

## B L Mehta Constructions Private Limited

July 03, 2019

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long term Bank Facilities	3.00 (reduced from Rs.5.00 crore)	<b>CARE BB; Stable (Double B; Outlook: Stable)</b>	<b>Revised from CARE B+; Stable; Issuer Not Cooperating (Single B Plus; Outlook: Stable; Issuer Not Cooperating)</b>
Long-term / Short-term Bank Facilities	7.50 (reduced from Rs.30.00 crore)	<b>CARE BB; Stable / CARE A4 (Double B; Outlook: Stable / A Four)</b>	<b>Revised from CARE B+; Stable / CARE A4; Issuer Not Cooperating (Single B Plus; Outlook: Stable/A Four; Issuer Not Cooperating)</b>
Total facilities	10.50 (Rupees Ten crore and Fifty lakhs only)		

*Details of instruments/facilities in Annexure-I*

### Detailed Rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of B L Mehta Constructions Private Limited (BLM) takes into account increasing scale of operations in FY17-19 period (refers to the period from April 01 to March 31) and improving profitability margins coupled with improving overall solvency position. The rating continues to derive strength from the experienced promoters, established track record of operations, and moderate order book position. The rating, however, is constrained by elongated operating cycle, intense competition due to tender driven nature of business and fragmented nature of the construction sector.

Going forward, the ability of the company to scale up its operations while improving its profitability margins and efficiently managing its working capital requirements would remain the key rating sensitivities

### Detailed description of the key rating drivers

#### Key Rating Strengths

#### **Increasing scale of operations with improving profitability margins**

The TOI of the company increased from Rs.57.18 crore in FY17 to Rs.105.88 crore in FY18 at an annual growth rate of 85.17% due to higher number of orders executed in FY18. Furthermore, the company has achieved an income of Rs.114 crore during FY19 (Prov.) due to higher execution of work orders during the period.

Further, the PBILDT margin of the company improved from 7.23% in FY17 to 8.52% in FY18 due to execution of contracts having better margins. Consequently, and also due to decline in interest and depreciation expenses, the PAT margin of the company improved from 0.20% in FY17 to 3.10% in FY18.

#### **Moderate and improving overall solvency position**

The capital structure of the company stood moderate marked by overall gearing ratio of 1.02x as on March 31, 2018. The same improved from 1.48x as on March 31, 2017 due to lower utilization of working capital limits as on last balance sheet date as compared to previous year coupled with accretion of profits into the net worth base of the company.

The interest coverage ratio of the company stood comfortable and improved to 2.92x in FY18 as compared to 1.11x in FY17 due to increase in PBILDT in absolute terms coupled with decrease in interest expenses in FY18. The total debt to GCA ratio also stood comfortable and improved to 4.83x as on March 31, 2018 as compared to 20.91x as on March 31, 2017 due to higher cash accruals generated in FY18 coupled with decline in total debt outstanding in FY18.

#### **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 as directors.

#### **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.121.00 crore as on June 27, 2018, to be executed over the next 2 years. The current order book of the company is ~1.06x times of the revenue for FY19 (Prov.). The order book of the company comprises orders in early stages of execution, which provides sufficient medium term

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

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.

### **Key Rating Weaknesses**

#### ***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.

#### ***Liquidity position***

The average operating cycle of the company stood elongated at 63 days for FY18 (PY: 118 days). The average utilization of working capital limit remained ~50% for the last 12 months period ended May 2019. The current and quick ratios both remained moderate at 2.23x, as on March 31, 2018 (Previous Year: 2.24x).

**Analytical Approach:** Standalone

#### **Applicable Criteria:**

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

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

[Construction Sector Methodology](#)

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

[Criteria for short term instruments](#)

#### **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.

<b>Brief Financials (Rs. crore)</b>	<b>FY17 (A)</b>	<b>FY18 (A)</b>
Total operating income	57.18	105.88
PBILDT	4.14	9.02
PAT	0.11	3.28
Overall gearing (times)	1.48	1.02
Interest coverage (times)	1.11	2.92

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

**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	-	-	-	3.00	CARE BB; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	7.50	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Fund-based - LT-Cash Credit	LT	3.00	CARE BB; Stable	-	1)CARE B+; Stable; ISSUER NOT COOPERATING* (20-Mar-19)	1)CARE BB-; Stable (07-Feb-18)	-
2.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	7.50	CARE BB; Stable / CARE A4	-	1)CARE B+; Stable / CARE A4; ISSUER NOT COOPERATING* (20-Mar-19)	1)CARE BB-; Stable / CARE A4 (07-Feb-18)	-

**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](http://www.careratings.com). 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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