

Press Release

Tejas Constructions and Infrastructure Private Limited

February 09, 2021



Rating Reaffirmed and Assigned

Total Bank Facilities Rated*	Rs. 125.00 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Negative (Reaffirmed & Assigned)
Short Term Rating	ACUITE A3+ (Reaffirmed & Assigned)

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed its long-term rating of '**ACUITE BBB** (**read as ACUITE Triple B**) and short-term rating of '**ACUITE A3+** (**ACUITE A Three Plus**) on the Rs. 115.00 Cr bank facilities of Tejas Constructions and Infrastructure Private Limited (TCIPL). Acuité has assigned its long-term rating of '**ACUITE BBB** (**read as ACUITE Triple B**) and short-term rating of '**ACUITE A3+** (**ACUITE A Three Plus**) on the Rs. 10.00 Cr bank facilities of TCIPL. The outlook is revised to '**Negative**'.

Reason for revision in Outlook

The revision in outlook follows the moderate order book providing limited revenue visibility for the near to medium term and continuously high dependence on short-term external debt expected vis-à-vis its moderate scale. Besides, no fresh order has been awarded in the last 20 months to TCIPL and successful bidding of the Rs.200 Cr in tendering stage remains key monitorable. High dependence on short term fund-based debt of Rs.35 Cr vis-à-vis its moderate scale of Rs.150.89 Cr in FY2020 indicates stretch in liquidity. These are due to reasons such as high receivables of around 90-95 days due to mix of central and state funded projects and high amount of retention money and BG held with its key principal contractors since last 3-4 years.

The rating is reaffirmed taking cognizance of company's moderate business risk profile supported by its established market position, experienced management, established raw material linkages and moderate supplier concentration risk, moderate geographical and customer concentration in revenue profile and steady improvement in scale with stable EBITDA margins; no significant impact of Covid-19. The rating is constrained by working capital intensive operations, tender based nature of operations and execution and other industry-related risks in the competitive and fragmented industry.

About the company

Pune based, Tejas Constructions and Infrastructure Private Limited (TCIPL) was incorporated in 2007. The company promoted and directed by Mr. Sushil Agrawal and Mrs. Meena Agrawal is engaged in undertaking contracts for drinking water supply schemes (Priority Sector) on EPC basis for central and state government and construction for integrated sugar industry complex.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of TCIPL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record and experienced management**

TCIPL and its promoters' long standing presence in the civil construction industry manifests the company's established track record of operations and the extensive experience of its promoters. TCIPL is promoted and directed by Mr. Sushil Agrawal and Meena Agrawal who have an experience of over 2 decades in the civil construction industry. The directors are supported by

Mr. Prashil Agrawal and Ms. Pankhuri Agrawal. Since inception, TCIPL has been executing projects floated through tenders by central and state government in the states of Maharashtra, Madhya Pradesh, Chhattisgarh amongst others. By endeavoring numerous orders for its key principals for around 2 decades, TCIPL is presently registered with PWD Govt. of Maharashtra, Madhya Pradesh, Karnataka, Chhattisgarh & Maharashtra Jeevan Pradhikaran as class I (unlimited) contractor. Promoter's extensive industry experience and established track record has enabled TCIPL in establishing long-standing relationship with its key suppliers and principals. Acuité believes that TCIPL's established track record and experienced management will continue to aid its business risk profile over the medium term.

- Established raw material linkages and moderate supplier concentration risk**

TCIPL has established raw material linkages for its major raw materials like DI Pipes, HDPE Pipes, steel products, cement and others. TCIPL purchases its major raw materials like DI Pipes, HDPE pipes from fixed and vintage suppliers like Tata Metaliks Kubota Pipes Ltd, Jindal Saw Ltd, Jain Irrigation System Ltd amongst others against 45-60 days of open credit. Cement is purchased against advance payment from Ultratech Cement Limited. Other construction materials like steel, pumps, water meter are purchased from its fixed suppliers against 45-60 days of credit. For commoditized products such as steel and cement, the prices of the same remain volatile which exposes the company to risks associated with volatility in raw material prices. TCIPL has price escalation clauses in majority of the civil construction projects. Moreover, the promoters' long experience in the industry lends comfort with respect to managing the volatility in the raw material prices and resultant impact on the company's profitability margins. TCIPL usually sub-contracts 5-10 percent of its work. Withal, TCIPL has moderate supplier concentration risk, as not a single supplier contributes more than 50-60 percent to the overall raw materials costs. In FY2020, top 12 suppliers contributed 66 percent to the overall raw material cost against 42 percent in FY2019 and 100 percent in FY2018. Acuite believes that established raw material linkages and fixed suppliers with vintage of more than a decade will help TCIPL and sustaining its operating margins over the medium term.

