

## Pankaj C. Patel

March 17, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	5.00	<b>CARE B-; Stable; ISSUER NOT COOPERATING* (Single B Minus; Outlook: Stable ISSUER NOT COOPERATING*)</b>	Revised from CARE B; Stable (Single B; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	1.00	<b>CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)</b>	Rating moved to ISSUER NOT COOPERATING category
<b>Total Bank Facilities</b>	<b>6.00 (Rs. Six Crore Only)</b>		

Details of instruments/facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

CARE Ratings Ltd has been seeking information from Pankaj C. Patel (PCP) to monitor the rating vide e-mail communications/letters dated January 11, 2022, January 14, 2022, January 31, 2022, February 04, 2022, February 09, 2022 and numerous phone calls. However, despite our repeated requests, the trust has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE Ratings Ltd has reviewed the ratings on the basis of the best available information which however, in CARE Ratings Ltd.'s opinion is not sufficient to arrive at a fair rating. The rating on PCP's bank facilities will now be denoted as **CARE B-; Stable; ISSUER NOT COOPERATING\*/ CARE A4; ISSUER NOT COOPERATING\***.

**Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).**

The rating assigned to the bank facilities of Pankaj C. Patel (PCP) factored in its small-scale operations as a partnership firm and leveraged capital structure and debt coverage indicators. The rating further remains constrained Low Order book, Tender driven nature of business with highly competitive intensity, Volatility in input prices and absence of price escalation clause and Geographical concentration risk being a regional player. The rating, however, draw comfort from well experienced partners having long experience in construction industry.

### Detailed description of the key rating drivers

At the time of last rating on February 12, 2021 the following were the rating strengths and weaknesses.

#### Key Rating Weakness

##### **Small scale of operations**

Total Operating Income (TOI) of PCP declined by over 40% in FY20 at Rs. 6.80 crore; albeit remained small (Rs. 11.46 crore in FY19). Decrease in TOI is mainly due to lower orders from customers during the year. However, PBILDT margin has improved by 744 bps to 12.30% during FY20 (4.86% during FY19). The improvement was mainly on account of lower material cost during the year. However, PAT Margin has declined by 31 bps during FY20 and remained low at 0.10% (0.41% during FY19) mainly due to higher interest and finance charges. GCA levels declined from Rs. 0.27 crore during FY19 to Rs.0.20 crore during FY20. Till January 31, 2021, PCP achieved TOI of around Rs. 5 crore.

##### **Leveraged capital Structure and weak debt coverage indicators**

Capital structure of PCP remained leveraged marked by overall gearing ratio of 2.22x as on March 31, 2020 (2.07x as on March 31, 2019). Marginal deterioration was mainly on account of higher total debt level which pertains to higher working capital utilization. Further, debt coverage indicators continued to remain weak marked by Total debt to GCA ratio of 36.77 years during FY20 (24.91 years during FY19) and interest coverage ratio of 1.28 times during FY20 (1.84 times during FY19). The deterioration was mainly account of lower GCA levels as well as higher finance charges respectively.

##### **Low Order book**

Order book of PCP remained low at Rs. 13.13 crore as on January 29, 2021 (Rs. 8.46 crore as on December 09, 2019). The unexecuted portion of the order book to sales ratio stands at 1.93 times (equivalent to total operating income of FY20) and at 1.15 times (equivalent to total operating income of FY19) denoting low revenue visibility.

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

\*Issuer did not cooperate; Based on best available information

### **Partnership nature of constitution**

The constitution as a partnership firm restricts PCP's overall financial flexibility in terms of limited access to external funds for any future expansion plans along with inherent risk of possibility of withdrawal of capital and dissolution of the firm in case of death/insolvency of any of the partners.

### **Tender driven nature of business with high competitive intensity**

PCP participates in the tenders passed by the state government bodies for civil construction work mainly pertaining to Road construction. Hence, the entire business prospects are highly dependent on the government tenders. The civil construction industry is highly fragmented in nature with presence of large number of unorganized players and a few large organized players. Further, the profitability also varies among the projects. Hence, the aggressive bidding by the players in order to bag the contracts with high competition may lead to dip in its profitability.

