

B L Mehta Constructions Private Limited

February 07, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	5.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Short-term Bank Facilities	30.00	CARE BB-; Stable/ CARE A4 (Double B Minus; Outlook: Stable/ A Four)	Assigned
Total Facilities	35.00 (Rs. Thirty Five crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale and key rating drivers

The ratings assigned to the bank facilities of B L Mehta Constructions Private Limited (BLM) are constrained by its small and fluctuating scale of operations, low profitability margins, weak debt coverage indicators and elongated operating cycle. The ratings are also constrained by the intense competition due to tender driven nature of business and fragmented nature of the construction sector. The ratings, however, derive support from the experienced promoters, long track record of operations, moderate capital structure & order book position with presence of price escalation clause in contracts and positive demand outlook for construction industry.

Going forward, the ability of the company to successfully execute projects in time & recover contract proceeds and scale-up its operations while improving the debt coverage indicators & profitability margins will remain the key rating sensitivities.

Detailed description of the key rating drivers

Weaknesses

Small and fluctuating scale of operations with low profitability margins

The company's scale of operations has remained low marked by Total Operating Income (TOI) of Rs. 57.18 crore in FY17. The small scale limits the company's financial flexibility in times of stress and deprives it from scale benefits. Furthermore, the scale of operations of the company witnessed a fluctuating trend during FY15-FY17 period as TOI declined from Rs. 115.66 crore in FY15 to Rs. 46.42 crore in FY16.

The profitability margins of the company stood low marked by PBILDT margin and PAT margin of 7.23% and 0.20% respectively in FY17. The operating profit margin of BLM stood low owing to its presence in highly

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

fragmented industry. This coupled with tendering process in order procurement results into intense competition within the industry.

Weak debt coverage indicators

The debt coverage indicators of the company stood weak marked by interest coverage ratio and total debt to GCA of 1.11x in FY17 and 20.81x for FY17 respectively. The interest coverage ratio deteriorated from 1.83x in FY16 owing to a decrease in PBILDT in absolute terms coupled with an increase in the interest expenses. Additionally, the total debt to GCA also deteriorated from 9.27x for FY16 owing to an increase in the total debt level coupled with declining GCA.

Elongated operating cycle

The average operating cycle of the company stood at 118 days for FY17 (PY: 132 days). The company receives payment from the client on percentage of completion basis. Nearly 90% of the bill amount raised by the company is received every 15 days. The company receives credit period of upto 15 days from its suppliers of raw materials. The average utilization of cash credit limits stood at 80% for the last 12 months period ended December 2017.

Intense competition due to exposure to tender driven nature of business

BLM's business is tender-based which is characterized by intense competition resulting in low operating margins for the company. The growth of business depends entirely upon the company's ability to successfully bid for tenders and emerge as the lowest bidder. Therefore, the ability of the company to secure new orders and successful execution with existing competition remains a concern.

Fragmented nature of the construction sector albeit improving growth prospects

The construction sector in India is highly fragmented with a large number of small and mid-sized players. This coupled with tendering process in order procurement results into intense competition within the industry. Despite these road blocks faced by the industry, the sector is expected to grow, given huge economic significance associated with it and rising investor interest. Also, the outlook for Indian construction sector continues to be stable in the medium to long-term on account of increased thrust of Government on development of infrastructure to support economic growth.

Strengths

Experienced promoters and established track record of entity

BLM has been working as a Civil Contractor for thirteen years which aids in establishing relationship with suppliers. The company is currently being managed by Mr. Brij Lal and his son Mr. Piare Lal Mehta. Both the directors have an industry experience of around three and a half decades through their association with BLM since the inception and previously through Inderjit Mehta Constructions Private Limited (CRISIL BBB-/A3 ; Positive) as directors.

Moderate capital structure

Capital structure of the company remained moderate with overall gearing ratio of 1.48x as on March 31, 2017. The same deteriorated from 1.12x as on March 31, 2016 owing to an increase in term loan and unsecured

loans coupled with higher utilization of working capital limits as on last balance sheet date as compared to previous year.

Moderate order book position with presence of price escalation clause in contracts

The company has a moderate order book position with outstanding order book of Rs. 272.00 crore as on January 3, 2018, to be executed by March 2019. The current order book of the company is 4.76x times of the revenue for FY17. The order book of the company comprises orders in early stages of execution, which provides sufficient medium term visibility on the revenue stream. The price escalation clause is present in some of the contracts executed by BLM, thereby mitigating the risk of raw material price fluctuation.

Analytical Approach: Standalone

Applicable Criteria

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

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

[Criteria for short term instruments](#)

[Rating Methodology - Service Sector Companies](#)

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

About the company

B L Mehta Constructions Private Limited (BLM) was incorporated as a private limited company in January 2005 and is currently being managed by Mr. Brij Lal and his son Mr. Piare Lal Mehta. BLM is engaged in civil construction work and undertakes construction of buildings and departments only for government sector entities. The company is registered as a class 'SS' contractor with Military Engineering Services (MES), Jaipur Development Authority, Housing Board Chandigarh, CRPF, M.P. Police Housing & Infrastructure Development Corporation Limited, Maharashtra State Police Housing & Welfare Corporation Limited, etc. The orders undertaken by the company are secured through the competitive bidding process.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	46.42	57.18
PBILDT	6.24	4.14
PAT	0.97	0.11
Overall gearing (times)	1.12	1.48
Interest coverage (times)	1.83	1.11

A: Audited

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Not Applicable

Rating History (Last three years): Please refer Annexure-2

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

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About CARE Ratings:

CARE Ratings commenced operations in April 1993 and over nearly 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.

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In case of partnership/proprietary concerns, the rating assigned by CARE is based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor in addition to the financial performance and other relevant factors.

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 BB-; Stable
Non-fund-based - LT/ST-Bank Guarantees	-	-	-	30.00	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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	5.00	CARE BB-; Stable	-	-	-	-
2.	Non-fund-based - LT/ST-Bank Guarantees	LT/ST	30.00	CARE BB-; Stable / CARE A4	-	-	-	-

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