

Bharti Buildcon

November 12, 2020

Ratings

Facilities / Instruments	Amount (Rs. crore)	Ratings ¹	Rating Action
Long Term Bank Facilities	1.00	CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable ISSUER NOT COOPERATING*)	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable) and moved to ISSUER NOT COOPERATING category
Short Term Bank Facilities	8.00	CARE A4; ISSUER NOT COOPERATING* (A Four ISSUER NOT COOPERATING*)	Rating moved to ISSUER NOT COOPERATING category
Total Facilities	9.00 (Rs. Nine Crore Only)		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

CARE has been seeking information from Bharti Buildcon (BBN) to monitor the ratings vide e-mail communications/ letters dated June 05, 2020, July 10, 2020, July 16, 2020, July 20, 2020, August 19, 2020, September 08, 2020, September 18, 2020, October 06, 2020, October 12, 2020, October 14, 2020, October 30, 2020 and numerous phone calls. However, despite our repeated requests, the firm has not provided the requisite information for monitoring the ratings. In line with the extant SEBI guidelines, CARE has reviewed the ratings on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating. The ratings on BBN's bank facilities will now be denoted as **CARE B+; Stable/ 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 ratings.

The ratings assigned to the bank facilities of BBN have been revised on account of non-availability of requisite information. The ratings assigned to the bank facilities of 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, however, derive strength from experienced management with established track record of operations, healthy order book position, moderate profitability margins and comfortable solvency position.

Detailed description of the key rating drivers

At the time of last rating on September 26, 2019 the following were the rating strengths and weaknesses:

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.

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.

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

*Issuer did not cooperate; Based on best available information

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 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 de-coupling 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. As per banker interaction, BBN has availed moratorium benefit on its bank facilities from March 2020 for six months as announced by RBI in wake of COVID pandemic.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of non-co-operation by issuer](#)

[CARE's default recognition policy](#)

[Criteria on assigning Outlook to Credit Rating](#)

[Rating methodology - Construction](#)

[Financial ratios - Non Financial Sector](#)

[Criteria for Short Term Instruments](#)

About 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: Not Applicable

Any other information: Not Applicable

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 B+; Stable; ISSUER NOT COOPERATING*
Non-fund-based - ST-Bank Guarantees	-	-	-	8.00	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 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
1.	Fund-based - LT-Cash Credit	LT	1.00	CARE B+; Stable; ISSUER NOT COOPERATING*	-	1)CARE BB-; Stable (26-Sep-19)	-	-

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018
2.	Non-fund-based - ST-Bank Guarantees	ST	8.00	CARE A4; ISSUER NOT COOPERATING*	-	1)CARE A4 (26-Sep-19)	-	-

*Issuer did not cooperate; Based on best available information

Annexure 3: Complexity level of various instruments rated for this Firm

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

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 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.

Disclaimer

CARE's ratings are opinions on the likelihood of timely payment of the obligations under the rated instrument and are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. CARE's ratings do not convey suitability or price for the investor. CARE's ratings do not constitute an audit on the rated entity. CARE has based its ratings/outlooks on information obtained from sources believed by it to be accurate and reliable. CARE does not, however, guarantee the accuracy, adequacy or completeness of any information and is not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by CARE have paid a credit rating fee, based on the amount and type of bank facilities/instruments. CARE or its subsidiaries/associates may also have other commercial transactions with the entity. In case of partnership/proprietary concerns, the rating /outlook assigned by CARE is, inter-alia, based on the capital deployed by the partners/proprietor and the financial strength of the firm at present. The rating/outlook 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. CARE is not responsible for any errors and states that it has no financial liability whatsoever to the users of CARE's rating.

Our ratings do not factor in any rating related trigger clauses as per the terms of the facility/instrument, which may involve acceleration of payments in case of rating downgrades. However, if any such clauses are introduced and if triggered, the ratings may see volatility and sharp downgrades.

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