

Press Release

YFC Projects Private Limited

June 18, 2018



Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs. 428.46 Cr. (Enhanced from Rs. 327.72 crore)
Long Term Rating	ACUITE A- / Outlook: Stable (Upgraded from ACUITE BBB+/ Stable)
Short Term Rating	ACUITE A2+ (Upgraded from ACUITE A2)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded its long term rating to **ACUITE A- (read as ACUITE A minus)** from **ACUITE BBB+ (read as ACUITE triple B plus)** and short term rating to **ACUITE A2+ (read as ACUITE A two plus)** from **ACUITE A2 (read as ACUITE A two)** on the bank facilities of Rs.327.72 Cr. of YFC Projects Private Limited (YPPL). The outlook is 'Stable'.

Further, Acuité has assigned long term rating of **ACUITE A- (read as ACUITE A minus)** and short term rating of **ACUITE A2+ (read as ACUITE A two plus)** to the Rs.100.74 crore bank facilities of YPPL. The outlook is 'Stable'.

Incorporated in 1986, YPPL is a civil contractor engaged in Engineering, Procurement and Construction (EPC) projects (state highways & roads, metro-rail, Sewerage networking & treatment plants, civil construction projects, urban infrastructure) for the state and central government. YPPL has entered into joint ventures with reputed players like Chongqing International Construction Corporation (CICO), State Construction Integrated Works (SCIW) and Zhejiang Teams International (ZTI) to help bid for high value projects. The company has a healthy customer base with reputed clients like Delhi Metro Rail Corporation (DMRC) which accounts for 39 percent of its current order book position, Rajasthan Urban Drinking Water, Sewerage & Infrastructure Corporation Limited (RUDISCO) with 20 percent, Army Welfare Housing Society (AWHO) with 12 percent, among others.

The upgrade is driven by steady growth in revenue, profitability and net cash accruals. The operating income of the company grew at a CAGR of 30 percent over the last five years from FY2014 to FY2018 while maintaining operating margins at around 9-10 percent as a result the company has generated healthy cash accruals of Rs.107.17 crore on a cumulative basis over the same period. The cash accruals are expected to improve over the medium term on the back of its order book of Rs.1600 crore which is to be executed over the next 18 months period. Return on Capital Employed has been healthy at 25.58 percent in FY2018 (Provisional) and is expected to improve to ~30 percent. Acuité also factors the expected improvement in debt protection metrics of the company on account of decline in debt servicing obligations vis-à-vis the operating cash flows of the company over the next 18 to 24 months.

Outlook: Stable

Acuité believes that YPPL will maintain a 'Stable' financial risk profile over the medium term backed by 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. The outlook may be revised to 'Negative' in case of increased deterioration in liquidity position of the company most likely as a result of substantial increase in receivable collection period or in case of higher-than-expected leverage indicators.

Analytical Approach

Acuité has taken a standalone view of the financial and business risk profile of YPPL.

Key Rating Drivers

Strengths

• Established Track record of operations and experienced management

YPPL is a part of the YFC Group that has been engaged in infrastructure development for more than four decades with national presence and major operations spread over Haryana, Punjab, Delhi (NCR), Rajasthan, Uttar Pradesh, Maharashtra, Madhya Pradesh, Odisha, Jharkhand and Meghalaya. Mr. Rajinder Yadav (Founder and Director) has a vast experience of over 35 years in manufacturing, financial services, turnkey construction and EPC contracting. Mr. Davinder Yadav (brother of Mr. Rajinder Yadav) has been managing the company's operations since its inception. Mr. Yoginder Yadav (son of Mr. Rajinder Yadav) has also joined the business and is currently heading the Metro-Rail, Buildings and Water & Sewage verticals of YPPL. The management is ably supported by a well-qualified and experienced team of professionals. The extensive experience of the promoters in the industry has helped the company build its market presence and its efficient working capital management.

Although, risk associated with delayed payment exists in the industry, with promoters' extensive experience and established track record, YPPL has managed to collect payments within 45-65 days. The company generates bills on a monthly basis and receives payment within a period of 45 days from the date of approval of the bill. The company only undertakes projects funded by Multilateral Development Institutions (MDIs) and Central Government of India. This further ensures that the counterparty risk is minimised and receivables are realised in a timely manner.

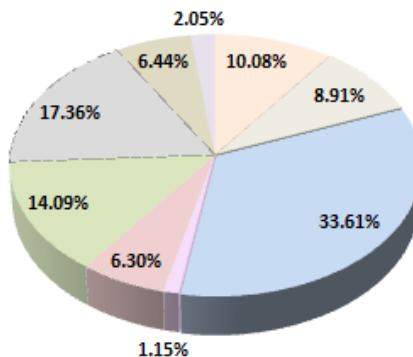
• Continued growth in operating income

YPPL has a long track-record of operations in the EPC business. The company registered an operating income of Rs.455 crore for FY2018 (Provisional) and the revenues are expected to remain in the range of Rs.650-700 crore for 2018-19 on account of healthy order book position. The orders in hand include twelve projects across the country and overseas. During the year FY2017-18, YPPL has secured Rs.302 crore order from DMRC for construction of twin tunnel by cut & curve method and an underground railway station for extension of Airport Express line, and Rs.134 crore order for construction of elevated stabling depot for Noida city centre to Noida sector 62, Rs.234 crore order from NBCC (India) Ltd for construction of CBI housing complex in New Delhi. YPPL has also entered into contract with Ministry of External Affairs for construction of Indian Embassy at Tashkent (Uzbekistan).

