

Press Release
Biraja Construction

July 06, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	45.00	-	ACUITE A3+ Assigned
Bank Loan Ratings	5.00	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	50.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB**' (read as ACUITE Triple B) and the short term rating of '**ACUITE A3+**' (read as ACUITE A Three plus) to Rs. 50.00 Cr bank facilities of Biraja Construction (BC). The outlook is '**Stable**'.

The rating factors in the sound business risk profile of the firm marked by modest scale of operations and improved profitability margins. The rating reflects the extensive experience of the promoters in the construction industry, healthy order pipeline and efficient working capital management. The financial risk profile have remained comfortable with gearing below unity and healthy debt coverage indicators due to lower reliance on external debt. The rating also derives comfort from the adequate liquidity position of the firm backed by unutilized lines of fund-based limits. These strengths are partially offset by exposure to risks related to intense competition, industrial cyclicalities and geographical concentration.

About the Company

Established in 2009, Biraja Construction is an Orissa based partnership firm, managed by Mr. Birendra Kumar Mohanty and Mr. Gopal Chandra Mohanty. It has successfully completed various projects under different departments of government like rural development, Bridges, National Highway, Railway, IDCO, PWD, Odisha Construction Corporation. BC receives majority of the contracts from the Government of Orissa and various municipal corporations in state of Orissa. The firm participates in tenders and executes orders for the various departments of Orissa which enables it to participate in higher value contracts.

Analytical Approach

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

Key Rating Drivers

Strengths

Experienced management and established relationship with customers

Mr. Birendra Kumar Mohanty is the leading promoter of the firm who is supported by the other partner Mr. Gopal Chandra Mohanty. The firm established in the year 2009 has successfully completed various projects under different departments of government like rural development, water resources, National Highway, Railway, IDCO, PWD, Odisha Construction Corporation. The long standing experience of the proprietor and long track record of operations has helped him to establish comfortable relationships with key suppliers and reputed customers. Acuité derives comfort from the long experience of the management and believes this will benefit the firm going forward, resulting in steady growth in the scale of operations.

Sound business risk profile supported by strong order book position

The operating revenue of the firm stood at Rs 142.21 crore in FY 2022 (Provisional) as compared to Rs 127.16 crore in FY 2021. Operating margin has been volatile over the past one year, on account of fluctuations in material expenses and labour costs. However, the profitability margins of the firm have improved sharply with operating margin of 8.77 per cent in FY2022 (Provisional) as compared to 4.63 per cent in the previous year. The PAT margins also increased to 5.87 per cent as on FY2022 (Provisional) as against 2.70 per cent as on FY2021. The RoCE levels for the company stood comfortable at 37.62 per cent in 2022 (Provisional) as against 18.94 per cent in FY2021. Though the firm's profitability is exposed to volatility in raw material, it has an in-built price escalation clause for major raw materials (such as steel, cement, fuel and bitumen) in most of its contracts.

The stability in revenue is backed by an unexecuted healthy order book position to the tune of about Rs. 448.93 Cr as on 31st May, 2022. The orders for infrastructure projects are primarily from Government organisations. All its projects are on the direct tendering basis. Acuité believes that the firm will continue to sustain its order book position and maintain its business risk profile over the medium term.

Above average financial risk profile

The firm's above average financial risk profile is marked by moderate albeit improving networth, comfortable gearing and strong debt protection metrics. The tangible net worth of the firm improved to Rs.32.62 Cr as on March 31, 2022 (Provisional) from Rs.22.50 Cr as on March 31, 2021 due to accretion to reserves. Gearing of the firm stood below unity at 0.11 times as on March 31, 2022 (Provisional) as against 0.54 times as on March 31, 2021 due to low dependence on external debt and repayment of the vehicle loans. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.77 times as on March 31, 2022 (Provisional). The strong debt protection metrics of the firm, supported by minimal debt is marked by Interest Coverage Ratio at 31.83 times as on March 31, 2022 (Provisional) and Debt Service Coverage Ratio at 2.77 times as on March 31, 2022 (Provisional). Net Cash Accruals/Total Debt (NCA/TD) stood at 2.93 times as on March 31, 2022 (Provisional).

Acuité believes that going forward the financial risk profile of the firm will remain above average with no major debt funded capex plans.

Weaknesses

Segmental and geographic concentration

Although the firm has a long-standing presence of about 13 years in the industry, its scale of operations remains moderate as reflected in its operating income at Rs 142.21 Cr for FY 2022 (Provisional). BC specialises in civil works related to construction of roads and buildings mainly for Government of Orissa and various municipal corporations in state of Orissa. The company faces competition from large players, as well as many local and small unorganised players, adversely affecting the profitability. Also, BC is a regional player, with 100 per cent of the works executed in and around Orissa.

Competitive and fragmented nature of industry

With increased focus of the central government on the infrastructure sector, BC is expected to reap benefits over the medium term. However, most of its projects are tender-based and face intense competition, which may hence require it to bid aggressively to get contracts. Competition can intensify further due to the recent relaxation in bidding norms by NHAI and the Ministry of Road Transport & Highways (MoRTH). Also, given the cyclicity inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical.

Rating Sensitivities

- Significant growth in revenue and profitability margin
- Reduction in order flow

Material covenants

None

Liquidity Position: Adequate

Liquidity is adequate, supported by adequate cash accrual, unutilised bank lines, and adequate cash and cash equivalents. The net cash accruals stood at Rs. 10.56 Cr as on March 31, 2022 (Provisional) as against debt repayment of Rs. 3.50 Cr. over the same period. The cash and bank balances of the firm stood at Rs.8.85 Cr as on March 31, 2022 (Provisional), of this Rs.7.91 Cr is retained as current account balance and remaining as unencumbered cash as compared to Rs.4.35 Cr as on March 31, 2021 and also free FD of Rs. 22.35 crore as on March 31, 2022 (Provisional), which lower requirement of funds in business. As a result, fund-based limit of Rs 4 crore was utilized at only 6.71 per cent during the 6 months through May 2022. The current ratio stood comfortable at 1.99 times as on March 31, 2022 (Provisional). Further, the firm has efficient working capital management as reflected by low Gross Current Assets (GCA) of 58 days as on March 31, 2022 (Provisional) as against 57 days as on March 31, 2021. Acuité believes that going forward the firm will maintain adequate liquidity position due to steady accruals.

Outlook: Stable

Acuité believes BC will benefit over the medium term from its promoters' extensive industry experience. The outlook may be revised to 'Positive' if scale of operations, profitability, and working capital cycle improve significantly, and if the firm widens geographical presence. Conversely, the outlook may be revised to 'Negative' if financial risk profile weakens because of significantly low cash accrual, or sizeable working capital requirement, or debt-funded capital expenditure.

Other Factors affecting Rating

Not Applicable

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	142.21	127.16
PAT	Rs. Cr.	8.34	3.44
PAT Margin	(%)	5.87	2.70
Total Debt/Tangible Net Worth	Times	0.11	0.54
PBDIT/Interest	Times	31.83	9.57

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

Not Applicable

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>

Note on complexity levels of the rated instrument

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

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Punjab National Bank	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A3+ Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE BBB Stable Assigned
Punjab National Bank	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE BBB Stable Assigned

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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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