CareEdge RATINGS

Picasona Enterprises (Proprietor: Ramesh Prasad)

August 06,2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	7.50	CARE BB-; Stable	Assigned
Short Term Bank Facilities	7.50	CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The ratings assigned to the bank facilities of Picasona Enterprises (PE) is constrained by the firm's tender driven nature of operation with exposure to intense competition, constitution as a proprietorship entity, working capital intensive nature of operations and inherent risk associated with construction sector. The ratings, however, derives strength from the experience of the promoters, improvement in financial performance over the last 4 years, reputed clientele and satisfactory capital structure and debt protection metrices.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Change in constitution from proprietorship to limited company.
- Improvement in operating income over Rs.250 crore while maintaining operating margins at current levels on a sustained basis.
- Improvement in gross current asset days below 200 days on a sustained basis.

Negative factors

- Moderation in operating income to below Rs.120 crores on a sustained basis.
- Moderation in gross current asset days above 400 days on a sustained basis.

Analytical approach: Standalone

Outlook: Stable

Stable outlook reflects the firm's ability to sustain and improve its revenues going ahead with stable margins while maintaining its capital structure.

Detailed description of the key rating drivers:

Key Rating Weaknesses

Tender-based nature of operations in an intensely competitive construction industry

PE receives most of its work orders from Indian railways. All orders are tender based, and the revenues are dependent on the PE's ability to bid successfully for these tenders indicating a risk of non-receipt of contract in a competitive industry. Also, the profitability margins of the firm may come under pressure because of the competitive nature of the industry. There are numerous organized and unorganized players operating in the segment due to which there is intense competition. However, the promoters' long industry experience in railway construction industry mitigates this risk to some extent.

Constitution as a proprietorship concern with risk of withdrawal of capital

Proprietorship nature of business has an inherent risk of withdrawal of capital by the proprietor at the time of his personal contingency resulting in reduction of capital base leading to adverse effect on capital structure. Furthermore, proprietorship firms have restricted access to external borrowing as credit worthiness of proprietor would be the key factors affecting credit decision for the lenders. PE, being a proprietorship firm, is exposed to inherent risk of the proprietorship's capital being withdrawn at time of personal contingency and firm being dissolved upon the death/retirement/insolvency of the proprietor.

Inherent risk associated with the construction sector

Inherent risks involved in the construction industry such as aggressive bidding, interest rate risk, volatile commodity prices and delays in project due to unavailability of dates from railway departments for executing the work have collectively affected the credit profile of the developers in the past.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Working capital intensive nature of business
The operations of firm are working capital intensive due to tender based and long-term nature of contracts. Further, a part of the sales proceeds is also withheld in the form of retention money due to duration of construction projects, which gets released after the successful completion of performance guarantee test period. The collection period of the firm is 186 days in FY24 (FY23:103 days). In addition, the firm has a high gross current asset (days) of 309 days in FY24 leading to high working capital requirement for the business. The same is expected to remain at similar levels in medium term.

Key Rating Strengths

Reputed clientele leading to low counterparty risk
PE has executed contracts of reputed companies. The clientele majorly includes Tata steel Ltd, Dalmia Cement (Bharat) Limited, Ambuja Cement Limited, Hindustan Zinc Limited, Shree Cement Limited, ESL Steel Limited and Ultratech Cement Limited etc. which ensures timely receipt of receivable and thus mitigates the counterparty credit risk to a large extent.
The firm receives order book for both short term and long-term duration. The firm has order book position of around Rs 125.16 crores as on April 1, 2024 which is 0.74x of FY24 turnover. The entity receives order on an ongoing basis for railway signalling and sidings. Some of the contracts for railway signalling are for shorter duration of 3-4 months. Also, the company receives orders from existing clients as scope expansion of existing orders on a consistent basis.

Improvement in financial performance over last 4 years
The total operating income of the entity has grown at a CAGR of 39% over the last 4 years from Rs. 46.39 crores in FY20 to Rs. 174.77 crore in FY24. The scale of operations has increased majorly owing to growing railway siding requirements by companies post covid-19. The operating profit margins of the firm has improved over the last 4-5 years from around 5% in FY20 to around 9% in FY24 majorly owing to improvement in scale of operations. The scale of operations are expected to improve gradually in medium term with improved order flow and better execution of orders.

Satisfactory capital structure and debt coverage metrices
The overall capital structure continues to be satisfactory. The overall gearing ratio has improved from 1.43x as on March 31, 2023 to 0.93x as on March 31, 2024 majorly due to increase in tangible net worth with accrual of profits to reserves. The total debt to GCA has also improved from 2.88x as on March 31, 2023 to 2.42x as on March 31, 2024. The reason for improvement in total debt to GCA is the increase in GCA from Rs. 6.66 crore in FY23 to Rs 8.19 crore in FY24.

Liquidity: Adequate
The liquidity of Picasona Enterprises is marked adequate with a gross cash accrual of Rs 8.19 crore in FY24 as against loan repayment obligation of around Rs 2.40 crore. The GCA levels are expected to improve in near term, given the expected improvement in operating income. Furthermore, as on March 31, 2024, the company had cash and bank balance of Rs 15.97 crore and lien marked FD with bank of Rs 4.31 crore. The average utilisation of fund-based limit is 73%. Utilisation of non-fund limits stood at around 97% as on March 31, 2024.

Applicable criteria
Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Short Term Instruments

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

Picasona Enterprises (PE) is a proprietorship firm headed by Mr. Ramesh Prasad in Kolkata, West Bengal. The firm started its operation in the year 1993. The firm carries out detailed designs and drawings for all types of rail infrastructure like signalling/telecom works, civil engineering, electrical engineering, etc. The firm has successfully completed number of construction works/projects for private railway sidings and siding works of various industries. The firm is equipped with a team of qualified professionals in all sectors of Civil Engineering, Signalling/Telecom Works & OHE, majorly for Railway sidings.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (UA)
Total operating income	146.63	174.77
PBILDT	13.49	15.89
PAT	6.21	7.74
Overall gearing (times)	1.43	0.93
Interest coverage (times)	12.04	11.42

A: Audited UA: Unaudited; Note: 'the above results are latest financial results available'

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: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Bank Overdraft		-	-	-	7.50	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	7.50	CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - ST-Bank Guarantee	ST	7.50	CARE A4				
2	Fund-based - LT-Bank Overdraft	LT	7.50	CARE BB-; Stable				

LT: Long term; ST: Short term

Annexure-3: Detailed explanation of covenants of the rated instruments/facilities: Not Applicable

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Bank Overdraft	Simple
2	Non-fund-based - ST-Bank Guarantee	Simple

Annexure-5: Lender details

To view the lender wise details of bank facilities please click here

Note on the complexity levels of the rated instruments: CARE Ratings 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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