

## Rachana Enterprises

October 05, 2021

### Ratings

Facilities	Amount (Rs. crore)	Ratings <sup>1</sup>	Rating Action
Fund Based Long Term/Short Term Bank Facilities	3.00	CARE BB; Stable/CARE A4 (Double B Plus; Outlook: Stable and A Four)	<b>Reaffirmed</b>
Non-Fund Based Long Term/Short Term Bank Facilities	5.00	CARE BB; Stable/CARE A4 (Double B Plus; Outlook: Stable and A Four)	<b>Reaffirmed</b>
<b>Total Bank Facilities</b>	<b>8.00</b> <b>(Rs. Eight Crore Only)</b>		

*Details of facilities in Annexure I*

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Rachana Enterprises (RE) continues to be constrained by small scale of operations, working capital intensive nature of operations, customer & supplier concentration risk. The ratings further continue to be constrained by presence in competitive and fragmented industry along with tender driven nature of operations, susceptibility of profit margin to volatility in raw material prices and partnership nature of constitution.

The ratings, however, continue to derive strength from established track record of operations along with experienced promoters, healthy order book position and comfortable capital structure along with healthy operating margins.

### Rating sensitivities

#### Positive Factors - Factors that could lead to positive rating action/upgrade:

- Increase in scale of operations with total operating income exceeding Rs.30 crore with tangible network exceeding Rs.10 crore on a sustained basis
- Improvement in the collection period reaching below 90 days on a sustained basis
- Diversified customer and supplier base

#### Negative Factors- Factors that could lead to negative rating action/downgrade:

- Deterioration in profit margins with PBILDT and PAT margins reaching below 6% and 3% on a sustained basis
- Deterioration in the capital structure with overall gearing exceeding a unity level on a sustained basis
- Deterioration in the debt coverage indicators with interest coverage reaching below 2 times and total debt to GCA exceeding 6 times on a sustained basis.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### Decline in scale of operations in FY21; albeit improvement in PBILDT margin

During FY21 (Prov). Total Operating Income (ToI) of the firm declined by 28.10% to Rs.11.94 crore (as against Rs.16.60 crore in FY20(A) primarily on account of decrease in number of contracts awarded and executed, which were issued by the Central Railways & Western Railways during FY21. Furthermore, during 5MFY22 (refers to the period April 1, 2021 to August 31, 2021), the firm has recorded total sales of Rs.4.79 crore. Despite the decline in scale of operation in FY21 the PBILDT margins improved in FY21. The PBILDT margins improved from to 19.52% in FY21 (Prov.) as compared to 8.76% over FY20 audited on account of significant reduction in raw material cost. In line with the improvement in PBILDT, the PAT also improved to 15.63% in FY21 (Prov.) as compared to 6.18% in FY20(A).

#### Customer & Supplier concentration risk:

During FY21, the top five customers contributed around 95.63% of total revenue (vis-à-vis 99.88% in FY20). Out of the five, two customers namely Sr. Divisional Engineer, North Central Railway & Sr. Divisional Electrical Engineer, Central Railways constituted around 59.87% in FY21(vis-a-vis two customers namely Sr. Divisional Engineer of Central & Western Railways constituted 84.51% in FY20) of total Civil Electrical services thereby indicating higher level of customer concentration risk. However, during FY21 (prov.), supplier concentration risk has reduced with top five suppliers constituted around 32.53% of total purchases (vis-à-vis 84.38% in FY20). Out of the five, one supplier namely Shree Ashutosh Engineering Industries constituted around 9.18% of total purchases of electrical items in FY21 (vis-à-vis 37.39% in FY20).

***Comfortable capital structure and moderate debt coverage indicators with improvement in the same:***

The financial risk profile of the firm remained comfortable with comfortable profit margins, capital structure and debt coverage indicators. The capital structure of RE marked by overall gearing ratio stood comfortable owing to lower reliance on external debt to fund its business operations coupled with accretion of profits to reserves. The overall gearing improved from 0.52x as on March 31, 2020 (Audited) to 0.30x as on March 31, 2021(provisional), due to increase in networth base by Rs.1.87 crore (from Rs.5.59 crore as on March 31, 2020(audited) to Rs.7.45 crore as on March 31, 2021 (provisional) mainly on account of accretion profits and lower dependence on working capital borrowings.

On account of the same, the Total Debt/Gross Cash Accruals also improved to 1.10x as on March 31, 2021 (provisional) as against 2.29x as on March 31, 2020 (audited). However, on the other hand the interest coverage indicator has slightly deteriorated to 7.49x as on March 31, 2021 (provisional) as against 7.59x respectively during FY20 (A).

***Working capital intensive nature of operations:***

RE's operations remained working capital intensive in nature as the funds are largely blocked in receivable. The collection period remained high at 241 days during FY21 (prov.) [vis-à-vis 142 days in FY20(audited)] as the firm receives payment varying between 6 months and 1 year, which basically depends on various factors such as material supply, approvals from higher authorities, etc. Also, the entire execution of an order goes through collaborative work from the Engineering Department (managing civil works) electrical department, and signalling department. Furthermore, delay from any one department leads to further delays in execution as well as payment to be received from Railways.

