

Press Release

Tirupati Build-Con Private Limited

January 27, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs.115.00 Cr.
Long Term Rating	ACUITE BBB+/ Outlook: Stable (Assigned)
Short Term Rating	ACUITE A2+ (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned the long-term rating of '**ACUITE BBB+**' (read as **ACUITE triple B Plus**) and short term rating of '**ACUITE A2+**' (read as **ACUITE A two plus**) on the Rs.115.00 Cr bank facilities of Tirupati Build-Con Private Limited (TBPL). The outlook is '**Stable**'.

Tirupati Build-Con Private Limited, a Madhya Pradesh based company was established in the year 1983 as a partnership firm by Mr. Padam Singhania. Later, in the year 2003, the firm was reconstituted as a private limited company. The Company is promoted by the Singhania family led by Mr. Padam Singhania. The day to day operation of the company is managed by Mr. Harshvardhan Singhania, Mr. Akashdeep Singhania and Mr. Aditya Vikram Singhania.

The company is registered as Class-IA contractor with PWD of Madhya Pradesh and Chhattisgarh. The company is engaged in executing construction contracts for infrastructural development projects mainly roads, bridges and irrigation projects for PWD, Water Resources Department of Madhya Pradesh and Chhattisgarh, NHAI, etc. The company was allotted a quarry of 'Solid Black Basalt Material/Dolerite Stone' measuring 15 acres land on a lease basis by Madhya Pradesh Government for 20 years ending in 2028.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Incorporated in the year 2003 as a private limited company TBPL has a long track record of operation of more than three decades. The company is promoted by the Singhania family led by Mr. Padam Singhania. The day to day operation of the company is managed by Mr. Harshvardhan Singhania, Mr. Akashdeep Singhania and Mr. Aditya Vikram Singhania. The promoters have an experience of more than three decades in the aforementioned industry. The company is registered as Class-IA contractor with PWD of Madhya Pradesh and Chhattisgarh. The company executes projects as a principal contractor and has the ability to bid for a single project up to Rs.600.00Cr on an individual basis. The company majorly undertakes the EPC projects for the PWD, Water Resources Department of Madhya Pradesh and Chhattisgarh, Madhya Pradesh Road Development Corporation and NHAI, to name a few.

Acuite believes that the company will benefit from its experienced management and long track of operation.

- **Healthy financial risk profile**

TBPL's financial risk profile is healthy marked by strong net worth, low gearing coupled with comfortable debt protection metrics and coverage indicators. The company's net worth stood at Rs.84.12Cr as on March 31, 2020 as against Rs.74.36Cr as on March 31, 2019. The net worth levels have seen improvement over the last three years through FY2020. This is on account of healthy accretion to reserves over the period. The company has followed conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) of 0.66 times and 1.46 times respectively as on March 31, 2019. The gearing continues to be low at around 0.49 times as on March 31, 2020. The total outside liabilities to tangible net worth (TOL/TNW) levels stood at 1.46 times as on March 31, 2020. The company on the other hand generated cash accruals of Rs.19.58Cr in FY2020 as against Rs.14.37Cr in FY2019.

The increase in the profitability level, coupled with moderate debt level, has led to comfortable debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at 0.48 times and 4.97 times respectively as against 0.29 times and 3.92 times in FY2019, respectively. The debt service coverage ratio stood 1.46 times in FY2020 as against 1.83 times in FY2019. The Debt-EBITDA ratio stands at 1.31 times in FY2020 against 1.91 times in FY2019.

Acuite believes the financial risk profile of the company will continue to remain healthy on account of its healthy revenue growth, stable operating margins, healthy cash accruals and no major debt funded capex in near to medium term.

- **Growth in the revenue along with high and stable profitability margins**

The revenue of the company has increased by around 27.40 percent to Rs.249.41Cr in FY2020 from Rs.195.76 Cr in FY2019. The increase in the operating income is due to the successful completion of the ongoing projects. The company has unexecuted order book of Rs.727.58 Cr as on November 30, 2020 which gives revenue visibility over the medium term. Moreover, the company has already clocked revenues of around Rs.127.06Cr (Est.) as on November 30, 2020.

EBITDA in absolute term is improving over the last three years through FY2020 and stood at Rs.30.69 Cr in FY2020 as against Rs.25.02 Cr in FY2019. The PAT of the company has increased to Rs.9.76 Cr in FY2020 from Rs.5.43 Cr in FY2019.

The company's operating margin is high and stable in the range of 12.00-13.00 percent for the last three years under the study. The company gets the benefit of higher margins through the backward integration process and also through the price escalation clause in every project. The material extracted from the quarry is used mainly as crushed aggregate in concrete production as road sub-base and in building construction. Thus having own quarry unit from where the material is used for construction activities ensures easy supply of materials and helps the company to maintain a stable operating margin. The operating margin and the PAT margin stood at 12.30 percent and 3.91 percent, respectively in FY2020.