### **Volatility in input prices and absence of price escalation clause**

The prices of the key raw materials viz., Steel, cement and aggregates are very volatile in nature. Although, PCP does not have an in-built price escalation clause in its majority of current contracts except bitumen, the firm includes the possibility of raw material volatility at the time of bidding for contracts. Hence, volatility in input prices also impacts the profitability margins of the firm.

### **Geographical concentration risk**

PCP is a regional player in the construction industry and has executed various projects for road construction mainly for government department within the state of Gujarat specifically Nadiad and Anand region. The major work is focused in the Gujarat region thereby reflecting geographical concentration risk.

### **Key Rating Strengths**

#### **Experienced partners**

PCP was established in 1979 and now it is being managed four partners of Patel family. Mr Pankaj Patel holds more than four decades of experience in the industry while other partners also hold long experience in construction industry.

**Analytical approach:** Standalone

#### **Applicable Criteria:**

[Policy in respect of Non-cooperation by issuer](#)

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

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

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

[Rating Methodology – Construction Sector](#)

[Criteria for Short Term Instruments](#)

#### **About the Firm**

Nadiad (Gujarat) based Pankaj C. Patel (PCP) was established as a partnership firm by the Patel family in November 1979. However, in 2019, Mrs. Shantaben Patel has retired and Mrs. Sinali M. Patel has joined as a partner. The firm is engaged in civil construction work, mainly road construction work for Government and semi-Government departments in Gujarat. The firm operates largely in Gujarat, with specific focus on the Anand, Nadiad and Kheda regions. PCP is an approved 'AA' class contractor with the State Government of Gujarat.

<b>Brief Financials (Rs. crore)</b>	<b>FY20 (A)</b>	<b>FY21 (A)</b>	<b>9MFY22 (Prov.)</b>
Total operating income	6.80	NA	NA
PBILDT	0.84	NA	NA
PAT	0.01*	NA	NA
Overall gearing (times)	2.22	NA	NA
Interest coverage (times)	1.28	NA	NA

A: Audited, Prov.: Provisional, NA – Not available; \*actual amount Rs. 69000

**Status of non-cooperation with previous CRA:** ICRA has retained its ratings assigned to the bank facilities of PCP vide press release dated February 18, 2022 on account of its inability to carry out a rating surveillance in the absence of the requisite information from the Firm.

**Any other information:** Not Applicable

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

**Covenants of rated instrument/facility:** Please refer Annexure-3

**Complexity level of various instruments rated for this Firm:** Please refer 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	-	-	-	5.00	CARE B-; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantee	-	-	-	1.00	CARE A4; ISSUER NOT COOPERATING*

\*Issuer did not cooperate; based on best available information

**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-Term Loan	LT	-	-	-	-	1)Withdrawn (26-Dec-19) 2)CARE B-; Stable; ISSUER NOT COOPERATING* (04-Apr-19)	1)CARE B-; Stable (06-Sep-18)
2	Fund-based - LT-Cash Credit	LT	5.00	CARE B-; Stable; ISSUER NOT COOPERATING*	-	1)CARE B; Stable (12-Feb-21)	1)CARE B; Stable (26-Dec-19) 2)CARE B-; Stable; ISSUER NOT COOPERATING* (04-Apr-19)	1)CARE B-; Stable (06-Sep-18)
3	Non-fund-based - ST-Bank Guarantee	ST	1.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (12-Feb-21)	1)CARE A4 (26-Dec-19) 2)CARE A4; ISSUER NOT COOPERATING* (04-Apr-19)	1)CARE A4 (06-Sep-18)

\*Issuer did not cooperate; based on best available information

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable**Annexure 4: Complexity level of various instruments rated for this Firm**

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

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

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

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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### About CARE Ratings Limited:

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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