In addition to deterioration in collection period from 142 days in FY20(A) to 241 days in FY21 (Prov.), in absolute terms the collections has deteriorated from Rs.7.61 crore in FY20(A) to Rs.8.36 crore in FY21(Prov.). Moreover, the firm has to maintain earnest money deposit at 2% and security deposits up to 5% of the tender cost at the time of bidding and while entering into contract. The firm maintains low level of inventory since the purchases are made as per the requirement basis. On the other hand, the firm receives moderate credit period from its suppliers.

***Presence in competitive and fragmented industry along with tender driven nature of operations and susceptibility of profit margin to volatility in raw material prices***

The firm undertakes electrical contracts, which is highly competitive and fragmented in nature with a large number of small and medium scale players present at regional level. Further, the firm deals with various railway divisions for which it has to participate in the tenders and hence faces risk of successful bidding for the same, which again comes with the risk of quoting at lesser prices to sustain the competition. Furthermore, the margins are susceptible to fluctuations in the raw material prices to an extent.

***Partnership nature of constitution***

Being a partnership concern, it is exposed to the risk of withdrawal of capital by the partners on personal emergencies and restricted financial flexibility due to inability to explore cheaper sources of finance leading to limited growth potential.

**Key Rating Strengths*****Established track record of operations along with experienced promoters***

RE possesses an established track record of over 26 years in the business of providing electrical contractor services to Railways. Furthermore, firm also benefits from the experience of the promoter Mr. Kripashankar Pandey through his association with the firm RE since its establishment in 1983. Also, the other partners, Mr. Ashish Kumar Pandey and Mr. Ashutosh Pandey are experienced in the same field with total experience of 10 years and 8 years respectively.

**Liquidity Position: Adequate**

Liquidity position remained adequate marked by sufficient cushion in accruals against its nil repayment obligations. The average utilization of the fund based working capital borrowing (Cash credit) stood at 76.48% during past 12 months ended July 31, 2021. Cash flow from operating activities remained positive at Rs.0.65 crore as on March 31, 2021 (vis-à-vis positive cash flow of Rs.0.61 crore as on March 31, 2020).

**Analytical approach: Standalone****Applicable Criteria**

[CARE's Policy on Default Recognition](#)

[Criteria on assigning Outlook and credit watch to Credit Ratings](#)

[CARE's Methodology for Service Sector Companies](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[CARE's Methodology for Short-term Instruments](#)

[Financial ratios – Non-Financial Sector](#)

### About the Company

Rachana Enterprises (RE) was originally established in the year 1993 as a proprietorship concern by Mr. Kripashankar Pandey which got converted to partnership firm in the year 2013. Presently, Mr. Kripashankar Pandey, Mr. Ashish Kumar Pandey and Mr. Ashutosh Pandey are the partners of the firm and mutually look after all the business operations. The firm is engaged in the business of providing electrical contractor services to Railways, mainly Central Railway (contributing to ~60% of the total revenue) and Western Railway (contributing to ~40% of the revenue) through participation in tenders floated by various divisions of Central and Western Railways. RE provides Over Head Equipment (OHE) electrification services to Railways which refers to a system of conductors / equipment carrying traction power from traction substation to electric locomotive (trains). The firm procures various raw materials such as steel, conductors, insulators, transmitters, various varieties of copper and copper equipment from agencies and suppliers which approved by Central Organization for Railway Electrification, Allahabad (CORE, Allahabad) which is in charge of railway electrification of the Indian Railways network and Research Designs and Standards Organization, Lucknow (RDSO, Lucknow). RE operates through its registered office in Mumbai, Maharashtra.

Brief Financials (Rs. crore)	FY20 (A)	FY21 (P)
Total operating income	16.60	11.94
PBILDT	1.45	2.33
PAT	1.03	1.87
Overall gearing (times)	0.52	0.30
Interest coverage (times)	7.59	7.49

A: Audited; P-Provisional

**Latest performance** - Furthermore, during 5MFY22 (refers to the period April 1, 2021 to August 31, 2021), Rachana Enterprises has recorded ToI of Rs.4.79 crore.

**Status of non-cooperation with previous CRA:** Not applicable

**Any other information:** Not applicable

**Rating History for last three years:** Please refer Annexure-2

### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT/ ST-Cash Credit		-	-	-	3.00	CARE BB; Stable / CARE A4
Non-fund-based - LT/ ST-Bank Guarantees		-	-	-	5.00	CARE BB; Stable / CARE A4

### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT/ ST-Cash Credit	LT/ST*	3.00	CARE BB; Stable / CARE A4	-	1)CARE BB; Stable / CARE A4 (07-Dec-20) 2) CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* (01-Oct-20)	1)CARE BB; Stable / CARE A4 (22-Jul-19)	1)CARE BB; Stable (03-Aug-18)
2	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST*	5.00	CARE BB; Stable / CARE A4	-	1)CARE BB; Stable / CARE A4 (07-Dec-20) 2)CARE A4; ISSUER NOT COOPERATING* (01-Oct-20)	1)CARE A4 (22-Jul-19)	1)CARE A4 (03-Aug-18)

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities – Not applicable**

**Annexure 4: Complexity level of various instruments rated for this company**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT/ ST-Cash Credit	Simple

**Annexure 5: Bank Lender Details for this Company**

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE has classified instruments rated by it on the basis of complexity. This classification is available at [www.careratings.com](http://www.careratings.com). Investors/market intermediaries/regulators or others are welcome to write to [care@careratings.com](mailto:care@careratings.com) for any clarifications.

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