

Navkar builders Limited

December 15, 2017

Ratings

Facilities	Amount (Rs. crore)	Ratings ¹	Rating Action
Long-term Bank Facilities	13.00	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Short-term Bank Facilities	2.00	CARE A4 (A Four)	Assigned
Total Facilities	15.00 (Rupees Fifteen crore only)		

Details of instruments/facilities in Annexure -1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Navkar Builders Limited (NBL) are primarily constrained on account of financial risk profile marked by consistent decline in scale of operations coupled with profit margins, moderate debt coverage indicators, stretched liquidity position with elongated working capital cycle. Further, the rating remained constrained on account of geographical concentration risk and presence in highly fragmented and competitive industry with exposure to tender driven process.

However, the ratings derive strengths from experienced promoters coupled with established business operations, comfortable solvency position and moderate order book position.

The ability of NBL to increase its scale of operations along with improvement in profit margins and maintaining solvency position along with improvement in debt coverage indicators and liquidity position would remain the key rating sensitivities.

Detailed description of the key rating drivers

Key rating weaknesses

Consistent decline in scale of operations coupled with profit margins

For the past three years ended FY17 the scale of operations is consistently declining due to fewer numbers of tenders doled out by the government. During FY17 the company has registered TOI of Rs.42.15 crore as compared to Rs.64.86 crore in FY16 (A).

Further, during FY17 the PBILDT margin declined by 602 bps and stood at 9.63% as compared to 15.66% during FY16. Consequently, PAT margin has also declined and stood below unity during FY17 as against 3.50% during FY16. Owing to this, GCA has declined significantly by 47.05% and stood low at Rs.1.56 crore during FY17 as compared to Rs.2.95 crore during FY16.

Moderate debt coverage indicators

The debt coverage indicators stood moderate marked by TDGCA stood at 9.51x as on March 31, 2017 which has deteriorated from 5.50x as on March 31, 2016, the deterioration was mainly on account of decline in GCA level during the year, further an interest coverage ratio has also deteriorated and stood at 1.82x during FY17 (A) as compared to 3.91x during FY16 (A), mainly on account of decline in PBILDT level during the year.

Stretched liquidity position with elongated working capital cycle

Overall the liquidity position stood stretched as marked by current ratio of 1.18 times as on March 31, 2017 which was in line as compared to previous year. Quick ratio remained 0.97 as on March 31, 2017 as against 1.02 times as on March 31, 2016. During FY17, the working capital cycle remained elongated at 213 days on the back of substantial increase in the collection period along with increase in inventory days.

Geographical concentration risk

NBL has executed projects with the state of Gujarat only and the outstanding orders on hand as on October 31, 2017, is restricted towards different regions in the state of Gujarat state only. Hence, any unforeseen event and changes in state government policies may have a huge impact on the profitability of NBL, thus increasing its vulnerability to geographical risk.

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

The industry in which NBL operates is highly fragmented and intensely competitive due to presence of many small, mid and large-sized players working at regional level. Highly competitive operating spectrum exerted pressure on profit margin of the participants. Moreover, the orders are generally tender driven and floated by various government departments indicating a risk of non-receipt of contract.

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

Key rating strengths

Experienced promoters and established business operations

NBL operates into manufacturing of RCC Hume pipes and Ready Mix Concrete. The promoters are well qualified with Mr.Samir Patel (B.E. - Civil Engineering), Mr.Dakshesh Shah (B.E. - Electrical & Communication). Promoters hold more than 2 decades of experience in the construction material manufacturing industry and looks after overall day to day operations of the entity jointly. Overall, operations of the entity are supported by other qualified professionals as well.

Comfortable solvency position

Solvency position of NBL remained comfortable marked by an overall gearing of 0.45 times as on March 31, 2017 which has improved marginally from 0.50 times as on March 31, 2016 on the back of decrease in the total debt coupled with increase in the networth base as on balance sheet date.

Moderate order book position

NBL had moderate order-book position of Rs.39.79 crore as on October 31, 2017 (0.94 times the total income of FY17 (A)) to be executed in FY18 providing moderate revenue visibility in next year. The present order book of NBL comprises of orders from the government bodies and other reputed players which reduces the counter party risk to an extent due to strong credit profile. Nevertheless going forward, NBL's limited experience of executing large projects in the construction business and its ability to successfully complete these projects and simultaneously acquiring new contracts shall be critical from the credit perspective. Furthermore, contracts are covered under the price escalation clause where any adverse movement in the price fluctuations will be borne by the customers.

Analytical Approach: Standalone

Applicable Criteria

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

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

[Rating Methodology-Manufacturing Companies](#)

[Rating Methodologies: Short Term Instruments](#)

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

About the company

Ahmedabad (Gujarat) based Navkar Builders Limited (NBL), incorporated in June 1992, promoted by Shah Family. The company is primarily 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). NBL is a registered 'AA class' contractor with Government of Gujarat (GoG). The company executes the orders for the different departments of GoG and other private players. NBL operates from its manufacturing facilities located at Kheda.

Brief Financials (Rs. crore)	FY16 (A)	FY17 (A)
Total operating income	64.86	42.15
PBILDT	10.16	4.06
PAT	2.27	0.38
Overall gearing (times)	0.50	0.45
Interest coverage (times)	3.92	1.82

A: Audited

During H1FY18 (Provisional), NBL has achieved a TOI of Rs.15.25 crore.

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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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	-	-	-	13.00	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	1.00	CARE A4
Non-fund-based - ST-Letter of credit	-	-	-	1.00	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 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-Term Loan	LT	4.67	Suspended	-	-	1)Suspended (23-Mar-16) 2)CARE BB+ (09-Apr-15)	1)CARE BB+ (14-Apr-14)
2.	Fund-based - LT-Cash Credit	LT	13.00	Suspended	-	-	1)Suspended (23-Mar-16) 2)CARE BB+ (09-Apr-15)	1)CARE BB+ (14-Apr-14)
3.	Non-fund-based - ST-Letter of credit	ST	1.00	Suspended	-	-	1)Suspended (23-Mar-16) 2)CARE A4 (09-Apr-15)	1)CARE A4 (14-Apr-14)
4.	Non-fund-based - ST-Bank Guarantees	ST	11.00	Suspended	-	-	1)Suspended (23-Mar-16) 2)CARE A4 (09-Apr-15)	1)CARE A4 (14-Apr-14)
5.	Fund-based - LT-Buyers Credit	LT	-	-	-	-	1)Withdrawn (09-Apr-15)	1)CARE BB+ (14-Apr-14)
6.	Fund-based - LT-Cash Credit	LT	13.00	CARE BB-; Stable	-	-	-	-
7.	Non-fund-based - ST-Bank Guarantees	ST	1.00	CARE A4	-	-	-	-
8.	Non-fund-based - ST-Letter of credit	ST	1.00	CARE A4	-	-	-	-

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