February 24, 2022

Quick Builders: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/ CC	3.00	3.00	[ICRA]BB (Stable); Reaffirmed
Long-term – Non-fund Based	27.00	27.00	[ICRA]BB (Stable); Reaffirmed
Long-term – Unallocated	3.00	3.00	[ICRA]BB (Stable); Reaffirmed
Total	**33.00**	**33.00**	

**Instrument details are provided in Annexure-1*

Rationale

The rating reaffirmation takes comfort from Quick Builders' (QB) established client base and experienced management with a reasonable track record in the construction business. The rating draws comfort from the timely realisation of payments from its customers leading to efficient working capital management and controlled debt levels resulting in a comfortable capital structure as well as satisfactory coverage indicators. The rating factors in a built-in price variation clause in most of its contracts, which has enabled stability in the firm's operating profitability over the period under study.

The rating, however, is constrained by QB's small scale of operations and modest order book, which gives limited revenue visibility. ICRA notes that the firm has high customer concentration risk with operations geographically limited to Maharashtra, Andhra Pradesh and Karnataka. However, with work orders being floated by the Central Government departments, the counterparty credit risk remains low. Its revenues declined to Rs. 59.7 crore in FY2021 against Rs. 83.9 crore in FY2020 due to the pandemic-related lockdown and subsequent impact in Q1 FY2021, which led to slow execution of the existing work orders in hand. The firm, nevertheless, witnessed good recovery in 10M FY2022 with estimated gross billing (excluding GST) of Rs. 69.2 crore. Though the current order book (Rs. 34.84 crore as on December 31, 2021) provides low revenue visibility, QB remains the L1 bidder for two orders worth Rs. 62.97 crore and the confirmation of these in the near term remains crucial from the revenue perspective in FY2023. The rating is constrained by the intense competition in the construction industry, which has a competitive bidding process for awarding contracts. ICRA notes that since QB is a partnership concern, its capital structure remains vulnerable to capital withdrawals.

The Stable outlook on the [ICRA]BB rating reflects ICRA's expectation that QB will continue to benefit from the extensive experience of its promoters in the civil construction industry and its execution track record with its key clients.

Key rating drivers and their description

Credit strengths

Extensive experience and technical expertise of promoters in the civil construction sector – Established in 1975, QB is a partnership firm promoted by Mr. Dilip Shah to undertake civil engineering projects for defence organisations. Its operations are primarily overseen by Mr. Shah, who has a significant experience of over five decades in the civil construction industry. The extensive experience of the promoters has facilitated the firm to establish strong relationships with its customers as well as suppliers.

Built-in price escalation clause mitigates exposure to margin risks for some contracts – The firm primarily executes work orders for the Defence Research and Development Organisation (DRDO) and Bhabha Atomic Research Centre (BARC). Inputs like steel, cement and bricks, along with labour and fuel, form a major part of the firm's costs. The volatility in raw material prices exposes QB to margin risks. However, the built-in price escalation clause in its contracts with BARC and the short tenure of its fixed-price work orders with DRDO mitigate the price fluctuation risk to an extent.

Efficient working capital management and comfortable capital structure and coverage metrics – The firm's working capital intensity has historically remained low because of steady realisation of payments from customers, supported by creditors funding and mobilisation advances from its clients for work orders. Thus, QB had minimal debt of Rs. 0.1 crore as on March 31, 2021, which comprised modest vehicle loans, with a satisfactory interest coverage of 5.0 times. Further, the TOL/TNW remained comfortable at 0.9 times as on March 31, 2021.

Credit challenges

Slowdown in execution in FY2021, current order book position provides low revenue visibility – In FY2021, the revenues declined to Rs. 59.7 crore against Rs. 83.9 crore in FY2020 because of the pandemic-related lockdown and the subsequent impact in Q1 FY2021. The firm's profitability reduced in FY2021 owing to higher overhead costs, which could not be absorbed due to lower revenues. The firm had to pay salaries to its labour during the second wave of the pandemic when the operations were significantly disrupted. It recorded a revenue (exclusive of GST) of Rs. 69.20 crore in 10M FY2022 and it is expected to bill another Rs. 10-15 crore over the next two months, with the OPBITDA margins likely to remain at around 7.0%-8.0%. Its margins are estimated to remain subdued due to the impact of escalating raw material prices, which cannot be passed on completely. QB's order book remained low at Rs. 34.84 crore as on December 31, 2021 and provides revenue visibility only for the next three-four months. The firm remains the L1 bidder for two orders amounting Rs. 62.97 crore and confirmation of these in the near term remains crucial from the revenue perspective in FY2023. Timely receipt of the regulatory approvals poses a key challenge for translating the order book into revenues and, hence, remains a key rating sensitivity.

