

Press Release

R B Construction Company

February 10, 2021



Rating Assigned

Total Bank Facilities Rated*	Rs.48.00 Cr.
Long Term Rating	ACUITE BB+/Stable (Assigned)
Short Term Rating	ACUITE A4+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has assigned the long term rating of '**ACUITE BB+**' (**read as ACUITE double B plus**) and short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) on the Rs.48.00 crore bank facilities of R B Construction Company (RBC). The outlook is '**Stable**'.

About the Company

Established in 1978, R B Construction Company (RBC) is a partnership firm from Ahmedabad, Gujarat. It is engaged in infrastructure business in which firm undertakes sewage and drainage projects, sets up water treatment plants and bridges, and lays pipelines. The day to day operations are managed by its partners, Mr. Milind R Bodiwala, Mr. Pranav R Bodiwala, Mrs. Renuka R Bodiwala and Mr. Rohit G Bodiwala. It undertakes projects for entities like Bhavnagar Municipal Corporation, Gujarat Water Supply and Sewage Board and Sardar Sarovar Narmada Nigam Limited.

Analytical Approach

Acuité has considered the standalone financial and business risk profile of RBCC to arrive at the rating.

Key Rating Drivers

Strengths

- **Long track records of operations and experienced management**

RBC commenced operations from 1978. The firm is promoted by its partners, Mr. Milind R Bodiwala, Mr. Pranav R Bodiwala, Ms. Renuka R Bodiwala and Mr. Rohit G Bodiwala who possess experience of more than four decades in infrastructures industry. Before establishing this firm, Mr. Rohit Bodiwala has had extensive experience in infrastructure industry. He has completed his masters from US and worked in countries like US, Indonesia and Malaysia. He has also been a consultant for Government of Gujarat for structural works. Mr. Milind R Bodiwala and Mr. Pranav R Bodiwala have also completed their masters in civil engineering from US and started handling various activities of the firm. The extensive experience has enabled the firm to forge healthy relationships with customers and suppliers.

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

- **Improving scale of operations**

The revenue of the firm has improved in FY2020 marked by operating income of Rs.35.15 crore in FY2020 from Rs.29.77 crore in FY2019 and Rs.26.50 crore in FY2018. This is backed by increase in number of orders that the firm has received year-on-year. Despite COVID19, firm was able to register revenues of around Rs.14.98 crore for the period April to December, 2020 and it is expected to be around Rs.35.00 crore as on 31 March, 2021. However, the operating profitability stood at 5.93 percent in FY2020 as against 6.74 per cent in FY2019. Further, the net profitability stood at 4.81 percent in FY2020 as against 4.91 per cent in FY2019.

Acuité believes that scale of operations will improve in near medium term at the back of healthy order book of around Rs.128.72 crore as on date out of which Rs.107.95 crore is expected to be executed by around FY2022-23.

- **Healthy financial risk profile**

The financial risk profile of the firm is healthy marked by healthy net worth, high debt protection measures and low gearing. The tangible net worth stood high at Rs.22.45 crore as on 31 March, 2020 as against Rs.20.11 crore as on 31 March, 2019. This includes quasi equity of Rs.3.60 crore as on 31 March, 2020 as against Rs.3.35 crore as on 31 March, 2019. The gearing stood low at 0.00 times as on 31 March, 2020 as against 0.01 times as on 31 March, 2019. The total debt of Rs.0.04 crore as on 31 March, 2020 which comprises of Rs.0.04 crore as short term borrowing. The interest coverage ratio stood high at 7.12 times in FY2020 as against 4.59 times in FY2019. Debt Service Coverage Ratio (DSCR) stood high at 5.06 times in FY2020 as against 3.38 times in FY2019. The total outside liabilities to tangible net worth (TOL/TNW) stood at 0.44 times as on 31 March, 2020 as against 0.51 times as on 31 March, 2019.

Acuité believes that financial risk profile will remain healthy in near medium at the back of no major capex been carried out by the firm in near future.

Weaknesses

- **Moderate working capital operations**

The working capital cycle of the firm is moderate in nature marked by Gross Current Asset (GCA) days of 143 days in FY2020 as against 179 days in FY2019. Further, the debtor days stood at 31 in FY2020 as against 1 in FY2019. Inventory days stood at 42 in FY2020 as against 34 in FY2019. The working capital bank limit is utilised around 40 per cent for the last six months ended January, 2021.

Acuité believes that working capital operations will remain moderate due to the infrastructure business nature of the firm.

- **Tender based business along with competitive and fragmented industry**

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.

Moreover, the infrastructure sector is marked by the presence of various mid to big size players. It might face 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 management operating in this industry for the last two decades.

Liquidity Position: Strong

RBC has strong liquidity marked by adequate net cash accruals to meet its maturing debt obligations. It has generated cash accruals of Rs.1.36 to 1.77 crore during the last three years through 2018-20, while its maturing debt obligations is nil for the same period. The firm's working capital operations are moderate as marked by Gross Current Asset (GCA) days of 143 in FY2020. Further, the reliance on working capital borrowings is low, the cash credit limit remains around 40 per cent utilized during the last six months period ended January, 2021. The firm maintains unencumbered cash and bank balances of Rs.3.12 crore as on March 31, 2020.

Acuité believes that the liquidity of the firm will remain strong in near medium term due to the improving scale of operations and no long term debt obligations.

Outlook: Stable

Acuité believes that RBC will maintain a 'Stable' outlook over the medium term from the industry experience of its partners. The outlook may be revised to 'Positive' if there is substantial and sustained improvement in RBC'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.

Rating Sensitivities

- Significant improvement in scale of operations along with profitability.
- Stretch in working capital cycle and deterioration in liquidity position.

Material Covenants

None

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Crore	35.15	29.77
Profit after tax (PAT)	Rs. Crore	1.69	1.46
PAT margin	%	4.81	4.91
Total debt / Tangible Net worth	Times	0.00	0.01
PBDIT / Interest	Times	7.12	4.59

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

CRISIL, vide its press release dated July 22, 2020 had denoted the rating of R B Construction Company as 'CRISIL BB/Stable/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/view-rating-criteria-52.htm>
- Infrastructure Entities- <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.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
FDOD	Not Available	Not Applicable	Not Applicable	9.00	ACUITE BB+/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	33.00	ACUITE A4+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BB+/Stable (Assigned)

*Inland LC/BG sublimit of CC of Rs.2.00 crore.

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About Acuité Ratings & Research:

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