

Press Release

Baba Hans Constructions Private Limited

November 30, 2022



Rating Assigned

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	40.00	-	ACUITE A3 Assigned
Bank Loan Ratings	5.00	ACUITE BBB- Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	45.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned the long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.45.00 Cr bank facilities of Baba Hans Constructions Private Limited. The outlook is '**Stable**'.

Rationale for the rating

The rating reflects the extensive experience of the management, and established track record of operation in the construction business, healthy order book, comfortable financial risk profile and adequate liquidity. The rating however is constrained by its moderate scale of operation, intense competition within the industry owing to low entry barrier, susceptibility of operating margin to volatility in input material prices and labour charges.

About the Company

Baba Hans Construction Private Limited (BHCPL) was incorporated during 2007 in Patna. The company is Government registered Class-1 contractor for civil construction works. The company works for Government agencies like Road Construction Department, Public Works Department of Bihar, and National Highways Authority of India etc. The day to day operations are looked after by Mr. Satyendra Kumar Singh, director, along with other director and a team of experienced personnel.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of BHCPL while arriving at the rating.

Key Rating Drivers

Strengths

Experienced management and strong order book

The company is managed by Mr. Satyendra Kumar Singh, Director, along with other director and a team of experienced personnel. The directors are having over two decades of

experience in construction business. It has successfully completed various projects under different departments of government like RCD (Road Construction Department), NHAI, Bihar Rajya Pul Nirman Nigam Ltd (BRPNNL) and Public Works Departments, Bihar. The long-standing experience of the promoter and long track record of operations has helped the company to establish comfortable relationships with key suppliers and reputed customers. Acuité believes that the long track record and rich experience of the promoters augur well for the relationship with their key suppliers and customers.

The company has strong order book position with unexecuted orders in hand worth around Rs. 445.84 crore which are to be executed in the upcoming two to three years, thereby providing strong revenue visibility in the medium term. Nearly 73 per cent of the company's order book comprised the road infrastructure and 26 per cent from bridge construction. The orders are from both the central government and the state government of Bihar. Acuité believes that the company will continue to sustain its order book position and maintain its business risk profile over the medium term.

Moderate scale of operation coupled with steady profitability margin

The operating revenue of the company improved to Rs 96.87 crore in FY 2022 as compared to Rs 87.22 crore in FY 2021. The company has reported an operating margin 9.36 per cent in FY2022 as against 7.75 per cent in FY2021 due to better project mix and availability of adequate price escalation clause with the counter party. The PAT margins also remain steady at 7.27 per cent as on FY2022 as against 6.28 per cent as on FY2021. The RoCE levels for the company stood comfortable at 21.57 per cent in 2022 as against 19.97 per cent in FY2021. Though the company's profitability is exposed to volatility in raw material prices as their prices are volatile in nature, it has an in-built price escalation clause for major raw materials (such as stone chips, cement and structures) in most of its contracts. Till October 2022, the company has been able to achieve a revenue of Rs. 71.92 Cr (prov). Going forward, the ability of the company to scale up the operations will remain a key rating sensitivity.

Healthy financial risk profile

The financial risk profile of the company is marked by moderate net worth, negligible gearing and strong debt protection metrics. The net worth of the company stood at Rs.51.07 crore in FY 2022 as compared to Rs 44.03 crore in FY2021. The gearing of the company stood comfortable at 0.06 times in FY 2022 when compared to 0.003 times in FY 2021. The gearing is expected to remain low over the medium term on account of absence of any debt funded capex plans and modest incremental working capital requirements. Interest coverage ratio (ICR) stood at 9.53 times in FY2022 as against 12.47 times in FY 2021. The debt service coverage ratio (DSCR) of the company stood at 7.25 times in FY2022 as compared to 9.39 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 2.38 times in FY2022 as compared to 49.37 times in the previous year. Going forward, Acuite believes the financial risk profile of the company will remain healthy on account of steady net cash accruals and no major debt funded capex plan over the near term.

Weaknesses

Segmental and geographic concentration, along with susceptibility to risks related to intense competition in construction segment, and to tender-based operations

Although the company has a long-standing presence of about 20 years in the industry, as almost all its sales are tender based, the revenue depends on the company's ability to bid successfully for tenders. BHCPL specialises in civil works related to construction of roads and buildings mainly for Government of Bihar and NHAI. The company faces competition from large players, as well as many local and small unorganised players, adversely affecting the profitability. Currently (as on october 31, 2022) all their projects are situated in Bihar. This increases the geographical concentration risk significantly. Nonetheless, the company is bidding for projects in new territories which is expected to mitigate the geographic concentration risk to some extent.

Susceptibility of operating margin due to volatility in input material prices and labour charges

The basic input materials for execution of construction projects and works contracts are steel, stone chips, cement and structures etc. The prices of which are highly volatile. However,

currently government agencies' work contracts have price escalation clause which mitigate price volatility risk to some extent. Furthermore, the operating margin of the company is exposed to sudden spurt in the input material prices along with increase in labour prices being in labour intensive industry.

Rating Sensitivities

- Scaling up of operations while maintaining their profitability margin
- Timely execution of orders
- Sustenance of existing financial risk profile with healthy capital structure

Material covenants

None

Liquidity Position Adequate

The company has adequate liquidity marked by comfortable net cash accruals of Rs. 7.75 crore as against Rs.0.05 crore long term debt obligations in FY2022. The cash accruals of the company are estimated to remain in the range of around Rs. 10.19 crore to Rs. 12.15 crore during 2023-24 as against Rs. 0.08 crore of long term debt obligations FY2023 and Rs.0.04 crore in FY2023 respectively. During FY2022, the gross current asset days (GCA) of the company elongated but remained comfortable at 69 days as on March 31, 2022 as against 57 days as on March 31, 2021. The current ratio of the company stood strong at 2.13 times in FY2022. The bank limit of the company has been ~82 percent utilized during the last six months ended in October 2022. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of comfortable cash accruals against long debt repayments over the medium term.

Outlook: Stable

Acuité believes the company's outlook will remain 'stable' over the medium term on account of vast experience of the promoters, long execution track record, strong order book position and healthy financial risk profile. The outlook may be revised to 'Positive' in case the company registers healthy growth in revenues while achieving sustained improvement in operating margins, capital structure and working capital management. Conversely, the outlook may be revised to 'Negative' in case of decline in the company's revenues or profit margins, or in case of deterioration in the company's financial risk profile and liquidity position or delay in completion of its projects or further deterioration in its working capital cycle.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	96.87	87.22
PAT	Rs. Cr.	7.04	5.48
PAT Margin	(%)	7.27	6.28
Total Debt/Tangible Net Worth	Times	0.06	0.00
PBDIT/Interest	Times	9.53	12.47

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

BHCPL has not cooperated with Credit Analysis & Research Limited (CARE). CARE has classified it as non-cooperative vide release dated 08-Mar-2021. The reason provided by CARE is non-furnishing of information for monitoring of ratings.

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite'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. -or more details. please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History:

Not Applicable

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	40.00	ACUITE A3 Assigned
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	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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