Further, the major expense for any infrastructure company is the raw material cost and the labor expense. The same is volatile in nature and can impact the profitability. However, TBPL mitigates this risk by way of price escalation clause in all contracts till the validity of the tenure of the contract. This helps the company to maintain a stable operating margin of 12 percent on a continuous basis for last three years under the study.

Weaknesses

- **Working capital operation is intensive in nature**

TBPL's working capital operation is intensive in nature as it is reflected by its gross current asset (GCA) days of around 224 days in FY2020 as against 230 days in FY2019. This is quite inherent in the aforementioned industry due to high amount of receivables gets struck as a part of retention money which are released only after the completion of the defect liability period. The debtor collection period stood at 77 days as on March 31, 2020 as against 94 days as on March 31, 2019. As on March 31, 2020 the accumulated receivables stood at Rs.52.51Cr However, this risk is mitigated as the accumulated receivables are mainly from the State Government and Central Government bodies leading to a low counterparty risk. Currently, the company has been able to improve its receivables position. As on November 30, 2020, the accumulated receivables stood at Rs.26.49Cr (Est.). The improvement in the receivables position is on account of no retention money getting deducted on the current bills and moreover, the departments are also paying off the retention money relatively at a faster rate.

As on March 31, 2020 the inventory period stood at 87 days which mainly consists of work in progress. The average bank limit utilization stood moderate at around 83.55 percent for six months ended November, 2020, while its peak utilization was high at around 97.36 percent during the same period. The Non-fund based utilization stood at around Rs.45.29Cr out of Rs.83.00Cr as on November 30, 2020 which signifies the company has sufficient fund to bid for new tenders.

Acuite expects the working capital management to remain intensive over the medium term on account of high debtor collection and inventory period, which is inherent in the aforementioned industry.

- **Geographical concentration risk**

TBPL predominately operates in Chhattisgarh and Madhya Pradesh. Out of the total unexecuted orders, TBPL has around 60 percent from the Madhya Pradesh followed by Chhattisgarh.

- **Competitive and fragmented nature of industry**

The company is engaged as a civil contractor. The particular sector is marked by the presence of several mid to big size players. The company may face intense competition from other players in this sector which can impact its profitability and operations going forward. Risk becomes more pronounced as tendering is based on the minimum amount of bidding of contracts. However, this risk is mitigated to an extent on account of extensive experience of the promoters and the capability of the company to bid the orders solely up to Rs.600.00Cr.

Liquidity Position: Adequate

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.19.58Cr in FY2020, while its' maturing debt obligation was Rs.11.49 Cr for the same period. The cash accrual of the company is estimated to remain around Rs.20.00Cr to Rs.30.00Cr during 2021-23 against repayment obligations of around Rs.1.00Cr to Rs.5.00Cr during the same period. The company's working capital operations is intensive in nature marked by the Gross Current Asset (GCA) days of 224 days in FY2020 as against 230 days in FY2019. The average bank limit utilization stood moderate at around 83.55 per cent for six months ended November, 2020. The company maintains unencumbered cash and bank balances of Rs.0.63Cr as on 31 March 2020. The current ratio of the group has improved to 1.42 times as on 31 March 2020 from 1.37 times as on March 31, 2019. Also, the government is providing special impetus and relaxations due to COVID-19 outbreak to EPC projects which will further enhance the liquidity position of TBPL. Acuite believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate cash accruals to its maturing debt obligation.

Rating Sensitivities

- Significant and sustained growth in operating revenues while maintaining the profitability
- Any deterioration in the working capital cycle may impact the financial risk profile

Outlook: Stable

Acuite believes that the company will maintain a stable outlook over the medium term backed by its experienced management, established track record of operation in the aforementioned industry and healthy financial risk profile. The outlook may be revised to 'Positive', if the company registers higher than expected growth in its revenue while maintaining as sustained operating margins at its current levels along with efficient working capital management. Conversely, the outlook may be revised to "Negative", if the company registers lower than expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	249.41	195.76
PAT	Rs. Cr.	9.76	5.43
PAT Margin	(%)	3.91	2.78
Total Debt/Tangible Net Worth	Times	0.49	0.66
PBDIT/Interest	Times	4.97	3.92

Status of Non-Cooperation with previous CRA (if Applicable)

India Rating vide its press release dated July 13, 2020 had denoted the rating of Tirupati Build-Con Private Limited as 'IND BBB-/IND A3; Issuer Not Co-operating; Withdrawn'.

Any other information

None

Any Material Covenants

None

Applicable Criteria

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

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Not Applicable

*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	25.00	ACUITE BBB+/Stable (Assigned)

Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	7.00	ACUITE BBB+/Stable (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	83.00	ACUITE A2+ (Assigned)

Contacts

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About Acuité Ratings & Research:

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