

Press Release

Gulshan Rai Jain (II)

January 16, 2019



Rating Assigned

Total Bank Facilities Rated*	Rs.74.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuité has assigned long-term rating of '**ACUITE BBB-**' (**read as ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (**read as ACUITE A three**) to the Rs.74.00 crore bank facilities of GULSHAN RAI JAIN (II). The outlook is '**Stable**'.

The Madhya Pradesh-based Gulshan Rai Jain II (GRJ) is a partnership firm established in 2008 by Mr. Naveen Jain and Mrs. Niti Jain. The firm is engaged mainly in providing civil constructions work such as construction of building structures, railway quarters, among others for various government authorities.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the GRJ to arrive at the rating.

Key Rating Drivers

Strengths

- **Experience management and long association with government agencies**

The partner, Mr. Naveen Jain has more than 2 decades of experience in the civil construction industry through other entities. With the promoter's extensive industry experience and timely execution of projects, the firm has been able to establish long-standing relationship with various government entities.

GRJ has successfully executed various civil construction projects for various Municipal departments. All these departments, being a government entity, counter-party default risk remains minimal. Although, risk associated with delayed payment exist but due to good liaisoning and promoter's extensive experience, GRJ has managed to collect payments within 45-60 days from work certification.

- **Healthy order book position**

GRJ registered an operating income of Rs.162.97 crore in FY2018 as against Rs.104.92 crore in FY2017. Moreover, the firm has an unexecuted order book position of Rs.613.62 crore as on 30 November 2018 mainly from Bhopal Municipal Corporation, Shivpuri Municipal Council and few others giving the revenue visibility over the medium term.

- **Healthy financial risk profile**

GRJ has healthy risk profile marked by tangible net worth of Rs.30.58 crore as on 31 March, 2018 as against Rs. 20.63 crore in the previous year. The improvement in net worth is due to retention of profits in business and unsecured loans by partners which are treated as part of networth as the same is subordinated to the debt. The gearing stood at 1.71 times in FY2018 as against 1.23 times in FY2017. The debt of Rs.52.25 crore consists of term loan of Rs.28.41 crore, working capital borrowings of Rs.23.84 crore as on 31 March, 2018. Total outside Liabilities/Tangible net worth (TOL/TNW) stood at 2.35 times in FY2018. The comfortable debt coverage metrics are marked by interest coverage ratio (ICR) and DSCR of 2.70 times.

The term loan of Rs. 19.84 crore was taken for purchase of land of Rs.29.70 crore and remaining was funded by unsecured loans by partners. The usage of land for any other purposes other than core business activity will be key rating sensitivity.

Weaknesses

• Fluctuating profitability margins

GRJ's operating margin declined to 8.78 percent in FY2018 from 10.27 percent in FY2017. The decline in the margins was mainly on account of increase in the labour and material costs. The raw material procured by the firm includes iron, steel and cement, the prices of which are highly volatile in nature. The PAT margin also declined to 4.65 percent as against 5.66 percent in FY2017 mainly on account of increase in the interest cost.

• Competitive industry and tender driven business

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 sectors. 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 environment for last 25 years.

Outlook: Stable

Acuité believes that GRJ's will maintain a stable outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm registers higher than expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than expected growth in revenues and profitability or if the financial risk profile deteriorates due to higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	162.97	104.92	79.68
EBITDA	Rs. Cr.	14.30	10.77	5.95
PAT	Rs. Cr.	7.58	5.94	4.32
EBITDA Margin	(%)	8.78	10.27	7.47
PAT Margin	(%)	4.65	5.66	5.42
ROCE	(%)	20.22	30.86	58.18
Total Debt/Tangible Net Worth	Times	1.71	1.23	1.06
PBDIT/Interest	Times	2.70	2.64	4.31
Total Debt/PBDIT	Times	3.55	2.28	1.65
Gross Current Assets (Days)	Days	104	112	66

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

CRISIL has been consistently following up with Gulshan Rai Jain II (GRJ) for obtaining information through letters and emails dated April 23, 2018, and May 8, 2018, among others, apart from telephonic communication. However, the issuer has remained non cooperative.

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	26.50	ACUITE BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	47.50	ACUITE A3

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About Acuité Ratings & Research:

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