High client and geographical concentration given its operating scale; however, counter-party credit risk is low – The firm's client concentration risk remains high, as two customers account for its entire order book. Given the modest number of orders, the operations are geographically limited to Maharashtra, Andhra Pradesh and Karnataka. Since QB undertakes work for defence organisations, its work orders are floated by Central Government departments so its exposure to counter-party risks remain relatively low.

Intense competition due to highly fragmented industry structure – The firm faces intense competition in the highly fragmented construction industry, with numerous players in the organised and the unorganised segments. With tenders mainly awarded based on competitive pricing, QB's profitability is exposed to stiff competition.

Risks inherent to partnership firms, including risk of capital withdrawals – The firm's partnership nature imposes the risk of capital withdrawal, as witnessed in the past, which may have an adverse bearing on its capital structure. However, the gearing has remained comfortable over the period under study. Despite being a partnership constitution, the net worth level has also remained steady over the period under study.

Liquidity position: Adequate

QB's liquidity profile remained adequate as reflected by the average fund based working capital utilisation level of ~24% during the last 12 months, thus providing sufficient buffer of Rs. 1-2 crore against its sanctioned working capital limits. QB has minimal external terms loans of Rs. 0.1 crore on its books as on March 31, 2021. The repayment burden on the external borrowings is expected to remain modest, as the firm does not have any major capacity expansion plans.

Rating sensitivities

Positive factors – ICRA could upgrade QB's rating if the firm reports improved profitability along with revenue growth on a sustained basis through new work orders.

Negative factors – The firm's inability to secure new work orders or a slower execution of its projects in hand, leading to significant decline in revenues and low operating profits, could trigger a rating downgrade. Further, any significant capital withdrawal adversely impacting its net worth position may also trigger a downgrade.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1975, Quick Builders (QB) is a partnership firm, promoted and managed by Mr. Dilip Shah, his son, Mr. Rupesh Shah and wife, Mrs. Bhamini Shah. The firm is involved in tender-based civil and engineering-related work, mainly in the western region of India, particularly in Maharashtra, Karnataka, Tamil Nadu and Gujarat. Its operations primarily involve construction of buildings, roads, technical laboratories, testing centres, provisioning of water supply and sewage disposal facilities, provisioning for electrification, missile testing beds, radar stations and firefighting facilities. The firm's projects range from six to twenty-four months, depending on the nature of projects.

Key financial indicators (Audited)

QB	FY2020	FY2021
Operating Income (Rs. crore)	83.9	59.7
PAT (Rs. crore)	11.3	4.8
OPBDIT/OI (%)	14.5%	8.2%
PAT/OI (%)	13.5%	8.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.9	0.9
Total Debt/OPBDIT (times)	0.0	0.0
Interest Coverage (times)	10.5	5.0

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years			
		Type	Amount Rated (Rs. crore)	Amount Outstanding as of March 31, 2021 (Rs. crore)	Date & Rating in	Date & Rating in FY2021		Date & Rating in FY2020	Date & Rating in FY2019
					Feb 24, 2022	Nov 17, 2020	Sep 30, 2020	-	Mar 19, 2019
1	Long-term – Fund-based/ CC	Long-term	3.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable) removed from ISSUER NOT COOPERATING category	[ICRA]BB (Stable) ISSUER NOT COOPERATING	-	[ICRA]BB (Stable)
2	Long-term – Non-fund Based	Long-term	27.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable) removed from ISSUER NOT COOPERATING category	[ICRA]BB(Stable) ISSUER NOT COOPERATING	-	[ICRA]BB (Stable)
3	Long-term – Unallocated	Long-term	3.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable) removed from ISSUER NOT COOPERATING category	[ICRA]BB(Stable) ISSUER NOT COOPERATING	-	[ICRA]BB (Stable)

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based/ CC	Simple
Long-term – Non-fund Based	Very Simple
Long-term – Unallocated	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's website: www.icra.in

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Long-term – Fund-based/ CC	NA	NA	NA	3.00	[ICRA]BB (Stable)
NA	Long-term – Non-fund Based	NA	NA	NA	27.00	[ICRA]BB (Stable)
NA	Long-term - Unallocated	NA	NA	NA	3.00	[ICRA]BB (Stable)

Source: *Company*

Please click here to view details of lender-wise facilities rated by ICRA

Annexure-2: List of entities considered for consolidated analysis- Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

For more information, visit www.icra.in

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