



Press Release
Tejas Constructions And Infrastructure Private Limited
August 04, 2023
Rating Downgraded

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	61.00	ACUITE BB+ Stable Downgraded	-
Bank Loan Ratings	64.00	-	ACUITE A4+ Downgraded
Total Outstanding Quantum (Rs. Cr)	125.00	-	-

Rating Rationale

Acuite has downgraded its long-term rating to **Acuite BB+(read as Acuite double B plus)** from **Acuite BBB-(read as Acuite triple B minus)** and short-term rating to **Acuite A4+(read as Acuite A four plus)** from **Acuite A3(read as Acuite A three)** on the Rs.125 Cr bank facilities of Tejas Construction and Infrastructure Private Limited (TCIPL). The outlook is 'Stable'.

Reason for rating downgrade

The rating downgrade reflects moderation in the operating performance of the company marked by declining operating income, continued stretch in the working capital cycle and liquidity position. The operating income has recorded a declining trend since FY2021, it stood at Rs.75.19 Cr in FY2023(Prov.) as against Rs.92.33 Cr in FY2022 and Rs.118.96 in FY2021 and Rs.150.89 Cr in FY2020. This declining trend is attributed to the continued effects of the disruptions caused by covid-19 pandemic and the company focusing on completing the existing work orders. As on March 2023, TCIPL has an order book position of around Rs.224 Cr executable in FY2024.

The working capital operations further stretched with GCA days at 621 days in FY2023(Prov) against 458 days in FY2022 resulting in high reliance on working capital borrowings.

Acuite believes, that TCIPL's ability to improve its scale of operations in view of healthy order book position while maintaining its margins and capital structure along with restricting further elongations in the working capital cycle will remain a key rating monitorable.

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

Acuite 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, and Chhattisgarh amongst others. By endeavouring 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.

Moderate financial risk profile

Company has a moderate financial risk profile marked by moderate capital structure and debt protection metrics. The company has moderate net worth of Rs. 67.09 Cr as on March 31, 2023(Prov) against Rs.49.37 Cr as on March 31, 2022. The total debt of Rs.49.14 Cr consists of Rs.8.07 Cr of long-term debt and Rs.35.32 Cr of short-term debt and Rs.5.75 Cr of USL. The gearing (debt-to-equity) and total outside liabilities to tangible net worth (TOL/TNW) ratio improved to 0.71 times and 1.26 times respectively, as on March 31, 2023(Prov.) vis-à-vis 1.24 times and 1.81 times as on March 31, 2022. The improvement is attributed to Rs.15 Cr of USL infused by the promoters considered as quasi-equity in FY2023(Prov.) Debt protection metrics is moderate, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 1.45 times and 0.08 times, respectively in FY 2023(Prov.) vis-à-vis 1.60 times and 0.06 times for FY2022. The financial risk profile is expected to remain moderate over the medium term.

Weaknesses

Working capital intensive operations

The operations of the company are working capital intensive. GCA days elongated to 621 days in FY2023(Prov) against 458 days in FY2022. The GCA days include the other current asset portion in form of retention money, security deposits, and other advances, which further takes it to elongated levels. Inventory days stretched to 240 days in FY 2023(Prov.) as against 168 days in FY 2022 due to pile up of inventory for executable orders. The debtor realisation period also stretched to 283 days in FY 2023(Prov.) from 199 days in FY2022 due to delays in receiving payments from its clients.

On the other hand, TCIPL derives support from its suppliers by extending the payables. The creditor days stood at 328 days in FY2023(Prov) against 98 days in FY2022. The stretch in GCA days has resulted in high reliance on working capital limits. The working capital limits utilisation stood at 99.41% for the last 11 months ending June 2023, and the non-fund based at 67% during the same period. TCIPL is expected to receive around Rs.16 crore of the retention money during FY2024, which would be used to support working capital operations.

Tender based nature of operations

TCIPL executes majorly tender based projects from government bodies with low reliance on subcontract work. Once the tender is allotted, earnest money deposits (EMD) in the range of ~10-15 per cent is deposited against Bank guarantee. 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. 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.

