

Press Release

YFC Projects Private Limited

September 06, 2019

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.428.46 Cr.
Long Term Rating	ACUITE A- / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A2+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE A-**' (read as **ACUITE A minus**) and short-term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.428.46 crore bank facilities of YFC Projects Private Limited. The outlook is '**Stable**'.

Gurgaon-based, YFC Projects Private Limited (YPPL) was incorporated in 1986 and is a civil contractor engaged in Engineering, Procurement and Construction (EPC) projects (Roads & Highways, High-Rise Buildings, Metro-Rail projects and Sewerage Networking & Treatments Plants) for the State and Central government. YPPL has entered into joint ventures with reputed players such as 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 such as Delhi Metro Rail Corporation (DMRC) which accounts for 44 per cent of its current order book position, Rajasthan Urban Drinking Water with 24 per cent, Army Welfare Housing Society (AWHO) with 5 per cent, NBCC (India) Ltd with 18 per cent, among others.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of the YPPL to arrive at this rating.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

YPPL is a part of the YFC Group that is engaged in infrastructure development for around four decades with its major operations spread over Haryana, Delhi (NCR), Rajasthan, Jharkhand, Madhya Pradesh, Odisha, Jharkhand and Meghalaya. The company is being promoted by Mr. Rajinder Yadav, Mr. Davinder Kumar Yadav, Mr. Yoginder Yadav and Mr. Manish Yadav. Founder of the company, Mr. Rajinder Yadav, has a vast experience of over 35 years in the aforementioned industry. Mr. Davinder Yadav (brother of Mr. Rajinder Yadav) has been managing the company's operations since its inception. 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. Projects funded by Multilateral Development Institutions (MDIs) and Central Government of India are only undertaken by the company, which minimizes the counterparty risk.

• Improving revenue backed by healthy order book position

YPPL has registered growth in operating income of around 16 per cent in FY2019 over FY2018. The operating income in FY2019 stood at Rs.530.23 crore as against Rs.457.96 crore in the previous year. The revenues are expected to remain in the range of Rs. 580 crore – Rs. 600 crore for 2019-20 on account of moderate order book position. The orders in hand include nine projects across the country. Further, the company's margins have slightly improved in FY2019 to 9.68 per cent from 9.62 per cent in FY2018. Acuité believes that YPPL will benefit from its healthy executable order book position of around Rs.975 as on 31 March, 2019 that gives revenue visibility in near and medium term.

• **Healthy financial risk profile**

YPPL's financial risk profile is healthy, marked by a healthy net worth, low gearing and healthy debt protection metrics. The company's net worth has subsequently improved to around Rs.102.98 crore as on March 31, 2019 as against Rs.69.13 crore as on March 31, 2017 on account of healthy accretion to reserves during the same period.

The company has followed a conservative financial policy in the past, the same is reflected through its peak gearing level. The gearing level (debt-equity) improved to 0.62 times as on March 31, 2019 from 0.99 times as on March 31, 2018 (Debt to EBITDA stood at 1.14 times in FY2019 as against 1.79 times in FY2018). The gearing of the company is expected to remain low over the medium term on account of absence of any debt funded capex plans and moderate accretion to reserves. The total debt of Rs.63.61 crore as on March 31, 2019 consists of long-term debt of Rs.22.87 crore, unsecured loans of Rs.2.47 crore and working capital borrowings of Rs.38.27 crore.

Operating income has increased by ~16 per cent in FY2019 over FY2018 and operating margins have also improved slightly to 9.68 per cent in FY2019 as against 9.62 in the previous year leading to healthy coverage indicators. The interest coverage (ICR) ratio stood healthy at around 3.40 times to 4.00 times over the last three years. NCA/TD (Net Cash Accruals to Total Debt) ratio stood at 0.46 times in FY2019 and 0.30 times in FY2018.

Acuite believes that the financial risk profile of the company is expected to remain healthy backed by above average net cash accruals and in absence of any major debt funded capex in near to medium term.

