

Press Release

AJAY BUILDERS ENGINEERS AND CONSTRUCTION (OPC) PRIVATE LIM
March 07, 2024



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Loan Ratings	2.75	ACUITE BB Stable Assigned	-
Bank Loan Ratings	8.25	ACUITE BB Stable Reaffirmed	-
Bank Loan Ratings	7.25	-	ACUITE A4+ Assigned
Bank Loan Ratings	48.75	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	67.00	-	-

Rating Rationale

Acuite has reaffirmed 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'.

Acuite has further assigned the long term rating of **ACUITE BB (read as ACUITE double B)** to the long term bank facility of Rs. 2.75 Cr. and short term rating of **ACUITE A4+ (read as ACUITE A four plus)** to the short term bank facility of Rs. 7.25 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 a volatile trend in past three years through FY23. The turnover of the company saw minuscule dip in FY23 however the profitability position of the company improved in FY23. Due to better profitability and repayment of long term debt the company showed improvement in financial risk profile. The aforesaid factors are underpinned by Working capital operations of the company which saw moderation in FY23 on account of increased inventory and debtor days further the company's tender based operation and working in highly competitive industry puts pressure on the profitability and operations of the company. As can be seen the company's bid success ratio saw a sharp decline in past two quarters. Company's ability to bid for better projects and improve it's order book position remains key rating monitorable.

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 takenover 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.

Unsupported Rating

Not Applicable

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 improvement in past three years. The topline of the company saw a minuscule dip of 2.73% and stood at Rs. 119.82 Cr. in FY23, as compared to Rs. 123.18 Cr. in FY22. The profitability position of the company remained ranged bound as can be seen by EBITDA margin of 13.66% in FY23 (PY: 12.27%) and PAT margin of 4.67% in FY23 (PY: 6.95%). The minor fluctuation in the margins is on account of tender based business operations having different margin for different bids and change in depreciation method as company was converted from proprietorship to partnership.

Acuite believes that the company will achieve a topline of Rs. 131.97 Cr. in the current fiscal backed by 10MFY24 turnover of Rs. 92.40 Cr. and order in hand of Rs. 200.36 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 networth of the company though improved it remained moderate at Rs. 23.74 Cr. in FY23 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 0.41x in FY23 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 0.60x in FY23. The company's coverage indicators stood strong as is apparent from the ICR & DSCR of the company which stood at 6.71x and 1.93x respectively, in FY23.

Moderate working capital management

The working capital management of the company has deteriorated as is evident from the GCA days of 151 days in FY23 as compared to 119 days in FY22 and 172 days in FY21. The dip in GCA days is on account of increased inventory and debtor days. The inventory days of the company declined to 36 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 0-60 days bracket as on 31st March 2023. The average non-fund based limit utilization of the company remained moderate at ~63.88% and fund based at 54.50% in past 9 months ending Jan 2024.

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. As can be seen in the last few month the company submitted bid for large projects however the company was unable to bid successfully resulting into very low bid success ratio. 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

Liquidity Position

Adequate

The liquidity position of the company is adequate as can be seen from the cash accruals of Rs. 12.06 Cr. against CPLTD of Rs. 5.06 Cr. in FY23. Further, the company's cash accruals are expected to be in the range of 13.54 Cr. to 14.78 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 1.35 times in FY23. The Gross Current Asset (GCA) days of the company stood moderate at 151 days in FY2023. The average fund based limit utilization remained at 54.50% and NFB bank limit utilization of the company was 63.88% during the last nine months ended Jan 2024 giving adequate legroom for growth capital in the form of unutilized bank limits. Company's debt equity position of 0.41 times in FY23 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 lower than- expected growth in revenues and profitability, or in case of deterioration in the company's financial risk profile or any stretch in working capital cycle resulting into pressure on liquidity profile.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	119.82	123.18
PAT	Rs. Cr.	5.60	8.56
PAT Margin	(%)	4.67	6.95
Total Debt/Tangible Net Worth	Times	0.41	0.70
PBDIT/Interest	Times	6.71	7.78

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

Not Applicable

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

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
18 Aug 2023	Cash Credit	Long Term	5.00	ACUITE BB Stable (Assigned)
	Cash Credit	Long Term	2.25	ACUITE BB Stable (Assigned)
	Dropline Overdraft	Long Term	1.00	ACUITE BB Stable (Assigned)
	Bank Guarantee (BLR)	Short Term	26.00	ACUITE A4+ (Assigned)
	Bank Guarantee (BLR)	Short Term	22.75	ACUITE A4+ (Assigned)

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 avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	26.00	ACUITE A4+ Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	22.75	ACUITE A4+ Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	7.25	ACUITE A4+ Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	5.00	ACUITE BB Stable Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.25	ACUITE BB Stable Reaffirmed
Punjab National Bank	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	2.75	ACUITE BB Stable Assigned
HDFC Bank Ltd	Not avl. / Not appl.	Dropline Overdraft	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	Simple	1.00	ACUITE BB Stable Reaffirmed

Contacts

Analytical	Rating Desk
Mohit Jain Senior Vice President-Rating Operations Tel: 022-49294017 mohit.jain@acuite.in Sushant Kumar Mishra Senior Manager-Rating Operations Tel: 022-49294065 sushant.mishra@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.