

## Press Release

Babul Nath

May 22, 2024

## Rating Assigned and Downgraded



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	5.00	ACUITE C   Assigned	-
Bank Loan Ratings	17.50	ACUITE C   Downgraded	-
Bank Loan Ratings	52.50	-	ACUITE A4   Downgraded
Total Outstanding Quantum (Rs. Cr)	75.00	-	-

## Rating Rationale

ACUITE has downgraded the long-term rating to '**ACUITE C**' (read as **ACUITE C**) from '**ACUITE BBB+**' (read as **ACUITE triple B plus**) and the short-term rating to '**ACUITE A4**' (read as **ACUITE A four**) from '**ACUITE A2**' (read as **ACUITE A two**) on the Rs.70.00 Cr. bank facilities of Babul Nath.

ACUITE has assigned the long-term rating of '**ACUITE C**' (read as **ACUITE C**) on the Rs.5.00 Cr. bank facilities of Babul Nath.

### Rationale for rating downgrade and assigned:

The rating takes cognizance of multiple delays in servicing debt obligations in BN Infraprojects LLP as understood from feedback received from lending institution and credit bureau information report. The rating action is based on the consolidated approach being followed and due to the inadequate in time funding support from Babul Nath to BN Infraprojects LLP for managing the liquidity challenges. However, Acuite could not corroborate whether Babul Nath has made any delays in servicing its debt repayment obligations.

### About the Company

Established in 1996, Babul Nath (BN) is a proprietorship firm and is a registered Class IA contractor. BN undertakes contracts for constructing roads and bridges for the Public Works Department (PWD), PWD (Buildings), Water Resources Department and Irrigation Department of the Government of Assam. The firm generally procures raw materials locally from the location of the project to be executed.

### About the Group

Established in 2017, BN Infraprojects LLP undertakes civil construction works. The firm is managed by Mr. Babul Nath and his wife Mrs. Sharmistha Nath. BNILLP initially used to execute orders received as sub contract from M/s Babul Nath to build credentials to bid for new orders. Currently, the firm has started receiving orders through tenders and is involved in subcontracting too. The firm also added and executes tenders from Northeast Frontier Railways (NFR) and Southern Railways.

### Unsupported Rating

Not applicable

## Analytical Approach

### Extent of Consolidation

- Full Consolidation

### Rationale for Consolidation or Parent / Group / Govt. Support

For arriving at this rating, Acuité has consolidated the business and financial risk profiles of Babul Nath (BN) and B N Infraprojects LLP (BNILLP) together referred to as 'Babul Nath Group' (BNG). The consolidation is in the view of common management, operational linkages between the entities and a similar line of business.

### Key Rating Drivers

#### Strengths

##### Experienced management and reputed clientele base

Babul Nath group is managed by the proprietor Mr. Babul Nath, who possesses an experience of around three decades in the construction industry. The proprietor's extensive experience has aided the group in securing and efficiently executing the work contracts. Moreover, the group has maintained continuous order flow from the reputed clientele base which includes, Public Works Department (PWD), Water Resources Department, Irrigation Department of the Government of Assam, North East Frontier Railways and Southern Railways. Acuité derives comfort from the experience of the proprietor and the group's association with the Government clientele.

##### Stable operating performance and healthy order book position:

The group has registered a marginal moderation revenue to Rs.459.55 Cr. in FY2023 as compared to Rs.472.76 Cr. in FY2022. Further, the group is estimated to register revenue in the range of Rs.455-460 Cr. in FY2024 due to its moderate order book position during the year. BN Infra projects LLP's revenue has grown by 82 percent in FY23 however, it was constrained by decline in revenue of Babul Nath which subsequently led to moderation in consolidated revenue for FY23. Going forward, the revenue is expected to improve on the back of improved unexecuted order book position, which stood at Rs.1051.42 Cr. as on April, 2024.

The operating profit margin of the group marginally improved to 8.49 percent in FY2023 against 7.94 percent in FY2022. The improvement in profitability is due to timely reimbursement for the rise in prices of the raw materials from the government. However, PAT margin has declined marginally to 6.42 percent in FY2023 from 6.56 percent in FY2022 due to higher interest expense during the year. The operating profit margin is estimated to remain stable for FY2024 in the range of 8.5-8.7 percent.

