

Ganadhi Pati Construction Private Limited

March 14, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Bank Guarantee	12.00	[ICRA]B+ (Stable)/[ICRA]A4; Assigned
Unallocated	14.50	[ICRA]B+ (Stable)/[ICRA]A4; Assigned
Total	26.50	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned the long-term rating of [ICRA]B+ (pronounced ICRA B plus) to the Rs. 12.00-crore¹ bank-guarantee limit and Rs. 14.50-crore unallocated limit of Ganadhi Pati Construction Private Limited (GCPL).² The outlook on the long-term rating is 'Stable'. The bank-guarantee limit and the unallocated limit of the company have also been rated on the short-term scale at [ICRA]A4 (pronounced ICRA A four).

Rationale

The assigned ratings take into account experience of over three decades of GCPL's promoter in the civil-construction business through a group entity and the company's high revenue visibility in the near to medium term, given its unexecuted order-book position of Rs. 124.93 crore as on February 28, 2018 to be executed in the coming two years along with a maintenance period of five years. The ratings also draw comfort from the company's reputed clientele comprising government bodies which leads to relatively lower counterparty risk.

The ratings are, however, constrained by GCPL's small scale of operations, as reflected by an operating income of Rs. 37.93 crore and tangible net worth of Rs. 1.51 crore in FY2017, and full utilisation of GCPL's non-fund based limit, at present, thereby providing no cushion to bid for additional fresh orders. Nonetheless, likely sanction of the proposed enhancement in the non-fund based limit is expected to provide some cushion. The ratings also take into account the fragmented and highly competitive nature of the industry, which coupled with a tender-based contract-awarding system, keeps the margins of all players, including GCPL, under check. GCPL is also exposed to high sectoral and geographical-concentration risks as the company's operations are limited mainly to the construction and maintenance of water-supply channels in Bihar. Also, the company executes orders only from the Public Health Engineering Department, Bihar, at present, exposing the company to high client-concentration risk.

¹ 100 lakh = 1 crore = 10 million

² For complete rating scale and definitions please refer to ICRA's website www.icra.in or other ICRA Rating Publications

Outlook: Stable

ICRA believes that GCPL will continue to benefit from the experience of its promoter in the civil-construction business. The outlook may be revised to 'Positive' if substantial growth in its revenue and profitability strengthens its financial risk profile. The outlook may be revised to 'Negative' if the turnover of the company, profitability and cash accruals are substantially lower than expected, or if there are delays in project execution, or stretch in the working-capital cycle.

Key rating drivers

Credit strengths

Significant experience of the promoter in the civil-construction business – GCPL is a civil contractor operating out of Bihar. The promoter of GCPL, Mr. Janardan Prasad, has over three decades of experience in the civil-construction space.

Comfortable outstanding order-book provides revenue visibility in the near to medium term – The company, as on February 28, 2018, had an unexecuted order book of Rs. 124.93 crore, to be executed over the coming two years along with a maintenance period of five years, thus providing revenue visibility in the near to medium term.

Reputed clientele comprising Government bodies reduces counter-party risk – GCPL's clientele comprises Government agencies, which results in low counterparty-credit risk.

Credit challenges

Small scale of operations – GCPL is a small-sized civil construction player with operating income of Rs. 37.93 crore in its first year of operations, that is, FY2017. The tangible net worth of the company also remained low at Rs. 1.51 crore as on March 31, 2017.

High utilisation of non-fund based limits - The company requires bank guarantees to meet various project requirements including bank guarantee for earnest money deposits, performance guarantees, mobilisation advance etc. ICRA notes that GCPL's non-fund based limit remains fully utilised. So, no cushion is available in its non-fund based limit, at present, to bid for additional fresh orders. Nonetheless, likely sanction of the proposed enhancement in the non-fund based limit is expected to provide some cushion.

High sectoral, geographical and client-concentration risks - GCPL's operations are limited to the construction and maintenance of water-supply channels in Bihar. So, the company remains exposed to high sectoral and geographical-concentration risks. The company, at present, executes orders only from the Public Health Engineering Department, Bihar, thereby exposing the company to high client-concentration risk as well.

Intense competition in a fragmented industry with a tender-based contract-awarding system restrict margins - ICRA notes that the civil-construction industry is intensely competitive on account of the fragmented nature with presence of a large number of players. This coupled with the lowest bidding-business procurement system keeps the margins of all players, including GCPL, under check.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Rating Methodology for Construction Entities](#)

About the company:

Incorporated in 1998, Ganadhipati Constructions Private Limited (GCPL) commenced operations in FY2017. The company is involved in civil-construction activities related to water supply in Bihar. The promoter of GCPL, Mr. Janardan Prasad, is also the proprietor of a proprietorship firm, J.P. Enterprises (JPE), involved in the same line of business in Bihar and Jharkhand since 1982.

Key financial indicators

	FY 2017
Operating Income (Rs. crore)	37.93
PAT (Rs. crore)	1.53
OPBDIT/ OI (%)	6.84%
RoCE (%)	-
Total Debt/ TNW (times)	1.52
Total Debt/ OPBDIT (times)	0.88
Interest coverage (times)	8.31
NWC/ OI (%)	-0.40%

Status of non-cooperation with previous CRA: Not applicable
Any other information: None
Rating history for last three years:

		Current Rating (FY2018)			Chronology of Rating History for the past 3 years			
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating in FY2018 Mar-18	Date & Rating in FY2017	Date & Rating in FY2016	Date & Rating in FY2015	
1	Non-fund based – Bank Guarantee	12.00	-	[ICRA]B+ (Stable)/ [ICRA]A4	-	-	-	
2	Unallocated	14.50	-	[ICRA]B+ (Stable)/ [ICRA]A4	-	-	-	

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

Annexure-1: Instrument Details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate/Commission	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Bank Guarantee	-	2.00%	-	12.00	[ICRA]B+ (Stable)/[ICRA]A4
NA	Unallocated	-	-	-	14.50	[ICRA]B+ (Stable)/[ICRA]A4

Source: Ganadhi Pati Construction Private Limited

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