Press Release

YFC Projects Private Limited (YPPL)

15 June, 2017

Rating Upgraded

Total Bank Facilities Rated*	Rs.327.72 Cr
Long Term Rating	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)
Short Term Rating	SMERA A2 (Upgraded from SMERA A3+)

**Refer Annexure for details*

Rating Rationale

SMERA has upgraded the long term rating on the abovementioned bank facilities of YFC Projects Private Limited (YPPL) to **SMERA BBB+ (read as SMERA triple B plus)** from SMERA BBB (read as SMERA triple B). SMERA has also upgraded the short term rating to **SMERA A2 (read as SMERA A two)** from SMERA A3+ (read as SMERA A three plus). The outlook is **'Stable'**.

YFC Projects Private Limited (YPPL) undertakes Engineering Procurement and Construction (EPC) projects (state highways, roads, civil construction projects, urban infrastructure) for the state and central government.

The rating upgrade takes into account the sustained growth in operating income and improvement in profitability metrics. SMERA factors in the improvement in debt protection metrics on account of decline in debt servicing obligations vis-à-vis the operating cash flows of the company. The rating upgrade also factors in the healthy revenue visibility in the medium term on account of the order book of Rs. 1,344 crore to be executed by FY2019-20.

List of key rating drivers and their detailed description

Strengths:

Continued growth in operating income: YPPL has long track record of operations. The company registered operating income of Rs.296 crore for nine months ended 31 December, 2016 (Provisional). In FY2015-16, the operating income stood at Rs. 195.52 crore. The rating upgrade reflects higher than expected monthly billings by YPPL while maintaining its profitability margins.

YPPL also reported an order book of Rs. 1,344 crore as on 31 December, 2016. The orders-in-hand include nine projects across the country and overseas. YPPL has also entered into joint ventures with German, Korean and Japanese players to bid for large mandate tenders. This is expected to help leverage on its technical prowess and financial position. SMERA expects YPPL to continue to report substantial growth in revenue on account of its healthy revenue visibility.

Backward integrated operations: YPPL undertook backward integration and set up subsidiaries, YFC Concrete Private Limited and YFC Minerals Private Limited for concrete manufacturing and stone crushing respectively. YPPL has also developed an in-house engineering and design team.

As a result, YPPL commands a comfortable contribution (Sales minus Variable Cost) of over 20 per cent on its projects and an operating profit margin of 12.32 per cent in FY2016 as compared to 12.10 per cent in FY2015. While the operating profit margin showed some moderation in the nine months ended 31 December, 2016 mainly due to low billings during the monsoon season, SMERA expects the same to remain comfortable at over 12 per cent in the near to medium term. YPPL's ability to maintain its operating profit margin shall be a key rating sensitivity.

The comfortable operating profit margins coupled with decline in debt servicing commitments resulted in increase in Debt Service Coverage ratio (DSCR). YPPL reported DSCR of 1.67 times in FY2015-16 as against 1.07 times in FY2014-15. SMERA expects YPPL's debt protection metrics to remain comfortable due to rationalisation of capital expenditure plans coupled with healthy operating cash flows. YPPL reported Net Cash Accruals to total debt ratio of 24 percent in FY2015-16 as compared to 19 percent in FY2014-15. Any increase in debt servicing commitments due to debt funded capex undertaken or increase in working capital requirements can result in deterioration in the debt protection metrics over the near to medium term.

Timely collection of receivables: YPPL has longstanding relationship with government authorities and other stakeholders which enables it to maintain a healthy collection efficiency on receivables. This is reflected in the debtor days of 83 in FY2016 compared to 85 in FY2015, which is comparatively low vis-à-vis its peers. YPPL also benefits from its diligent evaluation of tenders and projects. The company only undertakes projects funded by Multilateral Development Institutions (MDIs) and the central government. This further ensures that counterparty risk is minimised and receivables are realised in a timely manner.