- Moderate geographical and customer concentration in revenue profile**

TCIPL has executed orders across Maharashtra, Madhya Pradesh, Chhattisgarh and Karnataka. Out of the FY2020 revenue of Rs.148.61 Cr (excluding GST), 42 percent of revenue was derived from Maharashtra, 38 percent from Chhattisgarh and rest of 20 percent from Madhya Pradesh, thereby, leading to moderate geographical concentration risk. The geographical concentration is partially mitigated by the fact, it bids only for funded projects (central and state); ensuring consistency in revenues and operating margins. TCIPL has been executing projects for its selected key principal contractors only like Office of the Municipal Corporation and The Chief Officer, Nagar Panchayat for various districts of the aforesaid states. Top 10 customers contribute entirely to the total revenue, thereby, leading to moderate customer concentration risk in its revenue profile. Acuite believes that TCIPL will remain geographically and customer-wise concentrated on moderate basis until successful bidding of orders in other states and for different customers.

- Steady improvement in scale with stable EBITDA margins; no significant impact of Covid-19**

TCIPL's revenue from civil construction activities has been growing at CAGR of 19 percent over the last 3 years ending FY2020 with EBITDA margins remaining stable at around 11.5 percent. TCIPL has recorded year-to-date revenue of Rs.101 Cr and operating margin of 9.8 percent on provisional basis until December 31, 2020 of FY2021. The year-to-date revenue was marginally lower as compared to same period last fiscal; outlining impact due to outbreak of Covid-19. With lower year-to-date revenue, the overall FY2021 revenue is expected to remain flat or show minuscule Y-o-Y growth of 1-3 percent. Acuité believes that TCIPL's revenue will show modest Y-o-Y growth over the medium term backed by execution of its moderate order book in hand; higher growth is apprehended on successful bidding of the orders in tendering stage.

- Moderate financial risk profile**

TCIPL's financial risk profile is moderate, marked by moderate capital structure and debt protection metrics. TCIPL has moderate net worth at Rs.45.44 Cr as on March 31, 2020 against Rs.38.58 Cr as on March 31, 2019 due to improving profitability. Moderate net worth and high fund-based debt resulted in moderate gearing (debt-to-equity) and total outside liabilities to tangible networth (TOL/TNW) ratio of 0.1.08 times and 1.97 times respectively, as on March 31, 2020 vis-à-vis 1.21 times and 1.93 times March 31, 2019. Debt protection metrics is moderate, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 2.27 times and 0.16 times, respectively,

in FY2020 vis-à-vis 2.15 times and 0.14 times for FY2019. Its accruals are expected in the range of Rs. 5-9 Cr over the medium term, against repayment obligations of Rs.2-3 Cr. Acuité believes that in absence of any major debt-funded capital expenditure; improving cash accruals will lead to moderate financial risk profile over the medium term.

Weaknesses

- **Tender based nature of operations**

TCIPL executes majorly tender based projects from government bodies with low reliance on sub-contract work. Once the tender is allotted, earnest money deposits (EMD) in the range of ~2.5-7 per cent is deposited against Bank guarantee. The company raises bills on a monthly basis. The retention money is usually 5-10 per cent of the contract value which is in few instances released against Bank guarantee. Since the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. TCIPL has success rate of 60 to 70 percent in bidding. Acuité believes that TCIPL's revenue and profitability are susceptible to risks inherent in tender based operations which limits pricing flexibility in an intensely competitive industry.

- **Moderate order book providing limited revenue visibility for the near to medium term**

TCIPL has outstanding order book of Rs.261.99 Cr of unexecuted order book as on December 31, 2020 to be executed in the next 12-18 months of time. The outstanding order book is just 1.7x of the FY20 revenue. Apart from the above order book, the company has submitted tender for projects worth Rs.200 Cr. Besides, TCIPL has not been awarded any fresh contracts over the last 20 months. Acuité believes that TCIPL's successful bidding of orders in tendering stage and higher order book providing better revenue visibility will be key monitorables over the medium term.

