

Rishabh Associates

November 05, 2021

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long Term Bank Facilities	6.00	CARE B; Stable (Single B; Outlook: Stable)	Revised from CARE B+; Stable (Single B Plus; Outlook: Stable)
Total Facilities	6.00 (Rs. Six Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating assigned to the bank facilities of Rishabh Associates (RA) takes into account the impact of the Covid-19 pandemic which has resulted into reduced scale of operations and an increase in operating cycle. The revision also factors in high gearing ratio and stretched liquidity. Furthermore, the ratings continue to be constrained by fragmented and highly competitive nature of the industry and constitution of the entity as partnership firm.

The aforesaid constraints, however; partially offset by the strength derived from moderate track record and experienced partners in the civil construction industry and healthy profit margin.

Rating Sensitivities

Positive Rating Sensitivities

- Increase in the scale of operations with a total operating income exceeding Rs. 25 cr. with tangible net worth base exceeding Rs. 10 cr. on a sustained basis
- Improvement of capital structure with overall gearing reaching below at 1x and debt coverage indicators with interest coverage ratio exceeding 3x and total debt to gross cash accruals reaching below 3x on a sustained basis
- Improvement in the liquidity position with current ratio exceeding 2x on a sustained basis

Negative Rating Sensitivities:

- Decline in PBILDT margin and reaching below 10% and net profit margin below 3% on a sustained basis
- Elongation in the collection period exceeding 150 days on a sustained basis

Detailed description of the key rating drivers

Key Rating Weaknesses

Small and fluctuating scale of operation and moderate order book position

The total operating income (TOI) of the firm continued to remain small and declined by 25.94% to Rs. 12.19 crore in FY21 (Provisional) vis-à-vis Rs. 16.46 crore in FY20 on account of less execution work happened due to covid-19 related disruptions in FY21. The firm has an order book position of around Rs. 20.00 crore as on September 30, 2021 (vis-à-vis Rs. 37.50 crore as on August 29, 2020) which is expected to be executed by June 2022. However; order book is concentrated with only one awardee i.e. Gyan Construction company.

Leveraged capital structure and weak debt coverage indicators

The capital structure of RA continued to remain leveraged on account of high dependence on debt. Overall gearing is high at 4.58x as on March 31, 2021 (Prov.) Debt coverage indicators continued to remain weak and deteriorated with total debt to GCA of 32.39x in FY21 (vis-à-vis 25.16x in FY20) on account of decrease in profit level and decrease in gross cash accruals in FY21.

Working capital intensive nature of operations

RA's operations continued to remain working capital intensive in nature as the funds are largely blocked in debtors. Since the work is done for municipal corporations, issue of payment is done after all the verification and quality checking process hence the collection period remained high and stood at 207 days in FY21 vis-à-vis 139 days in FY20. Inventory holding period is 53 days in FY21 vis-à-vis 20 days in FY20. RA deals with government recognized suppliers for raw material consumption and firm's existence in this line of business for more than a decade it enjoys higher credit period from its suppliers and stood at 184 days.

¹Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.

Presence in competitive and fragmented industry

RA operates in a highly competitive and fragmented civil construction industry, wherein a large number of players are engaged into the said activities on a sub-contract basis. Moreover, RA also faces competition from other companies for tendering of contracts and also takes sub-contracts from the large players who directly bid for the government tenders and hence, any changes in current policies of the government with regard to change in budget allocation would impact the revenues considerably.

Constitution of the entity as partnership firm

Being a partnership firm, RA has inherent risk of withdrawal of partner's capital at the time of personal contingency. Furthermore, it has restricted access to external borrowings where net worth as well as creditworthiness of the Partners are the key factors affecting credit decision of the lenders

Key Rating Strengths***Moderate track record and experienced partners in the civil construction industry***

RA is a partnership firm established in the year 2006 by Mr. Umang Kishor Ladhani, Mr. Mittain M. Panani and Mr. Ramesh Surani. All Partners are qualified engineers into Civil and IT domain and having an on average more than a decade into civil construction business. The firm has established its presence in the construction business through its twelve years of moderate track record of operations in the civil construction activities.

Healthy profit margins

PBILDT margin of the firm continued to remain healthy at 13.09% in FY21. Further, the PAT margin of the firm has also improved to 6.20% in FY21 (vis-à-vis 6.09% in FY20.) Despite the reduction in PBILDT margins during FY21, PAT margins have improved on account of lower interest cost during the year.

Industry Prospects:

Construction industry has a close linkage with the economic growth of the country. Construction as a percentage of GDP has been in the narrow range of 7.7-8.6% in the past ten quarters (based on 2011-12 series). During the last few years, the economic slowdown along-with the policy impediments, high interest rates and liquidity concerns hampered overall investment climate in the country. Amid the challenging economic environment, new project announcements across infrastructure segments witnessed a slowdown. Also, industrial capital expenditure declined owing to lower demand and utilisation rates. Further, construction industry continued to face project execution problems due to the delay in various approvals/clearances like land acquisition and environment clearances.

Liquidity: Stretched

The liquidity position remained stretched marked by elongated operating cycle. The company had minimal repayment obligation and uses short term loans to fund the working capital. The operating cycle of the company has further deteriorated from 150 days in FY20 to 207 days in FY21 (Provisional). Free cash and bank balance remained low at Rs.0.07 crore as on March 31, 2021. The current ratio and quick ratio stood low at 1.23x and 1.17x respectively as on March 31, 2021. However, the average working capital limit utilization remained moderate at 51% during past 12 months ended September-2021 providing some backup.

Analytical approach: Standalone**Applicable Criteria**

[Financial Ratios - Non - Financial Sector](#)

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

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

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

[Rating Methodology – Construction Sector](#)

About the Company

M/s Rishabh Associates (RA) is a partnership firm established in the year 2006 by Mr. Umang Kishor Ladhani, Mr. Mittain M. Panani and Mr. Ramesh Surani. RA is a sub-contractor and engaged into construction of civil engineering projects such as in the field of water supply, sewerage, road construction etc. It procures raw materials (such as cement, steels, rods, bricks, bitumen, diesel and other construction materials) from local suppliers authorized by Municipal corporations only. RA operates from its registered office located at Mumbai, Maharashtra.

Brief Financials (Rs. crore)	FY20(A)	FY21 (Prov.)
Income from Operations	16.46	12.19
PBILDT	2.63	1.60
PAT	1.00	0.76
Overall Gearing (times)	5.45	4.58
Interest Coverage (times)	1.72	2.12

A: Audited Prov.: Provisional

Status of non-cooperation with previous CRA: None

Any other information: Not Applicable

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

Complexity level of various instruments rated for this company: Annexure-3

Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	-	-	-	6.000	CARE B; Stable

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-Cash Credit	LT	6.00	CARE B; Stable	-	1)CARE B+; Stable (06-Oct-20) 2)CARE B; Stable; ISSUER NOT COOPERATING* (22-Sep-20)	1)CARE B+; Stable (27-Aug-19)	1)CARE B+; Stable (11-Oct-18)

* Long Term

Annexure 3: Detailed explanation of covenants of the rated instrument / facilities: NA

Name of the Instrument	Detailed explanation
A. Financial covenants	
I. Penal Interest @2%	1) Noncompliance of SO Conditions 2) Non-submission of stock/book debt statements 3) Non-submission of audited financials 4) Non-submission of renewal papers 5) Arrears if any

Annexure 4: Complexity level of various instruments rated for this Company

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple

Annexure 5: Bank Lender Details

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. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.

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