**

Major business is bagged through open tenders. Hence, the revenue earned is directly dependent upon the quantum of contracts bagged and executed during the year. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. The firm has to do tendering on competitive prices; this may affect the profitability of the company. This has resulted in fluctuating operating profit margins.

Rating Sensitivity

- Deterioration in scale of operations along with profitability margins.

Material Covenants

None.

Liquidity Position: Adequate

RE has adequate liquidity marked by net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.0.07 crore in FY2019 as against Rs.0.07 crore in FY2018 and Rs.0.13 crore in FY2017, while its maturing debt obligation was nil for the same period. The firm's working capital operations are intensive as marked by high gross current asset (GCA) days of 285 in FY2019. Further, the reliance on working capital borrowings is moderate, the cash credit limit in the firm remains utilized at ~75 percent during the last 6 months' period ended November, 2019. The firm maintains unencumbered cash and bank balances of Rs.0.22 crore as on March 31, 2019. The current ratio of the firm stands at 3.54 times as on March 31, 2019.

Outlook: Stable

Acuité believes that RE will maintain a 'Stable' outlook over the medium term from the industry experience of its promoters. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in RE's operating income or profitability, while maintaining its working capital cycle. Conversely, the outlook may be revised to 'Negative' in case of weakening of its capital structure and debt protection metrics.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	8.21	16.95
PAT	Rs. Cr.	0.04	0.03
PAT Margin	(%)	0.48	0.17
Total Debt/Tangible Net Worth	Times	0.83	0.91
PBDIT/Interest	Times	1.14	1.08

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

None.

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-51.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
23-Oct-2018	Cash Credit	Long Term	2.00	ACUITE B-/Stable (Assigned)
	Bank Guarantee	Short Term	4.00	ACUITE A4 (Assigned)
	Proposed Bank Facility	Long Term	2.00	ACUITE B-/Stable (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	2.00	ACUITE B-/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE B-/Stable (Reaffirmed)

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About Acuité Ratings & Research:

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