

Press Release

Bhoorathnom Construction Company Private Limited (BCCPL)

March 11, 2020

Ratings

Sl. No.	Instrument/Facility	Amount (INR Crore)	Rating Assigned
1	Fund based working capital limit - (Cash Credit/SOD)	16.00	IVR BB/ Stable Outlook; (IVR Double B with Stable Outlook)
2	Non-Fund based working capital limit - (Bank Guarantee)	72.00	IVR BB/ Stable Outlook; (IVR Double B with Stable Outlook) / IVR A4 (IVR A Four)
Total		88.00	

Details of facilities are in Annexure 1

Rating Rationale

The rating derives strength from experienced promoters & qualified management team, reputed clientele and proven projects execution capability, healthy order book, moderate financial risk profile. The rating however is constrained by moderate revenue & EBITDA margin, working capital intensive nature of operation leading to stretched liquidity, geographical concentration risk, competitive and highly fragmented nature of the construction sector.

Key Rating Sensitivities:

- **Upward Factors** - Procurement of new orders along with a substantial and sustained improvement in the revenue while maintaining the debt protection metrics.
- **Downward Factors** - Any decline in the revenue & profitability leading to deterioration of the debt protection metrics and/or deterioration in gross working capital cycle.

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoters & Qualified management team

The Chairman, Mr. A L Bhoorathnam, having Diploma in civil engineering have five-decade of experience in the construction sector, Mr. A L Raja Shanker, Managing Director is also having 45 years of experience with diploma in civil engineering and Mr. A B Madhav, MBA graduate is an executive director of with almost two decades of experience. The other key personnel of the firm also have ample experience in the construction sector.

Reputed clientele and Proven projects execution capability

BCCPL mainly bids for tenders floated by state and central government agencies across India for water pipeline projects and road construction. Most of the projects of the company come from Jaipur, Telanagana, Andhra Pradesh etc. The repeat orders received from its clientele validate its construction capabilities.

Healthy order book

Order book remained healthy with unexecuted order book of around Rs.326.04 (around 1.9x of FY19 revenue) crore as on January end 2020 scheduled to be completed by FY22 end. The company also had a bid book of around Rs.270.0 crores.

Moderate financial risk profile

The company's financial risk profile is moderate with gearing of 0.35 times as on 31 March, 2019 as compared to 0.68 times in the previous year. Total debt was Rs.20.63 crore in FY19 mainly comprises of working capital debt. TOL/TNW stood at 1.19 times in FY2019 as against 1.59 times in the previous year. Interest coverage ratio (ICR) was at 2.57 times in FY19 as against 2.62 times in FY18.

Key Rating Weaknesses

Moderate revenue & EBITDA margin

The total operating income of the company was Rs. 171.60 crore in FY19 decreased from Rs.173.50 crore in FY18. The minor decline in the revenue was due to general election. The substantial improvement in revenue in FY17 was due to time bound execution of one of the

big order. EBITDA margin remained range bound between 7.2%-9.2% in the last three years ended FY19. However, PBT and PAT margins were declined at 3.62% and 2.45% respectively in FY19 from 3.70% & 2.76% respectively in FY18. Infomerics notes that there will be decline in the revenue in FY20 as the company had achieved the revenue of around Rs.50.0 crore in IHFY20. Decline in the revenue is attributed to slower execution of some of the project. However, revenue declining trend expected to reverse from FY21.

Working capital intensive nature of operation leading to stretched liquidity.

The operations of BCCPL are working capital intensive as a large amount of working capital remains blocked in earnest money deposits and retention money. Further, most of its construction works and consequent billings are skewed towards last two quarters (almost ~30- 40% of sales are booked in the last quarter on an average) which led to high debtors outstanding as on the last date of the financial year (payments are generally been received in 1st quarter of the next fiscal) and resulted in high average collection period. Further, the company's creditor's period is also high as it tries to match the payments of its suppliers and sub-contractors with its receipt of payments from debtors. Its average cash conversion cycle was around 90 days for the last three years ended FY19.

Geographical concentration risk

The present unexecuted order book is majorly concentrated in the states of Telangana and Rajasthan in which 13 orders out of 20 are from Telangana. However, the firm has adequate experience to execute projects in the state and also operating in a concentrated geography provides efficient control and reduces the logistical expense.

Highly fragmented & competitive nature of the construction sector with significant price war

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern as the same can dent the margins.

Analytical Approach & Applicable Criteria:

- Standalone
- Rating Methodology for Infrastructure companies
- Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity: Stretched

The company is earning GCA Rs.6.53 crore during FY19 and the same is expected to increase gradually with increase in scale of operation and level of margin. The current ratio and quick ratio remained at 1.58x and 1.33x respectively as on March 31, 2019. The company cash flow from operation also remains moderate. However, average gross cash conversion cycle remained elevated at around 180 days in FY19. Any further increase in the cash conversion cycle can put pressure on the company liquidity.

About the firm

Bhoorathnom Construction Company Pvt. Ltd. was incorporated on July 16, 2003 by the virtue of conversion of the existing partnership firm M/s Bhoorathnam & Company. The company, based in Hyderabad, undertakes water pipeline projects and road construction for state and central government agencies across India.

Financials (Standalone)

(Rs. Crore)

For the year ended / As on	31-Mar-18 (A)	31-Mar-19 (A)
Total Operating Income	173.50	171.60
EBITDA	12.49	13.22
PAT	4.84	3.65
Total Debt	37.29	20.63
Tangible Net worth	54.90	58.25
EBIDTA Margin (%)	7.20	7.71
PAT Margin (%)	2.76	2.45
Overall Gearing ratio (x)	0.68	0.35

* Classification as per Infomerics' standards

Details of Non Cooperation with any other CRA: India Ratings in its press release published on October 23, 2019 has classified the case under “Issuer Not Cooperating” status as the agency does not have adequate information to review the ratings.

Any other information: N.A

Rating History for last three years:

Name of Instrument/ Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
	Type	Amount outstanding (Rs. Crore)	Rating	Rating assigned in 2018-19	Rating assigned in 2017-18	Rating assigned in 2016-17
Long Term Facilities	Cash Credit/SOD	16.00	IVR BB/ Stable Outlook	--	--	--
Short Term Facilities	Bank Guarantee	72.00	IVR BB/ Stable Outlook/ IVR A4	--	--	--
	Total	88.00				

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

S. no	Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. crores)	Rating Assigned/ Outlook
1	Fund based working capital limit - (Cash Credit/SOD)	--	--	Revolving	16.00	IVR BB/ Stable Outlook
2	Non-Fund based working capital limit - (Bank Guarantee)	--	--	Upto three years	72.00	IVR BB/ Stable Outlook/ IVR A4
Total					88.00	