

Press Release

Lanarsy Infra Limited (Lanarsy)

10 February, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 25.00 Cr.
Long Term Rating	SMERA BB+ / Outlook: Stable
Short Term Rating	SMERA A4+

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed the long-term rating of '**SMERA BB+**' (read as **SMERA double B plus**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 25.00 crore bank facilities of Lanarsy Infra Limited (Lanarsy). The outlook is '**Stable**'.

Further SMERA has withdrawn the short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs. 5.00 crore bank facilities. Lanarsy Infra Limited (Lanarsy), incorporated in 2011 is a Karnataka-based Engineering, Procurement and Construction (EPC) contractor. The company executes power generation, water distribution and transportation related projects. The operations are led by Mr. Venugopal Rao Maddisetty (CEO).

Key Rating Drivers

Strengths

Experienced management

The founder and CEO, Mr. Venugopal Rao Maddisetty has experience of more than three decades in the industry. He is supported by Mrs. Padmaja Bayyavarapu and Mr. Vasu Babu Maddisetty who possess more than two decades of experience in the aforementioned business.

Moderate financial risk profile

The financial risk profile is moderate marked by net worth of Rs. 20.99 crore as on 31 March, 2017 as against Rs. 11.43 crore as on 31 March, 2016. The gearing (debt-to-equity ratio) stood at 0.92 times as on 31 March, 2017 as against 0.26 times as on 31 March, 2016. The total debt of Rs. 19.22 crore as on 31 March, 2017 includes Rs.13.52 crore of working capital loans and Rs. 5.70 crore of short term unsecured loans from promoters. The Interest Coverage ratio (ICR) stood at 22.34 times in FY2017 as against 4.76 times in FY2016. This is mainly due to high interest charges in FY2016. In FY2017, the Total outstanding Liabilities to tangible Networth (TOL/TNW) stood at 9.55 times in FY2017 mainly due to high payables of Rs. 145.82 crore.

Moderate scale of operations

Lanarsy, has entered into a PPP agreement (Public Private partnership) on a back-to-back basis with Pace Power Systems Private Limited. The company has registered revenue of Rs. 170.93 crore in FY2017 as against Rs. 105.67 crore in FY2016. Further, Lanarsy registered revenue of Rs. 173 crore for the period April to December 2017. The operating margins stood at 9.28 times in FY2017 as against 9.34 times in FY2016. The PAT margins stood at 5.61 times in FY2017 as against 4.51 times in FY2016. This is mainly due to reduction in interest cost from Rs.2.10 crore in FY2016 to Rs. 0.71 crore in FY2017. The company has completed five years of operations in this segment and is now eligible to bid for government projects under its own name. As a result, SMERA believes that the company will sustain growth in scale of operations over the near to medium term.

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Weaknesses

• Working capital intensive operations

The rating is constrained by working capital intensive operations marked by high Gross Current Assets (GCA) of 466 days in FY2017 as against 297 days in FY2016. The high GCA days are primarily on account of stretched debtor days of 406 in FY2017 compared to 203 days in FY2016. The debtors are high due to maximum revenue being generated from government power distribution companies and payments are generally delayed. The company has debtors of more than six months of Rs144.87 crore as on 31 March, 2017. SMERA expects Lanarsy to improve its working capital over the near to medium to maintain a stable credit profile.

Tender driven business

Lanarsy has operations in the power generation and distribution, water distribution and transportation segments which are focus areas for the government. Hence, Lanarsy also faces significant competitive pressures from other players. Most of these projects are awarded through competitive bidding. Hence, the revenues and profitability are dependent on timely receipt of orders. Lanarsy's limited track record in the industry constraints the companies to bid for large projects hence presently the bid is done by group company, Pace Power Systems Private Limited and the execution by Lanarsy. Going ahead, Lanarsy's ability to apply for contracts under its own name remains to be seen.

Analytical Approach

SMERA has considered the standalone business and financial risk profile of Lanarsy Infra Limited to arrive at the rating.

Outlook: Stable

SMERA believes that Lanarsy will maintain a stable outlook over the medium term owing to its experienced management. The outlook may be revised to 'Positive' in case the company registers more than expected growth in revenues while achieving improvement in profitability, overall financial risk profile and liquidity. Conversely the outlook may be revised to 'Negative' in case of steep decline in revenues or profitability or further elongation in working capital cycle.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	170.93	105.67	72.94
EBITDA	Rs. Cr.	15.86	9.87	4.97
PAT	Rs. Cr.	9.57	4.77	3.70
EBITDA Margin	(%)	9.28	9.34	6.82
PAT Margin	(%)	5.60	4.51	5.07
ROCE	(%)	57.53	84.38	81.95
Total Debt/Tangible Net Worth	Times	0.92	0.26	0.00
PBDIT/Interest	Times	22.34	4.76	935.68
Total Debt/PBDIT	Times	1.21	0.30	0.00
Gross Current Assets (Days)		466	297	337

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>

Note on complexity levels of the rated instrument

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

SMERA Ratings Limited

Registered Office: 102, Sumer Plaza, Marol Maroshi Road, Marol, Andheri (East), Mumbai - 400 059

CIN: U74999MH2005PLC155683 | SEBI Permanent Registration No.: IN / CRA / 006 / 2011

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Crore)	Ratings/Outlook
17-Feb, 2017	Cash credit	Long term	3.00	SMERA BB+ / Stable (Assigned)
	Letter of credit	Short term	5.00	SMERA A4+ (Assigned)
	Bank guarantee/Letter of Guarantee	Short term	7.00	SMERA A4+ (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	NA	NA	NA	7.00 (enhanced from Rs.3 crore)	SMERA BB+ / Stable (Reaffirmed)
Bank Guarantee	NA	NA	NA	18.00 (enhanced from Rs. 7 crore)	SMERA A4+ (Reaffirmed)
Letter of Credit	NA	NA	NA	5.00	SMERA A4+ (Withdrawn)

*Sublimit of letter of credit upto Rs. 5 crore

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ABOUT SMERA

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