

## Nikhil Construction

April 08, 2021

### Ratings

| Facilities/Instruments       | Amount<br>(Rs. crore) | Rating <sup>1</sup> | Rating Action   |
|------------------------------|-----------------------|---------------------|---|
| Long Term Bank Facilities    | -                     | -                   | Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable ISSUER NOT COOPERATING*) and Withdrawn |
| Short Term Bank Facilities   | -                     | -                   | Rating continues to remain under ISSUER NOT COOPERATING category; Reaffirmed at CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*) and Withdrawn                           |
| <b>Total Bank Facilities</b> | <b>0.00</b>           |                     |   |

*Details of instruments/facilities in Annexure-1*

### Detailed Rationale & Key Rating Drivers

CARE has reaffirmed and withdrawn the outstanding ratings of 'CARE B; Stable; ISSUER NOT COOPERATING /CARE A4; ISSUER NOT COOPERATING' [Single B; Outlook: Stable; ISSUER NOT COOPERATING / A Four; ISSUER NOT COOPERATING] assigned to the bank facilities of Nikhil Construction with immediate effect. The above action has been taken at the request of Nikhil Construction and 'No Objection Certificate' received from the bank(s) that have extended the facilities rated by CARE.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

#### **Geographic concentration risk with presence in only Maharashtra region and competitive construction segment along-with risks associated with tender based nature of business**

The group continues to be a small-sized player in the construction industry, which is fraught with intense competition with a large number of players and has low entry barriers. Furthermore, all the projects executed are in the state of Maharashtra specifically in Pune exposing the firm to geographical concentration risk.

#### **Working capital intensive nature of operations**

The working capital cycle stood at negative 25 days as on March 31, 2020 reduced from negative 18 days as on March 31, 2019 on the back of decrease in average debtor days from 61 days in FY19 to 21 days in FY20. The creditor period of the NC also decreased to 63 days as on March 31, 2020 as against 88 days as on March 31, 2019. However, the Cash Credit Utilization remained at Rs.31.51 crore as on March 31, 2020 as against Rs.19.71 crore as on March 31, 2019.

#### **Deterioration of capital structure and debt coverage indicators**

The overall gearing ratio deteriorated to 1.94x as on March 31, 2020 from 1.88x as on March 31, 2019 due to increase in working capital utilization. The debt coverage indicators also deteriorated with Total debt to Cash flow from operations at 23.80x as on March 31, 2020 as against 1.85x as on March 31, 2019. However, the PBILDT interest coverage improved to 3.53x during FY20 from 3.06x during FY19.

#### **Partnership constitution of firm**

NC being a partnership firm is exposed to inherent risk of partner's capital being withdrawn and limited financial flexibility. However, there has been no capital withdrawal from net worth observed for last four years. The profit from the firm is deployed back for operations of the firm.

### Key Rating Strengths

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careratings.com](http://www.careratings.com) and other CARE publications

### Experience of the promoter

Nikhil Constructions is a Pune based partnership entity established by four partners, Mr Balasaheb D Pasalkar and his three sons Mr Yogesh Pasalkar, Mr Narendra Pasalkar and Mr Nikhil Pasalkar. Mr Balasaheb D. Pasalkar is a Bachelor in Arts (BA) aged 63 having 24 years of experience in the field of the civil engineers works. The partners have worked in various fields of civil works such as roads, infrastructural Works, bridges, footpaths, reservoirs, pipelines, canals etc. Being in the industry for about a decade, the partners have established good relationship with concessionaires and the material suppliers resulting in continuous flow of orders.

### Backward Integration of construction processes

NC has invested into plant and machineries and has integrated backward process that were earlier either outsourced or rented for construction processes. NC has set up ready mix concrete plant at four different places namely Manjari, Ausa, Laxmi Pati and Jambhulwadi, which are in Pune region, where quality of concrete mixtures of various grades is maintained and cost is minimised paving way for better margin for the firm. NC has also set up two crusher plants at Kolewadi and Ausa where stones are crushed into gravels as well as sand. NC has also set up one precast unit at Jambhulwadi thereby pioneering in the manufacturing of a wide range of Paver Blocks with a variety of Glossy & Matt finishing of paver blocks, Industrial Pavers, Combination Pavers and Paver Tiles & Step Tiles. However, the investments in to these assets has increased the overall leverage of the firm with increased debt thereby increase in total capital employed.

