

Nikhil Construction

May 06, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long term Bank Facilities	26.00	CARE B; Stable; ISSUER NOT COOPERATING* (Single B; Outlook: Stable; ISSUER NOT COOPERATING*)	ISSUER NOT COOPERATING; Revised from CARE D (Single D) on the basis of best available information
Short term Bank facilities	31.00	CARE A4; ISSUER NOT COOPERATING* (A Four; ISSUER NOT COOPERATING*)	ISSUER NOT COOPERATING; Revised from CARE D (Single D) on the basis of best available information
Total	57.00 (Rupees Fifty seven crore only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings have been revised relying on a recent written mail from bankers superseding their earlier mail wherein the account was reported as a Non-Performing Asset (NPA). The banker has now clarified that though there were technical delays in the loan against FD accounts (not rated by CARE), the account was standard.

CARE had, vide its press release dated March 25, 2020, placed the ratings of Nikhil Construction (NC) under the 'issuer non-cooperating' category as the firm had failed to provide information for monitoring of the rating. NC continues to be non-cooperative despite repeated requests for submission of information and has not paid the surveillance fees for the rating exercise as agreed to in its Rating Agreement.

In line with the extant SEBI guidelines, CARE has reviewed the rating on the basis of the best available information which however, in CARE's opinion is not sufficient to arrive at a fair rating.

Users of this rating (including investors, lenders and the public at large) are hence requested to exercise caution while using the above rating(s).

Detailed description of the key rating drivers

Key Rating Strengths

Experience of the promoter

Nikhil Constructions is a Pune based partnership entity established by four partners Mr Balasaheb D Pasalkar and his three sons Mr Yogesh Pasalkar, Mr Narendra Pasalkar, Mr Nikhil Pasalkar. Mr Balasaheb D. Pasalkar is Bachelor in Arts (BA) aged 63 having 24 years of experience in the field of the civil engineers works. The Partners have worked in various fields of civil works such as Roads, Infrastructural Works, Bridges, footpaths, Reservoirs, Pipelines, Canals, Private construction, etc. Being in the industry for about a decade, the partners have established good relationship with concessionaires and the material suppliers resulting in reasonable execution of projects. Although, the constitution of firm is partnership, there has been no capital withdrawal from Net worth observed for last four years. The profit from the firm is deployed back for operations of the firm.

Backward Integration of construction processes

NC has invested into plant and machineries and has integrated backward process that were earlier either outsourced or rented for construction processes. NC has set up ready mix concrete plant at four different places namely Manjari, Ausa, Laxmi Pati and Jambhulwadi, which are in Pune region, where quality of concrete mixtures of various grades is maintained and cost is minimised paving way for better margin for the firm. NC has also set up two crusher plants at Kolewadi and Ausa where stones are crushed into gravels as well as sand. NC has also set up one precast unit at Jambhulwadi thereby pioneering in the manufacturing of a wide range of Paver Blocks with a variety of Glossy & Matt finishing of paver blocks, Industrial

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

Pavers, Combination Pavers and Paver Tiles & Step Tiles. However, the investments in to these assets has increased the overall leverage of the firm with increased debt thereby increase in total capital employed.

Financial risk profile marked by revenue growth and improved profitability margins

NC registered a y-o-y revenue growth of ~7.81% in FY19 to Rs.141.73 crore from Rs.130.94 crore in FY18 on execution of orders majorly from government entities. The PBILDT margin of the entity improved to 16.70% in FY19 as against 9.65% in FY18 on account of the decrease in the operating expenses due to economies of scale attained on account of execution of higher value orders. The interest cost of the entity however increased to Rs.5.87 crore on account of the additional term loan availed for capital expenditure due to backward integration. The PAT margins of the entity marked to 6.66% in FY19 as compared to 5.09% in FY18.

Key Rating Weaknesses

Geographic concentration risk with presence in only Maharashtra region and competitive construction segment along-with risks associated with tender based nature of business

As on March 31, 2019 the outstanding order book is from Pune 26.69% and Pune district and other regions like Solapur district 3.23%, Mumbai 3.81%, Omerga 29.69% and others 36.59%. However, NC has taken orders from private contractee, contract value small though. The group continues to be a small-sized player in the construction industry, which is fraught with intense competition with a large number of players and has low entry barriers. Furthermore, all the projects executed are in the state of Maharashtra specifically in Pune exposing to concentration risk.