The comfortable debtor days and regular billing resulting in low inventory is reflected in the comfortable bank limit utilisation. YPPL reported average BLU of 75.71 per cent for six months ended 31 January, 2016 indicating the presence of adequate headroom in its bank limits to mobilise resources in a timely manner.

Weaknesses:

Highly competitive nature of business: The recent relaxation of qualification norms by the central government for undertaking road projects is further expected to intensify competition in the industry. However, in the face of such pressures, SMERA believes that YPPL is well positioned on account of its longstanding relationship with well-established international players in the infrastructure industry, long track-record and experience of its promoters spanning nearing three decades.

Susceptibility of operating performance to regulatory risks: YPPL's operating cash flows depend on its ability to complete projects on time and bag more projects. YPPL has experienced delays in commencement of projects on account of changing regulations and delays in approvals which may result in significant cost escalations leading to lower than expected operating profitability.

Analytical approach: SMERA has taken a standalone view of the financial and business risk profiles of YPPL.

Applicable Criteria

- Infrastructure Entities - https://www.smera.in/criteria-infrastructure.htm
- Application of Financial Ratios and Adjustments: https://www.smera.in/criteria-fin-ratios.htm
- Default Recognition: https://www.smera.in/criteria-default.htm

Outlook: Stable

SMERA believes that YPPL will maintain a stable outlook in the medium term on account of its experienced management, healthy revenue visibility and comfortable debt protection metrics. The outlook may be revised to 'Positive' in case of higher than expected growth in operating income while maintaining its profitability margins. Conversely, the outlook may be revised to 'Negative' in case of deterioration in liquidity on account of increase in debtor days or higher than expected leverage indicators.

About the Rated Entity

YPPL undertakes EPC projects for the government. The company reported net profit of Rs. 9.19 crore on operating income of Rs. 195.52 crore in FY2015–16, as against profit after tax (PAT) of Rs.3.48 crore on operating income of Rs. 167.48 crore in FY2014–15.

Status of non-cooperation with previous CRA (if applicable): Not Applicable

Any other information: N.A.

Rating History for the last three years:

Name of Instrument /Facilities	FY2018			FY2017		FY2016		FY2015	
	Scale	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	38.50	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)	-	-	31 Mar, 2016	SMERA BBB/Stable (Assigned)	-	-
Term Loan	LT	4.22 (Reduced from Rs. 4.57 cr)	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)	-	-	31 Mar, 2016	SMERA BBB/Stable (Assigned)	-	-
Bank Guarantee	ST	225.00 (Enhanced from Rs. 150.00 cr)	SMERA A2 (Upgraded from SMERA A3+)	-	-	31 Mar, 2016	SMERA A3+ (Assigned)	-	-
Letter of Credit	ST	20.00	SMERA A2 (Upgraded from SMERA A3+)	-	-	31 Mar, 2016	SMERA A3+ (Assigned)	-	-
Bid Bond Bank Guarantee	ST	10.00	SMERA A2 (Assigned)	-	-	-	-	-	-
Project Specific Bank Guarantee	ST	30.00	SMERA A2 (Assigned)	-	-	-	-	-	-

***Annexure – Details of instruments rated:**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/ Outlook
Cash Credit	N.A	N.A	N.A	38.50	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)
Term Loan	N.A	N.A	N.A	4.22 (Reduced from Rs. 4.57 cr)	SMERA BBB+/Stable (Upgraded from SMERA BBB/Stable)
Bank Guarantee	N.A	N.A	N.A	225.00 (Enhanced from Rs. 150.00 cr)	SMERA A2 (Upgraded from SMERA A3+)
Letter of Credit	N.A	N.A	N.A	20.00	SMERA A2 (Upgraded from SMERA A3+)
Bid Bond Bank Guarantee	N.A	N.A	N.A	10.00	SMERA A2 (Assigned)
Project Specific Bank Guarantee	N.A	N.A	N.A	30.00	SMERA A2 (Assigned)

Note on complexity levels of the rated instrument:
https://www.smera.in/criteria-complexity-levels.htm

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ABOUT SMERA

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