Weaknesses

• **Competitive and fragmented industry**

YPPL is engaged as an EPC contractor. The company faces intense competition from the presence of several mid to large sized players in the said industry. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts and susceptibility to inherent cyclicity 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, Acuite 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 timely execution of the projects and customer concentration risk**

Operating cash flow are susceptible to the ability to complete projects in a timely manner and to maintain healthy order book position by securing new projects from time to time. The company is experiencing delay in the commencement of projects on account of change in scope and delays in regulatory and environmental approvals. This may in turn result in significant cost escalations leading to lower than expected operating profitability. Further company faces customer concentration as around 45-50 per cent of the revenue comes from DMRC.

Liquidity Profile

The company has strong liquidity marked by healthy net cash accruals to its maturing debt obligations. YPPL generated cash accruals of Rs.29.55 crore in FY2019 against debt obligations of Rs.15.25 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.35.59 crore to Rs.45.30 crore during FY2020-22 against repayment obligations ranging from Rs.15.51 crore to Rs.5.01 crore for the same period. The company's working capital operations are intensive marked by gross current asset (GCA) days of 149 days in FY2019. The company maintains unencumbered cash and bank balances of Rs. 0.93 crore as on 31 March, 2019. The current ratio stood at 1.40 times as on 31 March, 2019. Acuite believes that the liquidity of the company is likely to remain strong over the medium term on account of healthy cash accruals against no major debt repayments over the medium term.

Outlook: Stable

Acuite believes that YPPL will continue to benefit over the medium term due to its experienced management, moderate revenue visibility and comfortable debt protection metrics. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its capital structure. Conversely, 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

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	530.23	457.96	430.18
EBITDA	Rs. Cr.	51.33	44.05	38.89
PAT	Rs. Cr.	17.77	15.78	12.76
EBITDA Margin	(%)	9.68	9.62	9.04
PAT Margin	(%)	3.35	3.45	2.97
ROCE	(%)	25.34	24.19	25.38
Total Debt/Tangible Net Worth	Times	0.62	0.99	0.89
PBDIT/Interest	Times	3.41	3.63	3.96
Total Debt/PBDIT	Times	1.14	1.79	1.47
Gross Current Assets (Days)	Days	149	160	127

Status of non-cooperation with previous CRA:

Not Applicable

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument/ Facilities	Term	Amount (Rs.Crore)	Ratings/Outlook
18-June-2018	Term Loan	Long Term	3.36	ACUITE A- /Stable (Upgraded)
	Cash Credit	Long Term	38.50	ACUITE A- /Stable (Upgraded)
	Dropline Overdraft	Long Term	12.00	ACUITE A- /Stable (Assigned)
	Inland/ Foreign Letter of Credit	Short Term	20.00	ACUITE A2+ (Upgraded)
	Bank Guarantee	Short Term	225.00	ACUITE A2+ (Upgraded)
	Bid Bond Bank Guarantee	Short Term	6.00	ACUITE A2+ (Upgraded)
	Bank Guarantee	Short Term	14.30	ACUITE A2+ (Upgraded)
	Bank Guarantee	Short Term	29.30	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	50.00	ACUITE A2+ (Assigned)
	Bank Guarantee	Short Term	30.00	ACUITE A2+ (Assigned)
	Term Loan	Long Term	4.22	ACUITE BBB+/ Stable (Upgraded)
	Cash Credit	Long Term	38.50	ACUITE BBB+/ Stable (Upgraded)

15-June-2017	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-March-2016	Cash Credit	Long Term	38.50	ACUITE BBB/ Stable (Assigned)
	Term Loan	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)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Term Loan	Not Applicable	Not Applicable	Not Applicable	2.56	ACUITE A- /Stable (Reaffirmed)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	38.50	ACUITE A- /Stable (Reaffirmed)
Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	12.00	ACUITE A- /Stable (Reaffirmed)
Inland/ Foreign Letter of Credit	Not Applicable	Not Applicable	Not Applicable	20.00	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	225.00	ACUITE A2+ (Reaffirmed)
Bid Bond Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	14.30	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	29.30	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	50.00	ACUITE A2+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A2+ (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	0.80	ACUITE A- /Stable (Reaffirmed)

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About Acuité Ratings & Research:

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