Working capital intensive nature of operations

The working capital cycle decreased to 17 days in FY19 on the back of decrease in debtor days 97 days from 125 days in FY18. The creditor period of the NC also decreased to 90 days as on March 31, 2019 as against 95 days as on March 31, 2019. However, as on March 31, 2017, the inventory days increased to 11 days in FY19 against 5 days in FY18

Deterioration of capital structure

The overall gearing deteriorated marginally and stood at 1.82x as on March 31, 2019 as against 1.66x as on March 31, 2018 on account of increment in total debt comprising of term loans and working capital. The term loans increased to Rs.31.74 in FY19 from Rs.20.48 in FY18 on account of investment made in fixed, comprising of plant and machineries for an on-going road project and other works. The increase in total short term debt is mainly on account of increase in working capital requirements. Any deterioration in capital structure adversely impacting the debt servicing capability of the entity is a key rating sensitivity.

Partnership constitution of firm

NC being a partnership firm is exposed to inherent risk of partner's capital being withdrawn at time of personal contingency and limited financial flexibility.

Liquidity Stretched

Liquidity is marked by high working capital utilization. The average CC utilization remained high at ~86.24% over the past 12 months ended June 2019. However, average Bank Guarantee (BG) utilization remained low at 31.31% for past 12 month. BG's are backed by fixed deposits of Rs.3.70 crore. Cash and Bank Balance stood at Rs.5.81 crore as on March 31, 2019. Going forward after the successful completion of the few major projects, liquidity position is expected to improve led by realization of security deposits and lien marked fixed deposits from concessionaires (contractee) and bank respectively. Improvement in liquidity position, as envisaged, by timely release of security deposits & retention money will remain a key rating monitorable.

Analytical approach: Standalone

Applicable Criteria

[Policy in respect of Non-cooperation by issuer](#)
[Criteria on assigning 'outlook' and 'credit watch'](#)
[CARE's Policy on Default Recognition](#)
[Criteria for Short Term Instruments](#)

About the Company

Nikhil Construction (NC), promoted by Mr. Balasaheb Pasalkar was incorporated in 1995 as a proprietary firm. In April 2009 the same was converted to a Partnership firm with his three sons, Mr. Yogesh Pasalkar, Mr. Narendra Pasalkar and Mr. Nikhil Pasalkar being the partners. The firm is based out of Pune, Maharashtra. NC is engaged in the business of civil construction

with specialization & expertise in irrigation and road projects. NC has successfully completed the road and building projects in past amounting to Rs.450.25 crore in last five years ending March 31, 2018 for various entities including Pune municipal corporation (PMC) and other public sector bodies.

Brief Financials (Rs. Crore)	FY18 (A)	FY19 (P)
Total operating income	130.94	141.73
PBILDT	12.63	23.66
PAT	6.67	9.43
Overall gearing (times)	1.66	1.82
Interest coverage (times)	3.05	4.03

A: Audited; P: Provisional

Status of non-cooperation with previous CRA: NA

Any other information: NA

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	-	-	-	25.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE D; ISSUER NOT COOPERATING* on the basis of best available information
Non-fund-based - ST-Bank Guarantees	-	-	-	31.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE D; ISSUER NOT COOPERATING* on the basis of best available information
Fund-based - LT-Bank Overdraft	-	-	-	1.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE D; ISSUER NOT COOPERATING* on the basis of best available information

*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	25.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE D; ISSUER NOT	-	1)CARE D; ISSUER NOT COOPERATING* (25-Mar-20) 2)CARE BB+; Stable (21-Aug-19)	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (14-Jan-19)	1)CARE BBB-; Stable (16-Aug-17)

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
				COOPERATING* on the basis of best available information				
2.	Non-fund-based - ST-Bank Guarantees	ST	31.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE D; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE D; ISSUER NOT COOPERATING* (25-Mar-20) 2)CARE A4+ (21-Aug-19)	1)CARE A4+; ISSUER NOT COOPERATING* (14-Jan-19)	1)CARE A3 (16-Aug-17)
3.	Fund-based - LT-Bank Overdraft	LT	1.00	CARE B; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Revised from CARE D; ISSUER NOT COOPERATING* on the basis of best available information	-	1)CARE D; ISSUER NOT COOPERATING* (25-Mar-20) 2)CARE BB+; Stable (21-Aug-19)	-	-

*Issuer did not cooperate; based on best available information

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.

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