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 sector. 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.

Rating Sensitivities

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

Material covenants

None

Liquidity Position Stretched

The liquidity position of the company is stretched when comparing its net cash accruals to its maturing debt obligations. In FY 2023(Prov), company generated NCA of Rs.3.75 Cr against CPLTD of Rs.4.29 Cr. Going forward the company is expected to generate NCA in the range of Rs.7.29 Cr and Rs.13.17 Cr against CPLTD of Rs. 3.98 Cr and Rs.2.12 Cr for FY2024 & FY2025 respectively. Reliance on working capital borrowings is high as the average bank limit utilization remained at 99.41 Cr and the Fixed Deposit investment of Rs. 10.25 Cr is entirely lien marked as margin for non-fund based facilities. The company-maintained cash and bank position of Rs. 0.32 Cr and its current ratio stood at 1.87 times for FY 2023(Prov.)

Outlook:Stable

Acuite believes that TCIPL will continue to benefit over the medium term due to its experienced management, established track record and a healthy order book position. The outlook may be revised to 'Positive', in case of timely execution of its unexecuted order book and successful bidding of orders in pipeline, leading 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	75.19	92.33
PAT	Rs. Cr.	1.75	1.80
PAT Margin	(%)	2.33	1.95
Total Debt/Tangible Net Worth	Times	0.73	1.24
PBDIT/Interest	Times	1.45	1.60

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

IND-RA vide its press release dated 28/07/2022, reaffirmed its rating IND-RA BB/A4+; Issuer not Cooperating.

Any other information

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
10 May 2022	Letter of Credit	Short Term	5.00	ACUITE A3 (Downgraded from ACUITE A3+)
	Proposed Bank Facility	Long Term	22.00	ACUITE BBB- Stable (Downgraded from ACUITE BBB Negative)
	Cash Credit	Long Term	14.00	ACUITE BBB- Stable (Downgraded from ACUITE BBB Negative)
	Cash Credit	Long Term	6.00	ACUITE BBB- Stable (Downgraded from ACUITE BBB Negative)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Downgraded from ACUITE BBB Negative)
	Bank Guarantee	Short Term	29.00	ACUITE A3 (Downgraded from ACUITE A3+)
	Bank Guarantee	Short Term	30.00	ACUITE A3 (Downgraded from ACUITE A3+)
	Bank Guarantee	Short Term	4.00	ACUITE A3 (Downgraded from ACUITE A3+)
09 Feb 2021	Cash Credit	Long Term	14.00	ACUITE BBB Negative (Reaffirmed)
	Bank Guarantee	Short Term	29.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	6.00	ACUITE BBB Negative (Assigned)
	Bank Guarantee	Short Term	30.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	4.00	ACUITE A3+ (Assigned)
	Proposed Bank Facility	Long Term	22.00	ACUITE BBB Negative (Reaffirmed)
	Letter of Credit	Short Term	5.00	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB Negative (Reaffirmed)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	29.00	ACUITE A4+ Downgraded
IDBI Bank Ltd.	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A4+ Downgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BB+ Stable Downgraded
IDBI Bank Ltd.	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	14.00	ACUITE BB+ Stable Downgraded
Janata Sahakari Bank Ltd (Pune)	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	6.00	ACUITE BB+ Stable Downgraded
State Bank of India	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A4+ Downgraded
Janata Sahakari Bank Ltd (Pune)	Not Applicable	Proposed Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.93	ACUITE BB+ Stable Downgraded
IDBI Bank Ltd.	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.37	ACUITE BB+ Stable Downgraded
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.50	ACUITE BB+ Stable Downgraded
State Bank of India	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	1.49	ACUITE BB+ Stable Downgraded
Janata Sahakari Bank Ltd (Pune)	Not Applicable	Working Capital Demand Loan (WCDL)	Not available	Not available	Not available	Simple	0.71	ACUITE BB+ Stable Downgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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