Navkar Builders Limited

June 14, 2019

Ratings

Facilities	**Amount (Rs. crore)**	**Ratings[1]**	**Rating Action**
Long Term Bank facilities	8.50 (reduced from 13.00)	**CARE BB+; Stable (Double B Plus; Outlook: Stable)**	Revised from CARE BB-; Stable (Double B Minus; Outlook: Stable) and removed from Issuer Not cooperating
Short Term Bank facilities*	14.00 (enhanced from 11.00)	**CARE A4+ (A Four Plus)**	Revised from CARE A4 (A Four and removed from Issuer Not cooperating
Total Facilities	**22.50 (Rupees Twenty Two crore and Fifty lakh only)**		

Details of facilities in Annexure -1

**Rating assigned to the Short Term Bank Facilities (Letter for Credit) stands withdrawn as it is surrendered by Navkar Builders Limited (NBL)*

In the absence of minimum information required for the purpose of rating, CARE was unable to express an opinion on the ratings of NBL and in line with the extant SEBI guidelines, CARE reaffirmed the ratings of bank facilities of the company to 'CARE BB-; Stable; ISSUER NOT COOPERATING' and 'CARE A4; ISSUER NOT COOPERATING'. However, the company has now submitted the requisite information to CARE. CARE has carried out a full review of the ratings and the ratings stand at 'CARE BB+; Stable/ CARE A4+'.

Detailed rationale

The revision in the ratings assigned to the bank facilities of NBL is primarily on account of a significant increase in its scale of operations, and profitability, comfortable capital structure and improvement in debt coverage indicators along with satisfactory liquidity position during FY19 (refers to the period April 01 to March 31). The ratings, further, continue to derive comfort from experienced promoters, established business operations and satisfactory order book position.

The ratings, however, continue to remain constrained on account of presence NBL's in highly fragmented and competitive construction industry with inherent risk due to tender driven nature of business.

NBL's ability to maintain the growth in its scale of operations by bagging higher number of orders and improve its profit margins is the key rating sensitivities. Further, sustaining its comfortable solvency position along with better working capital management will also be crucial.

Detailed description of key rating drivers

Key Rating Weaknesses

Presence in highly fragmented and competitive construction industry with exposure to tender driven process

The industry in which NBL operates is highly fragmented and competitive in nature due to presence of many small, mid and large-sized players working at regional as well as national level. Highly competitive operating spectrum exerts pressure on profit margins of the participants.

Inherent risk due to tender driven nature of business

NBL works on various types of tenders such as contracts on drainage work, horizontal drillings, cable line work etc. The company mostly executes the tenders for Gujarat Government and Madhya Pradesh Government. This parameter emerges as an inherent risk to the business as Government issues tenders as per their requirement and this might not provide assurance for continuous flow of work.

Key Rating Strengths

Significant increase in scale of operations and profitability during FY19

During FY19, the scale of operations as marked by Total Operating Income (TOI) of NBL grew significantly by 167.35% y-o-y to Rs.155.62 crore as against Rs.58.21 crore in FY18, while it has exhibited a Compounded Annual Growth Rate (CAGR) of 93.00% for the period FY17-FY19. Significant growth in the scale of operations of NBL is mainly on account of higher number of orders bagged along with execution of sub-contracting work from other major players in infrastructure sector. Commensurate with an increase in scale of operations, PBILDT also increased by 123% y-o-y during FY19 and remained at Rs.10.34 crore, however, PBILDT margin declined by 133 bps y-o-y and remained moderate at 6.64% during FY19 as against 7.97% during FY18. Despite a decrease in PBILDT margin, PAT margin improved by 265 bps y-o-y and remained at

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

3.57% as against 0.92% during FY18 owing to a proportionate reduction in finance cost led by reduction in working capital limits during Q4FY18.

