

Rainbow Infrastructure Private Limited

November 06, 2019

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	4.00	CARE B+; Stable; ISSUER NOT COOPERATING* (Single B Plus; Outlook: Stable; Issuer Not Cooperating*)	Issuer Not Cooperating; based on best available information
Short-term Bank Facilities	8.00	CARE A4; ISSUER NOT COOPERATING* (A Four; Issuer Not Cooperating*)	Issuer Not Cooperating; based on best available information
Total	12.00 (Rupees Twelve Crore only)		

*Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Rainbow Infrastructure Private Limited are constrained by its small scale of operations with low profitability margin, risk associated with participating in tenders and intense competition in the industry, working capital intense nature of business, volatility associated with fluctuation in input prices. However, the aforesaid constraints are partially offset by its experienced management and satisfactory track record of operations, satisfactory order book position providing revenue visibility and adequate leverage ratios and satisfactory debt coverage indicators.

Going forward, ability to increase its order book position, scale of operation and profitability margins and ability to manage working capital effectively are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Weaknesses

Small scale of operation with low profitability margins

Rainbow Infrastructure Private Limited is a small player in construction industry with a PAT of Rs.0.36 crore (Rs.0.72 crore in FY17) on total operating income of Rs.22.07 crore (Rs.23.34 crore in FY17) in FY18 (Audited). Net worth base of the company was Rs.3.15 crore as on March 31, 2018. The small size restricts the financial flexibility of the company in terms of stress and deprives it from benefits of economies of scale. Due to its small scale of operations, the absolute profit levels of the company also remained low. The profitability margins remained low marked by PBILDT and PAT margins of 5.96% (FY17: 8.13%) and 1.62% (FY17: 3.09%), respectively, in FY18 (Audited).

Risk associated with participating in tenders and intense competition in the industry

The company has to bid for the contracts based on tenders opened by the various governments and public sector units. Upon successful technical evaluation of various bidders, the lowest bid is awarded the contract. The company receives projects which majorly are of a short to medium tenure (i.e. to be completed within maximum period of one to two years). Furthermore, orders are generally tender driven floated by government units indicating a risk of non-receipt of contract in a competitive industry. The outlook of construction sector appears challenging in view of slow execution of the existing order book in view of hindrances related to land acquisition, obtaining requisite clearances, labour shortage and liquidity issues with the clients, etc. Additionally, the sector is plagued with elongated working capital cycle leading to increase in debt level of construction companies.

Working capital intensive nature of business

The operations of the company remained working capital intensive as the company executes orders mainly for public sector units and government departments. Due to its working capital intensive nature of operations, the company stretches its payments to its suppliers.

Volatility associated with fluctuations in input prices

The major input materials for the company are cement, steel structures, iron structures, angles, bricks, sand, rods etc., the prices of which are volatile. Further the orders executed by the company contain price escalation clause on some of the orders and thus the company mitigates price volatility of the input materials to some extent. This apart, any increase in labour prices will also impact its profitability being present in a highly labour intensive industry.

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

Key Rating Strengths

Experienced management & satisfactory track record of operations

Rainbow Infrastructure Private Limited started its business from December 2005 and thus has satisfactory track record of operations. Mr. Suman Ghosh (Managing Director) and Mr. Tapoj Roy Chowdhury (Director) who have around 26 years and 25 years of experience respectively in civil construction industry, looks after the day to day operations of the company. He is also supported by other technical and non-technical professionals who are having long experience in this industry.

Satisfactory order book position providing revenue visibility

Rainbow Infrastructure Private Limited has satisfactory order book position of Rs.60.00 crore (which is 2.63x of FY18 turnover, provisional figure) as on June 30, 2018, which is expected to be completed by December 2020.

Adequate leverage ratios and satisfactory debt coverage indicators

Capital structure of the company remained satisfactory as marked by long term debt-equity ratio of 0.42x (0.19x as on March 31, 2017) and overall gearing ratio of 1.40x (1.09x as on March 31, 2017) as on March 31, 2018. Moreover, the debt coverage indicators also remained moderate as marked by total debt to GCA ratio of 6.64x (2.61x in FY17) in FY18. Interest coverage ratio also remained satisfactory at 2.46x (4.79 in FY17) in FY18 (Audited).

Liquidity

The liquidity position of the company remained moderate marked by current ratio of 1.03x and quick ratio of 0.70x as on March 31, 2018. The Gross cash accruals also remained moderate at Rs.0.66 crore as on March 31, 2018.

Analytical approach: Standalone

Applicable Criteria

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

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

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

[Criteria for Short Term Instruments](#)

[Rating Methodology-Manufacturing Companies](#)

About the Company

Rainbow Infrastructure Private Limited was incorporated in December 2005 with an objective to enter into undertaking infrastructure and civil construction business. Since its inception, the company has been engaged in civil projects, structural project, electrical project, EHV cable laying projects, water and bridge construction business.

Mr. Suman Ghosh (Managing Director) and Mr. Tapoj Roy Chowdhury (Director) who have around 26 years and 25 years of experience respectively in civil construction industry, looks after the day to day operations of the company. He is also supported by other technical and non-technical professionals who are having long experience in this industry.

Brief Financials (Rs. crore)	FY17 (A)	FY18 (A)
Total operating income	23.34	22.07
PBILDT	1.90	1.31
PAT	0.72	0.36
Overall gearing (times)	1.09	1.40
Interest coverage (times)	4.79	2.46

A: Audited,

Status of non-cooperation with previous CRA: Issuer Not Cooperating from CRISIL as per press release dated December 13, 2018.

Any other information: Not Applicable.

Rating History (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	-	-	-	4.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information
Non-fund-based - ST-Bank Guarantees	-	-	-	8.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; 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 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	4.00	CARE B+; Stable; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE B+; Stable (13-Aug-18)	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	8.00	CARE A4; ISSUER NOT COOPERATING* Issuer not cooperating; Based on best available information	-	1)CARE A4 (13-Aug-18)	-	-

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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