

February 14, 2017

## Barbrik Project Ltd.

Instrument*	Rated Amount (in crore)	Rating Action
Fund Based Limits – Term Loan	Rs. 13.50 crore	[ICRA]BBB+(Stable) assigned
Fund Based Limits – Cash Credit	Rs. 16 crore	[ICRA]BBB+(Stable) assigned
Non Fund Based Limits –Bank Guarantee	Rs. 111.50 crore	[ICRA]BBB+(Stable) assigned

\*Instrument details are provided in Annexure-1

### Rating Action

ICRA has assigned the [ICRA]BBB+ (pronounced ICRA triple B plus)<sup>1</sup> rating to the Rs 13.50 crore term loans, Rs. 16 crore cash credit facility and Rs. 111.50 crore bank guarantees of Barbrik Project Ltd. (BPL).

### Rationale

The rating takes into consideration the established track record of the company backed by the experience of promoters in the infrastructure and construction businesses and the healthy outstanding order book of ~Rs. 977 crore (~3.2 times the operating income in FY2016), providing revenue visibility over the near to medium term. The rating also takes into account the comfortable financial profile with a healthy return on capital employed, favourable capital structure and comfortable coverage indicators. The ratings, however, continue to be constrained by the highly competitive business environment, characterized by the presence of large number of players. This coupled with a tender based contract awarding system tend to keep operating margins under check. The company also remains exposed to geographical concentration risk with all its current projects concentrated in the states of Jharkhand and Chhattisgarh. The ratings also incorporate the company's exposure to volatility in raw material prices; the presence of built-in price escalation clauses in majority of the contracts, however, mitigates such risks to an extent. Going forward, ICRA notes that any potential delays in order execution could adversely impact the revenue growth. Additionally, the company's ability to manage its working capital position would remain a key rating sensitivity.

### Key rating drivers

#### Credit Strengths

- Established track record of the company and experience of promoters
- Healthy order book position provides revenue visibility over the near to medium term
- Comfortable financial profile

#### Credit Weakness

- Highly competitive business environment and tender-based contract awarding system keep margins under check
- Exposure to geographical concentration risks
- Partial exposure to margin risks because of volatility in raw material prices

<sup>1</sup> For complete rating scale and definitions, please refer to ICRA's website [www.icra.in](http://www.icra.in) or other ICRA Rating Publications

#### **Description of key rating drivers highlighted above:**

##### **Established track record of the company in the infrastructure and construction businesses**

Incorporated in 1985, BPL is primarily engaged in the business of civil construction, including construction of roads, civil structures and land development, among others. Moreover, the company has developed expertise in road construction projects, with a track record of successful completion of jobs for both State and National Highways. BPL's major clients include multiple government entities and public sector undertakings (PSU) like state Public Works Departments, state irrigation departments, state highway authorities, among others. Government contracts are awarded through a competitive bidding process. With contracts being awarded to the L1 bidder, competition remains high due to the presence of a large number of players. However, BPL's experience in executing large projects and also in specialised areas like engineering, procurement, construction and commissioning (EPCC) contracts augurs well for the company.

##### **Healthy order book provides revenue visibility in the near to medium term; but delays in order execution could hit revenue growth**

The company has a healthy outstanding order book of ~Rs. 977 crore as on October 31, 2016, indicating a trailing book to bill ratio of ~3.2 times of FY2016 revenues. This provides revenue visibility in the near to medium term. However, the projects in the order book are skewed towards road projects forming almost ~100% of the pending order book. The current orders have an average tenure of 2-3 years. Although the order book position is healthy, actual trend in revenue going forward would be dependent on timely receipt of required clearances from the awarding authorities. Any delay could lead to delays in execution, thereby having a potential impact on the future revenue growth of the company.

##### **Most of the projects are concentrated in Jharkhand and Chhattisgarh**

BPL remains exposed to geographical concentration risks as majority of the contracts in its current order book are located in Jharkhand and Chhattisgarh. In the past, the company has executed projects in northern and eastern region including Delhi, Haryana, Uttaranchal, Uttar Pradesh, Jharkhand, Bihar and Odisha.

##### **Exposure to margin risks because of volatility in raw material prices; however, presence of built-in price escalation clauses mitigates this risk to some extent**

Inputs like steel, bitumen, cement along with labour and fuel form the major part of the costs for the company. The key raw materials are procured, as per tender specification, directly from the manufacturing companies either against advance payments or on credit basis. Volatility in raw material prices exposes the company to margin risks. However, the presence of price-escalation clause in most of the contracts mitigates the above risk to some extent.

##### **Capital structure and debt protection metrics are comfortable**

BPL's capital structure continues to remain favourable, as indicated by a gearing of ~0.7 times as on March 31, 2016. Additionally, healthy cash accruals has kept the coverage indicators comfortable with the ratio of net cash accruals relative to total debt at ~57% and total debt/OPBDITA at ~1.2 times for FY2016. Moreover, the interest coverage also remains healthy standing at ~6.6 times in FY2016.

**Analytical approach:** While reaffirming the rating, ICRA has looked at the standalone performance of Barbrik Project Ltd.

##### **Links to applicable Criteria**

Corporate Credit Rating –A Note on Methodology

**About the Company:**

Incorporated as a partnership entity in 1985, Barbrik Project Limited (BPL) was subsequently converted into a private limited company in 2008. The company is involved in civil construction and its core area of operation includes construction of roads, bridges and highways for various government agencies and public sector units. The current projects being undertaken by the company are primarily located in Jharkhand and Chhattisgarh.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:**
**Table: Rating History**

S.No	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016	Month- year & Rating in FY2015	Month- year & Rating in FY2014
				<b>February 2017</b>			
1	Cash Credit	Long Term	16.00	[ICRA]BBB+ (Stable)	N.A.	N.A.	N.A.
2	Term Loan	Long Term	13.50	[ICRA]BBB+ (Stable)	N.A.	N.A.	N.A.
3	Bank Guarantee	Long Term	111.50	[ICRA]BBB+ (Stable)	N.A.	N.A.	N.A.

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Term Loans	-	-	FY2020	13.50	[ICRA]BBB+(Stable)
Cash Credit	-	-	-	16.00	[ICRA]BBB+(Stable)
Bank Guarantee	-	-	-	111.50	[ICRA]BBB+(Stable)

Source: Barbrik Project Limited

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