### Financial risk profile marked by revenue growth albeit moderated profitability margins

NC registered a y-o-y revenue growth of ~30.11% in FY20 to Rs.210.50 crore from Rs.161.78 crore in FY19. However, the PBILDT margin and the PAT margin narrowed by 51bps and 208 bps from 12.37% and 6.31% in FY19 to 11.86% and 4.23% in FY20 due to increase in raw material prices, other contracting expenses and finance charges.

**Analytical approach:** Standalone

### Applicable Criteria

[Policy on Withdrawal of ratings](#)

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

[Short Term Instruments](#)

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

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

[Rating methodology-Construction](#)

### About the Company

Nikhil Construction (NC), promoted by Mr. Balasaheb Pasalkar was incorporated in 1995 as a proprietary firm. In April 2009 the same was converted to a Partnership firm with his three sons, Mr. Yogesh Pasalkar, Mr. Narendra Pasalkar and Mr. Nikhil Pasalkar being the partners. The firm is based out of Pune, Maharashtra. NC is engaged in the business of civil construction with specialization & expertise in irrigation and road projects. NC has successfully completed the road and building projects in past for various entities including Pune municipal corporation (PMC) and other public sector bodies.

| Brief Financials (Rs. crore) | FY19 (A) | FY20 (A) |
|------------------------------|----------|----------|
| Total operating income       | 161.78   | 210.50   |
| PBILDT                       | 20.02    | 24.97    |
| PAT                          | 10.21    | 8.91     |
| Overall gearing (times)      | 1.88     | 1.94     |
| Interest coverage (times)    | 3.06     | 3.53     |

A: Audited

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

**Any other information:** Not applicable

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

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

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

**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         | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Non-fund-based - ST-Bank Guarantees | -                | -           | -             | 0.00                          | Withdrawn                                 |
| Fund-based - LT-Bank Overdraft      | -                | -           | -             | 0.00                          | Withdrawn                                 |

**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 2020-2021             | Date(s) & Rating(s) assigned in 2019-2020                                       | Date(s) & Rating(s) assigned in 2018-2019               | Date(s) & Rating(s) assigned in 2017-2018 |
| 1.      | Fund-based - LT-Cash Credit            | LT              | -                              | -      | 1)CARE B; Stable; ISSUER NOT COOPERATING* (06-May-20) | 1)CARE D; ISSUER NOT COOPERATING* (25-Mar-20)<br>2)CARE BB+; Stable (21-Aug-19) | 1)CARE BB+; Stable; ISSUER NOT COOPERATING* (14-Jan-19) | 1)CARE BBB-; Stable (16-Aug-17)           |
| 2.      | Non-fund-based - ST-Bank Guarantees    | ST              | -                              | -      | 1)CARE A4; ISSUER NOT COOPERATING* (06-May-20)        | 1)CARE D; ISSUER NOT COOPERATING* (25-Mar-20)<br>2)CARE A4+ (21-Aug-19)         | 1)CARE A4+; ISSUER NOT COOPERATING* (14-Jan-19)         | 1)CARE A3 (16-Aug-17)                     |
| 3.      | Fund-based - LT-Bank Overdraft         | LT              | -                              | -      | 1)CARE B; Stable; ISSUER NOT COOPERATING* (06-May-20) | 1)CARE D; ISSUER NOT COOPERATING* (25-Mar-20)<br>2)CARE BB+; Stable (21-Aug-19) | -   | -   |

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities- NA****Annexure 4: Complexity level of various instruments rated for this company**

| Sr. No. | Name of the Instrument              | Complexity Level |
|---------|-------------------------------------|------------------|
| 1.      | Fund-based - LT-Bank Overdraft      | Simple           |
| 2.      | Fund-based - LT-Cash Credit         | Simple           |
| 3.      | Non-fund-based - ST-Bank Guarantees | Simple           |

**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](mailto:care@careratings.com) for any clarifications.

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### About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over two decades, it has established itself as one of the leading credit rating agencies in India. CARE is registered with the Securities and Exchange Board of India (SEBI) and also recognized as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). CARE Ratings is proud of its rightful place in the Indian capital market built around investor confidence. CARE Ratings provides the entire spectrum of credit rating that helps the corporates to raise capital for their various requirements and assists the investors to form an informed investment decision based on the credit risk and their own risk-return expectations. Our rating and grading service offerings leverage our domain and analytical expertise backed by the methodologies congruent with the international best practices.

#### Disclaimer

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