Comfortable capital structure with an improvement in debt coverage indicators
Capital structure marked by overall gearing continued to remain comfortable to 0.24 times as on March 31, 2019 compared to 0.25 times as on March 31, 2018 on the back of healthy net worth base owing to accumulation of profits to reserves. Debt coverage indicators improved significantly and remained comfortable as marked by total debt to Gross Cash Accruals (TDGCA) of 1.58 years as on March 31, 2019 as compared 12.01 years as on March 31, 2018 mainly on account of improvement in cash accruals led by increased scale of operations during FY19.The interest coverage ratio also improved and remained comfortable at 6.48 times during FY19 (2.40 times during FY18), led by decrease in interest costs coupled with an increase in operating profits.

Liquidity position
Liquidity position of NBL remained satisfactory as marked by current ratio of 1.20 times as on March 31, 2019 as against 1.27 times as on March 31, 2018. During FY19, operating cycle improved and remained comfortable and negative at 8 days while, the average working capital utilization for trailing 12 month period ended May, 2019 remained high at ~95%. Cash and Bank balance remained comfortable at Rs.13.07 crore as on March 31, 2019 while the cash flow from operating activities increased and remained comfortable at Rs.15.19 crore during FY19 (Rs.0.83 crore during FY18).

Satisfactory order book position
The order book position of NBL remained satisfactory at Rs.242.05 crore as on May 31, 2019 (1.56 times the TOI of FY19) which is expected to be executed in upcoming two years, providing medium-term revenue visibility. Owing to reputed client profile and higher number of government contracts, the counter party risk gets mitigated to a certain extent.

Experienced promoters and established business operations
NBL primarily focuses on participating in Government tenders for executing drainage work, horizontal drilling, cable line work etc. NBL is also engaged into manufacturing of RCC Hume pipes and Ready Mix Concrete (RMC), as per market scenario. The key promoter Mr. Dakshesh Shah is well qualified who holds more than 2 decades of experience in the construction material manufacturing industry and civil construction industry, looks after overall day to day operations of the entity. Overall, operations of the entity are supported by other qualified professionals as well.

Analytical Approach: Standalone

Applicable Criteria
[Criteria on assigning Outlook to Credit Ratings]
[CARE's Policy on Default Recognition]
[Rating Methodology-Manufacturing Companies]
[Financial ratios – Non-Financial Sector]
[Criteria for Short Term Instruments]

About the Company
Ahmedabad- based (Gujarat) NBL, incorporated in June 1992, is promoted by Shah Family. NBL is a registered 'AA class' contractor with Government of Gujarat (GoG). The company executes contracts pertaining to drainage work, horizontal drilling, cable line work etc. for the different state governments mainly Gujarat and Madhya Pradesh and other private players. The company is also engaged in the manufacturing of Reinforced Cement Concrete (RCC) Vertical Hume Pipe with production capacity of manufacturing moulds ranging from 300 mm to 1400 mm) and ready mix concrete (RMC) and operates from its manufacturing facilities located at Kheda, Gujarat.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	58.21	155.62
PBILDT	4.64	10.34
PAT	0.54	5.56
Overall gearing (times)	0.25	0.24
Interest coverage (times)	2.40	6.48

A: Audited

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	-	-	-	8.50	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	14.00	CARE A4+
Non-fund-based - ST-Letter of credit	-	-	-	0.00	Withdrawn

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	8.50	CARE BB+; Stable	-	1)CARE BB-; Stable; ISSUER NOT COOPERATING* (11-Mar-19)	1)CARE BB-; Stable (28-Dec-17) 2)CARE BB-; Stable (15-Dec-17)	-
2.	Non-fund-based - ST-Bank Guarantees	ST	14.00	CARE A4+	-	1)CARE A4; ISSUER NOT COOPERATING* (11-Mar-19)	1)CARE A4 (28-Dec-17) 2)CARE A4 (15-Dec-17)	-
3.	Non-fund-based - ST-Letter of credit	ST	-	-	-	1)CARE A4; ISSUER NOT COOPERATING* (11-Mar-19)	1)CARE A4 (28-Dec-17) 2)CARE A4 (15-Dec-17)	-

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:

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