- **Working capital intensive operations**

TCIPL's working capital cycle is intensive with high gross current assets (GCA) days in the range of 250-270 days over the last 3 years ending March 31, 2020. The GCA days are marked by high inventory days (mostly work-in-progress) and high debtor days. TCIPL had inventory and debtor days of 109 days and 93 days as on March 31, 2020. High WIP and debtor days are on account of projects been funded by mix of central and state government. The GCA days includes the other current asset portion in form of retention money, security deposits and other advances which further takes it to elongated levels. TCIPL pays the raw material creditors within 45-60 days; certain portion pertain to expenses payable to sub-contractors. The high GCA cycle has led to high utilization of bank lines at an average of 95 to 100 percent over the past 12 months ending December, 2020 with few instances of overdrawals. Acuité believes that the working capital cycle is estimated to remain intensive over the medium term.

- **Execution and other industry-related risks in the competitive and fragmented industry**

The company is engaged as EPC contractor for drinking water supply schemes. The particular sector is marked by the presence of several mid to big size players. The company faces competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent on account of extensive experience of the management. TCIPL, like any other EPC company, is exposed to the risks inherent in the construction sector such as time/cost overruns, slowdown in new order inflows, high exposure to non-fund-based limits vis-à-vis its net worth amongst others. TCIPL is also exposed to execution risk and its ability to complete the projects as per the scheduled timelines which is crucial to meet its contractual obligations and receive repeated orders in future. Acuite believes that TCIPL will remain exposed to execution and industry-related risks over the medium term.

Liquidity Position: Sufficient

TCIPL's liquidity is sufficient marked by adequate net cash accruals against its debt obligations and moderate current ratio; albeit constrained by high exposure to fund-based limits vis-à-vis its moderate scale of operations, exposure to sizeable contingent liabilities in the form of BG against security deposits/mobilization advance/retention money/performance guarantee and full utilization of bank lines with instances of overdrawals. The fund-based bank lines of Rs.35.00 Cr remained utilized at an average of 95-100 percent for the 12 months ending December, 2020. Typically, civil contractors can

achieve revenue of 6-9x of its fund-based (SOD/CC) limit. TCIPL has been relying highly on the fund-based is 4x of its CC limit. TCIPL generated accruals of Rs.8.01 Cr in FY2020 against debt obligation of Rs.1.66 Cr. The company is expected to generate adequate accruals in the range of Rs.7-11 Cr against debt obligations of Rs.2-3 Cr. TCIPL had modest unencumbered cash and bank balance of Rs.0.67 Cr and moderate current ratio of 1.48 Cr as on March 31, 2020. Acuité believes that TCIPL's liquidity will remain sufficient over the medium term.

Rating Sensitivities

- Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile and liquidity.

Outlook: Negative

Acuité believes that TCIPL will continue to benefit over the medium term due to its experienced management and established track record. The outlook may be revised to 'Positive', in case of timely execution of its unexecuted order book and successful bidding of orders in pipeline, leads to higher-than-expected revenues and profitability, while maintaining its capital structure. Conversely, the outlook may be revised to 'Negative' in case TCIPL registers lower-than-expected revenues and profitability or any significant stretch in its working capital management or larger-than-expected debt-funded capital expenditure leads to deterioration of its financial risk profile and liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	150.89	128.83
PAT	Rs. Cr.	5.70	4.44
PAT Margin	(%)	3.78	3.44
Total Debt/Tangible Net Worth	Times	1.08	1.21
PBDIT/Interest	Times	2.27	2.15

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

None

Any other information

None

Material Covenants

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
12-11-2019	Cash credit	Long Term	15.00	ACUITE BBB/ Stable (Reaffirmed)
	Cash credit	Long Term	14.00	ACUITE BBB/ Stable (Reaffirmed)
	Cash credit	Long Term	4.00	ACUITE BBB (Withdrawn)

19-09-2018	Proposed Bank Facility	Long Term	32.00	ACUITE BBB/ Stable (Assigned)
	Bank Guarantee	Short Term	33.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	30.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	6.00	ACUITE A3+ (Withdrawn)
	Letter of Credit	Short Term	1.00	ACUITE A3+ (Reaffirmed)
	Cash credit	Long Term	15.00	ACUITE BBB/ Stable (Assigned)
	Cash credit	Long Term	14.00	ACUITE BBB/ Stable (Assigned)
	Cash credit	Long Term	4.00	ACUITE BBB/ Stable (Assigned)
	Bank Guarantee	Short Term	33.00	ACUITE A3+ (Assigned)
	Bank Guarantee	Short Term	30.00	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
Cash credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB/ Negative (Reaffirmed)
Cash credit	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BBB/ Negative (Reaffirmed)
Cash credit	Not Applicable	Not Applicable	Not Applicable	6.00	ACUITE BBB/ Negative (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	22.00	ACUITE BBB/ Negative (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A3+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	29.00	ACUITE A3+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	4.00	ACUITE A3+ (Assigned)
Letter of Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:

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