

Press Release

Babul Nath

December 01, 2021

Rating Upgraded



Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	55.00	55.00		ACUITE A2 Upgraded
Bank Loan Ratings	15.00	15.00	ACUITE BBB+ Stable Upgraded	
Total	70.00	70.00	-	-

* Refer Annexure for details

Rating Rationale

Acuite has upgraded the long term rating to **'ACUITE BBB+' (read as ACUITE triple B plus)** from **'ACUITE BBB' (read as ACUITE triple B)** and the short term rating to **'ACUITE A2' (read as ACUITE A two)** from **'ACUITE A3+' (read as ACUITE A three plus)** on the Rs 70.00 Cr bank facilities of Babul Nath (BN). The outlook remains 'Stable'.

The rating upgrade on BN is driven by company's improved business risk profile marked by outgrowth in the expected revenue and further improvement in the order book position in hand. The rating upgrade also factors in the improved liquidity position driven by healthy cash accruals.

Further, the rating draws comfort from the long track record of operations, experienced promoters and comfortable financial risk profile of the company marked by improved net worth, comfortable gearing and robust debt protection indicators. These strengths are however, partly offset by the working capital intensity in group's operations and geographical concentration in the work orders.

About the firm

Established in 1996, the proprietorship firm Babul Nath is a registered Class IA contractor with Public Works Department (PWD), PWD (Buildings), Water Resources Department and Irrigation Department of the Government of Assam. The firm also executes tenders from Northeast Frontier Railway (NFR). The firm is managed by its proprietor Mr. Babul Nath, who is actively involved in its day to day operations of the firm.

About the Group

BN Infraprojects LLP was incorporated in the year 2017 to undertake civil construction works. Mr. Babul Nath and his wife Mrs. Sharmistha Nath are the partners in the firm. Initially this firm used to execute orders received as sub contract from M/s Babul Nath to build credentials to bid for new orders. From the current year, the company has started receiving independent tenders and is involved in sub-contracting too.

Analytical Approach

Acuite has revised its analytical approach and has considered the consolidated business and financial risk profiles of Babul Nath (BN) and B N Infraprojects LLP (BNILLP). The consolidation is in view of common management, operational linkages between the entities and similar line of business. Extent of consolidation: Full.

Key Rating Drivers

Strengths

Experienced promoter and long track record of operations

Established in 1996, BN has a long track record of over two decades in the civil construction business with an established track record of project execution related to building and bridges. The proprietor, Mr. Babul Nath has a long-standing experience in the same line of business. Acuité believes that the group shall continue to benefit from the extensive industry experience of its management over the medium term.

Significant improvement in the scale of operations

The group's revenues improved to Rs.312.87 Cr in FY 2021 (prov.) as compared to Rs.177.04 Cr in FY20, registering a y-o-y growth of around 77 per cent in FY21. Further, the group has booked revenue of nearly 112 Cr till Sept'21 (prov.). The group's revenue improved in FY 2021 due to increase in order execution and increased Govt. focus in the infrastructure sector in north eastern regions of the country. In addition, the group has a strong unexecuted order book position to the tune of Rs.830 Cr as on 31st October, 2021, which will be executed in 24-30 months, thus providing revenue visibility over the medium term.

Comfortable financial risk profile

The group's comfortable financial risk profile is marked by moderate net worth, comfortable gearing and robust debt protection metrics. The net worth of the group improved to Rs.70.54 Cr as on 31 March, 2021 (prov.) as against Rs.49.72 Cr as on 31st March, 2020 due to accretion of reserves. The gearing stood below unity at 0.38 times in FY2021 (prov.) as against 0.43 times in FY2020. Further, robust debt protection metrics are marked by the interest coverage ratio (ICR) at 14.19 times and DSCR at 5.83 times in FY21 (prov.). The NCA/TD stood at 1.28 times in FY2021 (prov.). Acuité believes that the financial risk profile of the group will be sustained in the absence of any major debt funded capex plans over the medium term.

Weaknesses

Working capital intensive nature of operations

The working capital operations of the group is intensive marked by GCA (Gross Current Assets) Days of 191 days in FY 2021 (prov.) as compared to 205 days in the previous period. High GCA days are on account of the nature of the industry marked by high amount of retention deposits. The inventory days, however, stood comfortable at 8 days in FY 2021 (prov.) as compared to 11 days in FY20. The debtor days stood at 76 days in FY 2021 (prov.) as compared to 73 days in FY 2020. The working capital operations are expected to remain at similar levels over the medium term due to the high retention deposits with contractees.

Geographical concentration

The group, since inception has worked in Assam and majority of their unexecuted work orders are also in Assam, thus reflecting on high geographical concentration. However, BN has a few on-going orders in Bihar, Tripura, Nagaland and West Bengal and the management plans to continue bidding for projects in these regions, which partly mitigates the geographical concentration risk.

Liquidity Position: Adequate

The group has an adequate liquidity position marked by high net cash accruals of Rs.34.28 Cr as against long term debt obligations of Rs.3.68 Cr every year during the same period. The group has unencumbered cash and bank balances of around Rs.26 Cr as on March 31, 2021 (Provisional). The current ratio stood comfortable at 1.46 times as on March 31, 2020 (Provisional) as compared to 1.42 time in FY20. The working capital limits remained utilized at 83 percent for six months ended October, 2021. However, Babul Nath availed a Covid loan of Rs.3.75 Cr and a loan moratorium. Acuité believes that the liquidity of the company will improve further over the medium term due to steady net cash accruals.

Rating Sensitivities

- Sustained growth in revenue
- Elongation in working capital

Material covenants

None

Outlook: Stable

Acuité believes that Babul Nath will maintain 'Stable' outlook over the medium term due to its promoter's long experience in the civil construction business with an established record of operations, strong order book and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers higher than expected growth in revenues while improving its profitability margins. Conversely, the outlook may be revised to 'Negative' in case of a decline in the revenues or profit margins, or elongation in the working capital cycle.

About the Rated Entity - Key Financials (Standalone)

	Unit	FY21 (Prov.)	FY20 (Actual)
Operating Income	Rs. Cr.	302.24	166.61
PAT	Rs. Cr.	29.48	16.34
PAT Margin	(%)	9.75	9.80
Total Debt/Tangible Net Worth	Times	0.32	0.47
PBDIT/Interest	Times	13.85	6.62

About the Rated Entity - (Consolidated)

Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	312.87	177.04
PAT	Rs. Cr.	30.85	17.37
PAT Margin	(%)	9.86	9.81
Total Debt/Tangible Net Worth	Times	0.38	0.43
PBDIT/Interest	Times	14.19	7.11

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

Brickwork Ratings, vide its press release dated July 29, 2021 had denoted the rating of Babul Nath 'BWR BB-/A4; ISSUER NOT COOPERATING'.

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>
- Consolidation Of Companies: <https://www.acuite.in/view-rating-criteria-60.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
12 Oct 2020	Cash Credit	Long Term	10.00	ACUITE BBB Stable (Assigned)
	Proposed Cash Credit	Long Term	5.00	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A3+ (Assigned)
	Proposed Bank Guarantee	Short Term	40.00	ACUITE A3+ (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	15.00	15.00	ACUITE A2 Upgraded (from ACUITE A3+)
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	10.00	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	40.00	40.00	ACUITE A2 Upgraded (from ACUITE A3+)
Not Applicable	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	5.00	ACUITE BBB+ Stable Upgraded (from ACUITE BBB)

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About Acuité Ratings & Research

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