

Press Release

Annai Infra Developers Limited

August 06, 2021

Rating Assigned



Total Bank Facilities Rated*	Rs. 300 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable (Assigned)
Short Term Rating	ACUITE A3 (Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has assigned its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.300.00 Cr bank facilities of Annai Infra Developers Limited (AIDL). The outlook is '**Stable**'.

Annai Infra Developers Limited (AIDL) was incorporated in 2008, and is located in Erode, Tamil Nadu. AIDL is promoted by Mr. Subramaniam Ashok Kumar and his wife Mrs. Duraisamy Kalaiselvi having experience of more than 15 years and 10 years, respectively in the construction and infrastructure development sector. AIDL is primarily engaged in Engineering, Procurement and Construction (EPC) activities of water management and irrigation projects such as building of dams, laying of pipeline, integrated storm water drains, waste water treatment plants, developing drainage systems, lift irrigation, drip irrigation, reservoirs, canals, installation of irrigation pipeline, among others. It is registered as a Class-1 civil contractor in the States of Tamilnadu, Kerala, Telangana and Andhra Pradesh. The client base includes primarily Government entities viz. Public Works Department (PWD) of Tamilnadu, Kerala.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of AIDL to arrive at the rating.

Key Rating Drivers

Strengths

- **Established track record, experienced management**

Mr. Subramaniam Ashok Kumar and his wife Mrs. Duraisamy Kalaiselvi are the directors of the company and actively involved in the day to day operations. All the directors are having an experience of nearly two decades in the civil construction industry. With promoter's extensive industry experience supported by experienced management and timely execution of projects helped the company to establish long-standing relationship with various government bodies in Tamilnadu and, Kerala Governments as well as other corporate clients. AIDL has registered growth of around 38 per cent in FY2021 (provisional) over FY2020 in operating income on account of increase in order execution. Acuite believes that promoter's established presence in the industry and strong counterparties, technical prowess and funded projects, will support AIDL's business profile over the medium term.

- **Growth in operating income and profitability supported by healthy order book position**

The company had witnessed a substantial increase in order execution; it has reported revenue of Rs. 671.80 Cr in FY2021 (Provisional) as compared to Rs.484.27 Cr in FY2020; backed by its healthy order inflow and ramp-up in execution over the years. As of July 1, 2021, AIDL has an unexecuted order book position of Rs.1, 944 Cr (3x of FY21 revenue); the same is estimated to be executed over the next 24-36 months which provides adequate revenue visibility over the medium term. The operating profitability increased to 16.77 percent in FY21 (FY20: 10.87%) on account of the execution and selection of a large high-margin projects and reduction in subcontracting expenses. Majority of its projects are on direct basis and back to back sub-contract basis; and also funded projects. Acuite believes that similar growth trajectory is likely to continue over the medium term too.

- **Healthy financial risk profile**

AIDL's financial risk profile is healthy, marked by healthy capital structure and healthy debt protection metrics. AIDL has healthy net worth at Rs.242.94 Cr as on March 31, 2021 as against Rs.170.42 Cr as on March 31, 2020 due to improving profitability. Healthy net worth and low fun-based debt resulted in healthy gearing (debt-to-equity) and total outside liabilities to tangible network (TOL/TNW) ratio of 0.36 times and 1.22 times respectively, as on March 31, 2021 vis-à-vis 0.50 times and 1.97 times March 31, 2020. Debt protection metrics are healthy, reflected in interest coverage (ICR) and net cash accrual to total debt ratio (NCA/TD) of 7.99 times and 0.87 times, respectively, in FY2021 vis-à-vis 3.79 times and 0.35 times for FY2020. AIDL generated cash accruals of Rs.76.29 Cr as against repayment obligation of Rs.4.08 Cr as on March 31, 2021. The cash accruals of the AIDL are estimated to remain around Rs.45-60 Cr during 2021-23 while their repayment obligations are estimated to be around Rs.5-7 Cr during the same period. Acuité believes that the financial risk profile of the company is expected to remain healthy backed by expected ramp-up in operations and moderate routine capital expenditure towards addition and replacement of machinery and equipment.

Weaknesses

- **Working capital-intensive operations**

AIDL's working capital cycle is working capital intensive as reflected by its moderate gross current asset (GCA) days in the range of 203-324 days over the last 3 years ending March 31, 2021. The GCA days are driven by inventory days of 8-136 days and debtor days of 88-121 days over the last 3 years ending March 31, 2021. GCA days have remained high as it includes the other current asset portion in the form of retention money, security deposits and other advances. AIDL benefits from the ability to stretch towards its creditors and expenses payable to sub-contractors during last two years; creditor days ranged between 197-567 days. This led to moderately high utilization of bank lines at 88 percent over the past 12 months ending May 2021. Acuité expects the operations of the AIDL to remain moderately working capital intensive being Government projects wherein execution is more skewed towards last quarter.

