

Bharti Buildcon

September 26, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	1.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Short-term Bank Facilities	8.00	CARE A4 (A Four)	Assigned
Total	9.00 (Rupees Nine crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Bharti Buildcon (BBN) are primarily constrained on account of small scale of operations in the highly fragmented and competitive construction industry with tender based nature of operations and geographical concentration risk. The ratings, further, constrained on account of stretched liquidity position.

These weaknesses, however, offset to an extent on account of experienced management with established track record of operations and healthy order book position. The ratings, further, derive strength from moderate profitability margins and comfortable solvency position.

Increase in order book position along with timely execution of orders resulting in increase in scale of operations and efficient working capital management would be the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operations

Being present in the civil construction industry, the scale of operations of the firm depends upon the order book position and timely execution and receipt of payment for the same. Scale of operations of BBN has witnessed a fluctuating trend in the last three financial years ended on March 31, 2019. During FY18, Total Operating Income (TOI) of the firm has dipped by 25.53%, whereas in FY19, TOI has witnessed a growth of around 13.79% y-o-y. Further, scale of operations of the firm stood small at Rs.13.48 crore. Further, till August 26, 2019, it has registered turnover of Rs.20.00 crore approximately.

Stretched liquidity position

The firm follows percentage of completion method for accounting of the revenue recognition and raises bill to the government department in every 15-20 days. The firm generally receives payment in 2-3 days after the bill is received from treasury department. It gets an average credit period of around 160-175 days from suppliers. Due to this, the operating cycle of the firm stood negative at 156 days in FY19 as against negative 173 days in FY18 owing to decline in creditor period. The current ratio and quick ratio stood comfortable at 1.92 times and 1.90 times respectively as on March 31, 2019. The firm utilizes upto 90% of its fund based and non-fund limit for the last 12 months ended July, 2019. The cash and bank balance stood at Rs.0.52 crore as on March 31, 2019. However, the firm envisages gross cash accruals of Rs.3.78 Crore as against total debt repayment of Rs.0.36 crore in FY20

Geographical concentration of revenue with constitution as a partnership concern

BBN is majorly engaged in the construction of water ways, canals, bridges and irrigation facility for government department in Rajasthan, Madhya Pradesh and Jharkhand. Presently, the firm's order book is concentrated in Madhya Pradesh and it has not executed the same size project in past. Furthermore, the gross block of fixed asset stood low at Rs.4.55 crore.

Also, its constitution as a partnership concern with low net worth base restricts its overall financial flexibility in terms of limited access to external funds for any future expansion plans. Further, there is inherent risk of possibility of withdrawal of capital and dissolution of the firm in case of death/insolvency of partners.

Favorable outlook for the road construction industry in the long-term, but execution challenges continue to weigh on the performance of the industry

The outlook for Indian road construction sector continues to be favorable in the medium to long-term on account of increased thrust of Government on development of road infrastructure to support economic growth and increased demand for road transportation network. While the industry has been highly fragmented with a large number of small and mid-sized players, award of government contracts on tender basis and low technical expertise required in road construction has

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

translated into intense competition within the industry. In the recent times, the road construction sector has faced increased execution challenges including delays in land acquisition and regulatory clearances, higher interest rates and elongated working capital cycle with longer gestation period for projects. This had collectively put pressure on the credit profile of the players, including decline in profitability and deterioration in solvency position. However, initiatives like decoupling of the two stages of environmental clearance to start construction work, award of cash contracts in place of projects on Build-Operate-Transfer (BOT) basis (which require upfront equity investment along with working capital) and strong thrust on development of road network by the government is likely to provide the sector with much needed relief and it is expected to grow, given the huge economic significance associated with it.

Fragmented nature of construction sector with tender based nature of operations

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, fluctuating revenues and restrictions in profitability. Additionally, continued increase in execution challenges including delays in land acquisition, regulatory clearances, aggressive bidding, interest rate risk and delays in project due to environmental clearance are other external factors that affect the credit profile of industry players

Key Rating Strengths

Experienced management

The partners of the firm are actively involved in overall affairs of the firm. Mr. Ajay Sharma, Diploma in Civil Engineering, has more than a decade of experience in the industry and looks after the overall affairs of the firm. He is supported by his father; Mr Uday Pratap Sharma who has been associated in this industry for more than 35 years. The management has been instrumental in assisting the firm to achieve the growth strategies on account of their extensive experience in execution of contracts in the various Government departments. Further, they are supported by a team of qualified managerial personnel having long standing experience in their respective fields for executing contracts on time.

Long standing association with clients and healthy order book position

The firm is 'A' class approved contractor with Water Resource Department with presence in the industry since 2011 and has long-standing relationship with WRD from where it secures maximum of its contracts.

As on August 27, 2019, BBN has an outstanding order book position of Rs.153.89 crore forming more than 11 times of TOI of FY19 with 9 projects in hand reflecting healthy order book position to be executed in next 20-22 months, thereby translating into comfortable revenue visibility in the medium-term. Further, all the government contracts have price escalation clause thus mitigating the risk arising out of adverse movement in the raw material prices.

Moderate profitability margins

Despite fluctuations in Total Operating Income (TOI) of the firm, the profitability margins have witnessed a growing trend during the last three financial years ended in March, 2019. In FY19, profitability margins stood moderate with PBILDT and PAT margin of 12.42% and 2.78% as against 9.66% and 2.63% in FY18.

During FY19, PBILDT margin improved by 277 bps over FY18 owing to decrease in cost of material consumed. Further, with increase in PBILDT margin which is offset to an extent by increase in interest and depreciation cost, PAT margin improved by 14 bps over FY18. Furthermore, GCA level of the firm has also increased by 42.31% in FY19 and stood thin at Rs.1.02 crore due to higher depreciation.

Comfortable solvency position

During FY19, the firm availed new term loan along with higher infusion of partner's capital amounting to Rs.1.92 crore as well as lower working capital bank borrowings which has led to comfortable overall gearing of 0.35 times as on March 31, 2019 as against 0.39 times as on March 31, 2018. The debt coverage indicators also stood comfortable with total debt to GCA of 3.54 times as on March 31, 2019, improved from 4.42 times as on March 31, 2018 due to higher increase in GCA level than total debt of the firm. Further, interest coverage stood comfortable at 2.53 times in FY19.

Analytical Approach: Standalone

Applicable Criteria

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

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

[Criteria for Short Term Instruments](#)

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

Background of the firm

Madhya Pradesh based BBN was formed as a partnership concern in 2011 and subsequently, in 2013, new partners was admitted to the firm. Currently Mr. Ajay Sharma, Mrs. Bharti Sharma, Mrs. Ratna Sharma and Mrs. Rich Rajoriya shares profit & loss in 90:6:2:2 ratio. BBN is engaged in the civil construction business with major focus on construction of water ways, canals, bridges and irrigation facility for government department. The firm is registered as an "A" class approved government contractor with Water Resource Department (WRD) indicating eligibility to bid for contracts of any amount. It directly participates in government contracts and has long standing association with WRD, for whom the firm has been executing projects in Madhya Pradesh, Rajasthan and Jharkhand.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (Prov.)
Total operating income	11.85	13.48
PBILDT	1.14	1.67
PAT	0.31	0.37
Overall gearing (times)	0.39	0.35
Interest coverage (times)	2.64	2.53

A: Audited; Prov.:Provisional

Status of non-cooperation with previous CRA: None

Any other information: None

Rating History for 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	-	-	-	1.00	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	8.00	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	1.00	CARE BB-; Stable	-	-	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	8.00	CARE A4	-	-	-	-

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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