YPPL has also entered into joint ventures with several international players to bid for large mandate tenders. Acuité believes that YPPL will benefit from its established relationship with such players by leveraging their technical prowess and financial position while contesting such tenders.

Customer profile

Army Welfare Housing Organisation	Delhi Metro Welfare Organisation
DMRC	Emar MGF Land Limited
Ministry of External Affairs	NBCC (INDIA) LTD.
RUDISCO	State Highways Authority of Jharkhand (SHAJ)
The Odisha State Public Works Department	



• Moderate financial risk profile and comfortable liquidity

YPPL has moderate financial risk profile marked by moderate net worth, low gearing and healthy debt protection measures. YPPL's net worth is estimated to be moderate at around Rs.85.26 crore as on March 31, 2018 (Provisional). The net worth has improved significantly from Rs.47.77 crore as on March 31, 2015 on account of healthy accretion to reserves. Acuité believes that the net worth of the company will remain in the range of Rs.115.00 crore to Rs.194.00 crore over the medium term backed by its healthy revenue growth and stable operating margins.

The leverage and coverage ratios continue to remain healthy. The gearing remained low at 0.74 times as on March 31, 2018 (Provisional) against 0.89 times as on March 31, 2017. The moderate profitability coupled with low gearing levels has resulted in healthy debt protection metrics, with interest coverage of 3.95 times and NCA/TD of 0.40 times. The TOL/TNW ratio however is estimated to be high at around 3.12 times as on March 31, 2018 (Provisional) on account of high mobilisation advances and trade payables. In FY2018, YPPL generated net cash accruals of Rs.25.41 crore as against debt repayment obligation of Rs.10.62 crore. The net cash accruals are expected to improve to ~Rs.53.00 crore over the medium term on account of absence of any major debt funded capex.

Acuité believes that the debt protection metrics will remain healthy on account of healthy revenue visibility and stable operating margins over the medium term.

Weaknesses

• Competitive and fragmented industry

YPPL is engaged as an EPC contractor. This particular sector is marked by the presence of several mid to large sized players. The company faces intense competition from the other players in the sectors. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts and susceptibility to inherent cyclical in the road sector. The recent relaxation of qualification norms by the central government for undertaking road projects is further expected to intensify the competitive scenario in the industry. However, in face of such competitive pressures, Acuité believes that YPPL is well positioned on account of its longstanding relationship with well-established international players in the infrastructure industry and the long track-record and experience of its promoters spanning nearing three decades.

• Susceptibility of operating performance to regulatory risks

YPPL's operating cash flows are dependent on its ability to complete projects in a timely manner

and to secure new projects from time to time. YPPL had, in the past, experienced delays in commencement of projects on account of delays in regulatory and environmental approvals. This may in turn result in significant cost escalations leading to lower than expected operating profitability.

About the Rated Entity - Key Financials

	Unit	FY18 (Provisional)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	455.23	430.18	195.52
EBITDA	Rs. Cr.	42.69	38.89	24.09
PAT	Rs. Cr.	16.24	12.76	9.19
EBITDA Margin	(%)	9.38	9.04	12.32
PAT Margin	(%)	3.57	2.97	4.70
ROCE	(%)	25.58	25.38	18.65
Total Debt/Tangible Net Worth	Times	0.74	0.89	1.12
PBDIT/Interest	Times	3.95	3.96	2.93
Total Debt/PBDIT	Times	1.36	1.47	2.36
Gross Current Assets (Days)	Days	164	127	230

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Entities in Infrastructure Sector - <https://www.acuite.in/view-rating-criteria-14.htm>

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs.Crore)	Ratings/Outlook
15-Jun-2017	Term Loan	Long Term	4.22	ACUITE BBB+/ Stable (Upgraded)
	Cash Credit	Long Term	38.50	ACUITE BBB+/ Stable (Upgraded)
	Bank Guarantee	Short Term	225.00	ACUITE A2 (Upgraded)
	Letter of Credit	Short Term	20.00	ACUITE A2 (Upgraded)
	Bank Guarantee	Short Term	10.00	ACUITE A2 (Assigned)
	Bank Guarantee	Short Term	30.00	ACUITE A2 (Assigned)
31-Mar-2016	Term Loan	Long Term	38.50	ACUITE BBB/ Stable (Assigned)
	Cash Credit	Long Term	4.57	ACUITE BBB/ Stable (Assigned)
	Bank Guarantee	Short Term	150.00	ACUITE A3+ (Assigned)
	Letter of Credit	Short Term	20.00	ACUITE A3+ (Assigned)

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	3.36	ACUITE A- / Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	38.50	ACUITE A- / Stable (Upgraded)
Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A- / Stable (Assigned)
Inland/ Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2+ (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	225.00	ACUITE A2+ (Upgraded)
Bid Bond Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A2+ (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	14.30	ACUITE A2+ (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	29.30	ACUITE A2+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A2+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2+ (Assigned)

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About Acuité Ratings & Research:

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