##### Healthy financial risk profile:

The group's financial risk profile is healthy marked by healthy net worth, low gearing level and comfortable debt protection metrics. The net worth of the group has improved to Rs.93.11 Cr. as of March 31, 2023, from Rs.66.39 Cr. as of March 31, 2022, due to the accretion of profits to reserves for FY2023. The gearing remained healthy at 0.40 times as of March 31, 2023 against 0.23 times as of March 31, 2022. Marginal deterioration in gearing is due to increase in total debt to Rs.36.86 Cr. in FY2023 from Rs.15.23 Cr, which consists of long term debt of Rs.15.45 Cr. and short-term debt of Rs.21.41 Cr. Total outside Liabilities/Tangible Net Worth (TOL/TNW) remained at 2.77 times as of March 31, 2023 against 3.75 times as of March 31, 2022. Interest coverage ratio (ICR) and debt service coverage ratio (DSCR) stood comfortable at 10.61 times and 4.40 times respectively, as of March 31, 2023 against 13.90 times and 4.32 times respectively, as of March 31, 2022. Debt to EBITDA stood comfortable at 0.81 times as of March 31, 2023 although it marginally deteriorated from 0.36 times as of March 31, 2022 due to increase in total debt. Acuite believes that the financial risk profile of the group will remain healthy for FY2024 as well on account of improvement in net worth and low debt levels.

#### Weaknesses

##### Working capital intensive nature of operations

The working capital operation of the group is intensive marked by GCA (Gross Current Assets) Days of 235 days in FY2023 as compared to 207 days in FY2022. The high GCA days are on account of the high amount of other current assets due to the inherent nature of the industry. The other current assets include high retention deposits and advances to the tune of Rs.106.21 Cr. in FY2023 against Rs.85.27 Cr. in FY2022. The inventory days stood low at 34 days in FY2023 as compared to 11 days in FY2022. The debtor days remained comfortable at 71 days in FY2023 as well as in FY2022. The group's reliance on fund based working capital limits remained high at 88 percent in past 12 months ending March 2024. Acuite believes that, the working capital operations will remain at similar levels over the medium term due to presence of the high retention money.

### **Risk of capital withdrawal**

Acuité notes that the group has been withdrawing capital from their business regularly in the past three years till FY2023. Any significant withdrawal of capital leading to moderation in the financial risk profile can lead to a negative bias to the rating.

### **Rating Sensitivities**

- Improvement in the scale of operations, Sustenance of capital structure
- Elongation in working capital cycle
- Timely servicing of debt obligations.

### **Liquidity Position: Stretched**

The liquidity position of the group is stretched as there have been multiple instances of delays in servicing term loans in the recent past.

### **Outlook: Not applicable**

### **Other Factors affecting Rating**

None

## Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	459.55	472.76
PAT	Rs. Cr.	29.52	31.02
PAT Margin	(%)	6.42	6.56
Total Debt/Tangible Net Worth	Times	0.40	0.23
PBDIT/Interest	Times	10.61	13.90

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

Not applicable

### Any Other Information

None

### Applicable Criteria

- 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>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>

### Note on Complexity Levels of the Rated Instrument

In order to inform the investors about complexity of instruments, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on [www.acuite.in](http://www.acuite.in).

## Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
24 Feb 2023	Bank Guarantee (BLR)	Short Term	15.00	ACUITE A2 (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	20.00	ACUITE A2 (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB+   Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB+   Stable (Reaffirmed)
	Proposed Bank Guarantee	Short Term	17.00	ACUITE A2 (Reaffirmed)
	Term Loan	Long Term	3.00	ACUITE BBB+   Stable (Reaffirmed)
01 Dec 2021	Bank Guarantee (BLR)	Short Term	15.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Cash Credit	Long Term	10.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)
	Proposed Bank Guarantee	Short Term	40.00	ACUITE A2 (Upgraded from ACUITE A3+)
	Proposed Cash Credit	Long Term	5.00	ACUITE BBB+   Stable (Upgraded from ACUITE BBB   Stable)

## Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	32.50	ACUITE A4   Downgraded ( from ACUITE A2 )
ICICI Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	20.00	ACUITE A4   Downgraded ( from ACUITE A2 )
Not Applicable	Not avl. / Not appl.	Proposed Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	0.50	ACUITE C   Downgraded ( from ACUITE BBB+ )
ICICI Bank Ltd	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE C   Downgraded ( from ACUITE BBB+ )
Punjab National Bank	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	10.00	ACUITE C   Downgraded ( from ACUITE BBB+ )
Punjab National Bank	Not avl. / Not appl.	Secured Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE C   Assigned
Punjab National Bank	Not avl. / Not appl.	Term Loan	Not avl. / Not appl.	Not avl. / Not appl.	30 Jun 2025	Simple	2.00	ACUITE C   Downgraded ( from ACUITE BBB+ )

**\*Annexure 2 - List of Entities (applicable for Consolidation or Parent / Group / Govt. Support)**

1. Babul Nath
2. BN InfraProject LLP

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### About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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