

Press Release

R C Patel

November 14, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 18.00 Cr.
Long Term Rating	ACUITE BB / Outlook: Stable
Short Term Rating	ACUITE A4+

* Refer Annexure for details

Rating Rationale

Acuite has assigned long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs.18.00 crore bank facilities of R C Patel. The outlook is '**Stable**'.

The Gujarat based, R C Patel (RCP) was established as a partnership firm in 1979 by Mr. Rameshbhai Patel, Mr. Somabhai Patel, Mr. Rahul Patel (and Mr. Mehu IPatel. The firm undertakes civil construction contracts for Roads and Buildings Department (Government of Gujarat), Ministry of Road Transport & Highway and Central Railway to construct of roads and bridges.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of RCP to arrive at this rating.

Key Rating Drivers

Strengths

- Established track record of operations and experienced management**

RCP was established in 1979, thus, having a track record of over four decades in the civil construction industry. The partners, Mr. Rameshbhai Patel and Mr. Somabhai Patel have around four decades of experience in the same line of business. Further, Mr. Rahul Patel and Mr. Mehu Patel have experience of over a decade in the aforementioned industry. Hence, long track record of operations and vast experience of management has helped the firm to efficiently bid for the projects. Acuite believes that RCP will sustain its existing business profile on the back of established track record of operations and experienced management.

- Comfortable financial risk profile**

The financial risk profile is comfortable marked by tangible networth of Rs. 11.43 crore (including quasi equity of Rs. 3.29 crore) as on 31 March 2018 as against Rs. 9.07 crore in the previous year. The gearing (debt-equity) stood at 0.68 times on 31 March 2018 as against 0.81 times in the previous year. The total debt of Rs. 7.77 crores as on 31 March, 2018 mainly comprises of Rs. 6.69 crore of working capital facility and Rs. 1.08 crore of term loan. The interest coverage ratio (ICR) stood at 3.22 times for FY2018 as against 2.87 times for FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 1.94 times as on 31 March, 2018 as against 2.08 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.36 times in FY2018 compared to 0.31 times in FY2017.

- Modest order book position**

The firm has unexecuted order book position of Rs. 163.00 crore as on September, 2018. The same is to be executed by March 2020, thereby providing revenue visibility over the medium term.

Weaknesses

• Uneven revenue trend due to tender based operations

The revenues of RCP have remained uneven in the past. RCP has registered operating income of Rs. 46.38 crore in FY2017 as against Rs. 54.38 crore in FY2016. Further, the firm has achieved revenues of Rs. 58.03 crore in FY2018. Since RCP is highly dependent on the tender-based business which makes the revenue vulnerable.

• High dependence on government orders, mitigated by liaisoning with government authorities

RCP does civil construction work mainly for Roads and Buildings Department (Government of Gujarat), Ministry of Road Transport & Highway and Central Railway. This 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 RCP has established relations which resulted in timely realizations and winning of tenders at regular intervals.

• Susceptibility of margins to volatility in raw material prices

The firm's margins are susceptible to volatility in raw material prices. The key raw materials required are bitumen, cement, and steel, to name a few. Adverse changes in prices may affect the profitability of the firm. However, the firm reported EBITDA margin of 5.93 percent in FY2018 as against 6.36 percent in the previous year. PAT margin stood at 3.35 percent in FY2018 as against 3.02 percent in FY2017.

Outlook: Stable

Acuite believes that the outlook on RCP will remain 'Stable' over the medium term on account of its promoter's extensive experience and established operational track record. The outlook may be revised to 'Positive' in case of significant growth in revenue and profitability while effectively managing its liquidity position. Conversely, the outlook may be revised to 'Negative' in case of decline in net cash accruals or deterioration in the financial and liquidity profile due to higher than envisaged working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	58.03	46.38	54.38
EBITDA	Rs. Cr.	3.44	2.95	2.74
PAT	Rs. Cr.	1.95	1.40	1.41
EBITDA Margin	(%)	5.93	6.36	5.03
PAT Margin	(%)	3.35	3.02	2.60
ROCE	(%)	18.06	16.43	31.18
Total Debt/Tangible Net Worth	Times	0.68	0.81	1.14
PBDIT/Interest	Times	3.22	2.87	3.21
Total Debt/PBDIT	Times	1.91	2.07	2.54
Gross Current Assets (Days)	Days	105	85	68

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

CARE, vide its press release dated September 04, 2017 had denoted the rating of R.C.PATEL as 'CARE BB/A4; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings.

Any other information

None

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	7.00	ACUITE BB / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	11.00	ACUITE A4+

Contacts

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About Acuité Ratings & Research:

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