

Press Release

AJAY BUILDERS ENGINEERS AND CONSTRUCTION (OPC) PRIVATE LIMITED

August 18, 2023

Rating Assigned



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	8.25	ACUITE BB Stable Assigned	-
Bank Loan Ratings	48.75	-	ACUITE A4+ Assigned
Total Outstanding Quantum (Rs. Cr)	57.00	-	-

Rating Rationale

Acuite has assigned the long term rating of **ACUITE BB (read as ACUITE double B)** to the long term bank facility of Rs. 8.25 Cr. and short term rating of **ACUITE A4+ (read as ACUITE A four plus)** to the short term bank facility of Rs. 48.75 Cr. of Ajay Builders Engineers And Construction (OPC) Private Limited. The outlook is 'Stable'.

Rationale for rating

Acuite has factored in the long track record of operation and experienced management with more than two decades of experience in the industry. Further the company's operation has shown an increasing trend in past three years through FY23(Prov.) alongwith improvement in financial risk profile and working capital operations. The efficient working capital operations and improved operations of the company resulted into adequate liquidity position of the company. The aforesaid factors are underpinned by the company's tender based operation and working in highly competitive industry which puts pressure on the profitability of the company.

About the Company

Ajay Builders Engineers and Construction (OPC) Private Limited (earlier known as Ajay Builders) was established as a partnership firm in 2001. The OPC was incorporated on 16 November 2020 by Mr. Ajay Singh and is located at Lucknow (Uttar Pradesh). The partnership entity continued operations till 31st March 2022 and the business was taken over by the OPC on 1st April 2022. The company is engaged in the business of civil and road construction for state and central Public Works Department.

Analytical Approach

ACUITE has considered the standalone business and financial risk profile of the company to arrive at the rating.

Key Rating Drivers

Strengths

Experienced management and long track record of operation

The management of the company i.e. Mr. Ajay Singh has an experience of more than 25 years in the same line of business. The promoter of the company was earlier doing the business as a partnership concern since 2001 and the same business was taken over by Ajay Builders Engineers & Construction (OPC) Private Limited on 1st April 2022. Hence, the business has long track record of operations and have successfully completed several projects in the past.

Improving sales and sustained profitability position

The operating performance of the company has seen continuous improvement in past three years. The topline of the company grew by 18.05% and stood at Rs. 145.41 Cr. in FY23 (Prov.), as compared to Rs. 123.18 Cr. in FY22. The growth in revenue is on account of better execution of order in hand. The profitability position of the company remained ranged bound as can be seen by EBITDA margin of 11.90% in FY23(Prov.) (PY: 12.27%) and PAT margin of 6.20% in FY23(Prov.) (PY: 6.95%). The minor fluctuation in the margins is on account of tender based business operations having different margin for different bids. Acuite believes that the company will achieve a topline of Rs. 160 Cr. in the current fiscal backed by order in hand of Rs. 248.44 Cr. to be executed.

Moderate financial risk profile of the company

The financial risk profile of the company is moderate as can be seen from the moderate net worth, comfortable leverage and strong coverage indicators. The network of the company though improved it remained moderate at Rs. 25.61 Cr. in FY23(Prov.) as compared to Rs. 22.69 Cr. in FY22. The growth in net worth is on account of accruals of profit to the reserves of the company. The leverage profile of the company is comfortable with improvement in debt/equity position of the company which stood at 0.47x in FY23(Prov.) vis-à-vis 0.70x in FY22. The same is expected to improve in the coming years on account of repayment of current debt and no debt funded capex in the medium term. Further, the debt/EBITDA position of the company remained comfortable at 0.69x in FY23(Prov.). The company's coverage indicators stood strong as is apparent from the ICR & DSCR of the company which stood at 8.07x and 1.96x respectively, in FY23(Prov.).

Improvement in working capital management

The working capital management of the company has improved as is evident from the GCA days of 97 days in FY23(Prov.) as compared to 119 days in FY22 and 172 days in FY21. The improvement in GCA days is on account of dip in loans and advances and security deposits. Further, the inventory days of the company remained at 17 days and the debtor days of the company is getting elongated due to higher billing in last quarter of the year however the entire debtor outstanding is within 0-30 days bracket as on 31st March 2023. The average non-fund based limit utilization of the company remained moderate at ~72.56% in past 12 months ending May 2023.

Weaknesses

Competitive and fragmented industry

The Company is engaged as civil contractor. The particular sector is marked by the presence of several mid to big size players. The company faces competition from other players in the sectors. However, this risk is mitigated to an extent as management is operating in this environment for last 25 years.

Tender based nature of business

The firm deals with government organizations and quotes for the contracts on tender basis. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. Going forward, the company's ability to successfully bid for greater number of large orders remains to be seen.

Rating Sensitivities

- Elongation in working capital cycle.
- Fluctuation in revenue profile.
- Sustained increase in revenue while maintaining the profitability position
- Company's ability to increase its order book size giving long term revenue visibility

Material covenants

None

Liquidity Position

Adequate

The liquidity position of the company is adequate as can be seen from the cash accruals of Rs. 12.01 Cr. against CPLTD of Rs. 5.06 Cr. in FY23(Prov.). Further the company's cash accruals are expected to be in the range of 13.42 Cr. to 15.10 Cr. in FY24 & FY25 against debt repayment obligation of Rs. 4.05 Cr. and 0.39 Cr. The current ratio of the company stood

healthy at 1.30 times in FY2023 (Prov.). The Gross Current Asset (GCA) days of the company stood healthy at 97 days in FY2023 (Prov.). The average fund based limit utilization remained at 62.60% and NFB bank limit utilization of the company was 72.56% during the last twelve months ended May 23 giving adequate legroom for growth capital in the form of unutilized bank limits. Company's debt equity position of 0.47 times in FY23 (Prov.) shows sufficient opportunity to manage funds for the capex (if any) without much compromising the comfortable capital structure of the company.

Outlook: Stable

Acuité believes that the company will maintain a 'stable' business risk profile in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the company registers higher than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics and timely completion of all the projects. Conversely, the outlook may be revised to 'Negative' in case the company registers lowerthan- expected growth in revenues and profitability, or in case of deterioration in the company's financial risk profile or higher than expected working capital requirements.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	145.41	123.18
PAT	Rs. Cr.	9.01	8.56
PAT Margin	(%)	6.20	6.95
Total Debt/Tangible Net Worth	Times	0.47	0.70
PBDIT/Interest	Times	8.07	7.78

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

The company is marked as issuer non-cooperation by the following OCRA:

CARE vide its PR Dated 24-04-2023

India Ratings vide its PR Dated 19-05-2023

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Service Sector: <https://www.acuite.in/view-rating-criteria-50.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. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History :

None

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	26.00	ACUITE A4+ Assigned
Punjab National Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	22.75	ACUITE A4+ Assigned
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BB Stable Assigned
Punjab National Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.25	ACUITE BB Stable Assigned
HDFC Bank Ltd	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	1.00	ACUITE BB 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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