- **Exposure to execution-related risks, tender-driven nature of the business, high geographic and segment concentration risks**

With 75-80 percent of the order book in nascent stages of execution, the company remains exposed to project execution risks. Any delay project execution could adversely affect the company's revenues and profitability. AIDL remains exposed to geographical concentration risks as the orders are largely confined to Tamilnadu which account for 90 percent of the unexecuted order book. Further, the segmental concentration of the order book is high with the water supply infrastructure works contributing over 90 percent of the unexecuted order book, respectively. ADIL is into irrigation projects, wherein the sector is marked by the presence of several mid to large sized players. The risk becomes more pronounced as tendering is based on minimum amount of bidding on contracts, and susceptibility to inherent cyclicity in the infrastructure segment; further, it's dependent on state government's thrust on irrigation and other infrastructure works. Acuité believes that above stated risks are mitigated to an extent as management is operating in this segment for nearly two decades.

- **GST Dispute and Auditor Qualification**

In October 2019, the company had become involved in a goods and services tax (GST) dispute for the wrongful availment of an input tax credit (ITC) for a disputed turnover of around Rs.453 Cr. The management has clarified that the company was liable on account of the subcontractors' failure to pay the GST portion, which ADIL had claimed as ITC. According to the management, the ITC claimed by ADIL was in turn passed on to various customers and was not used by the company. The management estimates a liability of only around Rs.3.27 Cr, along with applicable interest and penalties under the provision of the GST Act. ADIL had made a tax provision for the same in FY20 and FY21. The auditor has provided a qualified opinion on the financial statements of FY2020 on the debtors and creditors, it was unable to obtain balance sufficient/appropriate audit evidences to verify the existence.

Liquidity Position: Adequate

AIDL's liquidity is adequate marked by moderate cash accruals to its repayment obligations albeit constrained by working capital intensive nature. AIDL generated cash accruals of Rs.76.29 Cr as against repayment obligation of Rs.4.08 Cr as on March 31, 2021. The cash accruals of the AIDL are estimated to remain around Rs.45-60 Cr during 2021-23 while their repayment obligations are estimated to be around Rs.5-7 Cr during the same period. AIDL's operations are working capital intensive as marked by Gross Current Asset (GCA) days in the range of 203-324 days over the last 3 years ending March 31, 2021. Its working capital credit limits were utilised at about 88 per cent during the last 12 months period ended May 2021. The current ratio stood modest at 1.72 times as on March 31, 2021 with unencumbered cash

and bank balances of Rs.65 Cr as on March 31, 2021. The Civil construction business involves high dependence on non-fund based limits. The company utilised 75 percent of its non-fund based limits as on March 31, 2020. The decent cushion available in non-fund based limits. The expected enhancements in fund and non-fund based limits are likely to support its order book execution. Acuite believes that the liquidity of the AIDL is likely to remain adequate over the medium term on account of adequate cash accruals against its repayment obligations and its internal accruals.

Rating Sensitivities

- Sustained increase in order inflow, providing adequate revenue visibility for the medium term
- Significant improvement in scale of operations while maintaining profitability margins
- Any large debt-funded capital expenditure, resulting in deterioration of financial risk profile.
- Timely execution of its large order book
- Timely enhancement of its fund and non-fund based limits to support the future order book execution

Outlook: Stable

Acuite believes that AIDL will continue to benefit over the medium term due to extensive experience of its promoters, healthy order book and healthy financial risk profile. The outlook may be revised to 'Positive', if the company demonstrates substantial and sustained growth in its revenues from the current levels while improving its profitability and working capital intensity. Conversely, the outlook may be revised to 'Negative' in case of any sharp decline in its revenues or significant volatility in its profitability or delay in order execution leading to significant time and cost overruns or any significant stretch in its working capital management or any large debt-funded capex leading to deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY21 (Provisional)	FY20(Actual)
Operating Income	Rs. Cr.	671.80	484.27
PAT	Rs. Cr.	72.45	27.50
PAT Margin	(%)	10.78	5.68
Total Debt/Tangible Net Worth	Times	0.36	0.50
PBDIT/Interest	Times	7.99	3.79

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

None

Material covenants

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector 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 Lender	Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
State Bank of India	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Assigned)
HDFC Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Stable (Assigned)
AXIS BANK	Overdraft	Not Applicable	Not Applicable	Not Applicable	5.88	ACUITE BBB-/Stable (Assigned)
IDBI Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB-/Stable (Assigned)
Kotak Mahindra Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Assigned)
IndusInd Bank	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BBB-/Stable (Assigned)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	9.62	ACUITE BBB-/Stable (Assigned)
HDFC Bank	Bill Discounting (DRUL)	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 (Assigned)
State Bank of India	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	45.00*	ACUITE A3 (Assigned)
HDFC Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A3 (Assigned)
HDFC Bank	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 (Assigned)
Axis Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	17.70@	ACUITE A3 (Assigned)
IDBI Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.82	ACUITE A3 (Assigned)
Kotak Mahindra Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A3 (Assigned)
IndusInd Bank	Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3 (Assigned)
Not Applicable	Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	49.48	ACUITE A3 (Assigned)

*Letter of Credit of Rs.6.00 Cr is a sublimit to BG; @Letter of Credit of Rs.4.00 Cr is a sublimit to BG.

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About Acuité Ratings & Research:

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