

Press Release

Annai Infra Developers Limited

October 28, 2022

Rating Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	212.30	-	ACUITE A3 Reaffirmed
Bank Loan Ratings	87.70	ACUITE BBB- Stable Reaffirmed	-
Total Outstanding Quantum (Rs. Cr)	300.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed 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**'.

Rationale for the rating

The rating reaffirmation takes into account the extensive experience of the promoters, above-average financial risk profile with healthy debt protection metrics. The rating is constrained by working capital intensive operations, exposure to execution-related risks, tender-driven nature of the business, high geographic and segment concentration risks and GST dispute.

About the Company

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 longstanding relationship with various government bodies in Tamilnadu and, Kerala Governments as well as other corporate clients. Acuité 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.

- **Healthy unexecuted order book**

The company having an unexecuted order book position of Rs.1,625 Cr as on August 31, 2022. The company is planning to execute around Rs.1,200-1,400 Cr in FY2023-FY2024. The outstanding order book is 2.65x of the FY2022 revenue. Acuité believes that AIDL's business risk profile to remain stable on account of moderate order book and ability of company to win new orders.

- **Above- average financial risk profile**

The financial risk profile of the company has remained above-average with healthy capital structure and debt protection metrics. The net worth of the company stood healthy at Rs.304.16 Cr and Rs.241.78 Cr as on March 31, 2022 and 2021 respectively. The gearing of the company has been improving over the last 2 years ending March 31, 2022 as a result of lower debt and increase in net worth levels. It stood at 0.27 times as on March 31, 2022 against 0.38 times as on March 31, 2021. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 8.19 times and 3.93 times as on March 31, 2022 respectively as against 8.99 times and 6.17 times as on March 31, 2021 respectively. The decline in debt protection metrics is on account of increase in interest expense. The deterioration in DSCR ratio is on account of decrease in cash accruals. TOL/TNW stood at 1.19 times and 1.14 times as on March 31, 2022 and 2021 respectively. The debt to EBITDA of the company stood at 0.79 times as on 31 March, 2022(Prov.) as against 0.83 times as on 31st March, 2021. Acuité believes that financial risk profile of the company will remain stable over the medium term.

Weaknesses

- **Working capital-intensive operations**

AIDL's working capital cycle is working capital intensive as reflected by its high gross current asset (GCA) days at 330 days as on March 31, 2022 as against 213 days as on March 31, 2021. The gross current asset (GCA) days are driven by high inventory days. Inventory days stood at 176 days as on March 31, 2022 as against 85 days as on March 31, 2021. The reason for increase in inventory days is a result of company being allotted major 2-3 high value water projects from TWAD under TN state government in FY21-22. As the project work was under full swing, the WIP on account of such projects had increased. Subsequently, the payable period stood at 345 days as on March 31, 2022 as against 174 days as on March 31, 2021 respectively. The debtors day stood at 44 days as on March 31, 2022 as against 12 days as on March 31, 2021. Further, the average bank limit utilization in the last six months ended September, 2022 remained at ~90 percent for fund based and 98 percent for non-fund based. Acuité believes that the operations of the AIDL's will remain moderately working capital intensive on account of continuous submission of security deposits and retention money.

- **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 cyclicalities 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**

In October 2019, the company was alleged in involvement in a goods and services tax (GST) dispute for the wrongful availment of an input tax credit (ITC) for an amount of Rs.63 Cr during financial years 2018-19 & 2019-20. 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 principal contractors and was not used by the company. The management initially 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 FY2020 and FY2021 and after the Principal contractors of the company have paid the tax, interest and 15 percent of penalty, there were no proceedings which were initiated against them in view of Section 74(5) of the CGST Act, 2017. Therefore, there will not be any liability on the Company under CGST Act. It is clarified that the tax and interest cannot be demanded, when there is no supply. The allegation of evasion of tax cannot be made, when there is no supply. Therefore, as stated by the management, a penalty of Rs.10,000/- can only be imposed as per the circular dated 06.07.2022 released by GST department.

Rating Sensitivities

- Timely execution of its order book leading to substantial improvement in scale of operations while maintaining profitability margins over the medium term.
- Any deterioration in working capital cycle and liquidity profile of the company

Material covenants

None

Liquidity Position: Adequate

AIDL's liquidity is adequate marked by moderate cash accruals to its repayment obligations albeit constrained by working capital intensive nature. The net cash accruals stood at Rs.68.09 Cr in FY2022 as against the repayment of Rs.6.16 Cr for the same period and expected to generate cash accruals in the range of Rs.65-70 Cr. against CPLTD of Rs.5- 5.37 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 29.52 Cr as on March 31, 2022. The current ratio of the company stood at 2.00 times as on March 31, 2022. Acuité 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.

Outlook: Stable

Acuité 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.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	613.22	666.88
PAT	Rs. Cr.	63.78	71.22
PAT Margin	(%)	10.40	10.68
Total Debt/Tangible Net Worth	Times	0.27	0.38
PBDIT/Interest	Times	8.19	8.99

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

None

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

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
06 Aug 2021	Proposed Bank Facility	Long Term	9.62	ACUITE BBB- Stable (Assigned)
	Letter of Credit	Short Term	10.00	ACUITE A3 (Assigned)
	Secured Overdraft	Long Term	5.88	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	12.82	ACUITE A3 (Assigned)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	45.00	ACUITE A3 (Assigned)
	Proposed Bank Facility	Short Term	49.48	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	17.70	ACUITE A3 (Assigned)
	Cash Credit	Long Term	4.50	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	25.00	ACUITE A3 (Assigned)

Bills Discounting	Short Term	5.00	ACUITE A3 (Assigned)
Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)
Bank Guarantee	Short Term	30.00	ACUITE A3 (Assigned)
Bank Guarantee	Short Term	35.00	ACUITE A3 (Assigned)
Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Assigned)
Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
Indusind Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3 Reaffirmed
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	45.00	ACUITE A3 Reaffirmed
Kotak Mahindra Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	30.00	ACUITE A3 Reaffirmed
HDFC Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	35.00	ACUITE A3 Reaffirmed
IDBI Bank Ltd.	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	12.82	ACUITE A3 Reaffirmed
HDFC Bank Ltd	Not Applicable	Bills Discounting	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE A3 Reaffirmed
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- Stable Reaffirmed
IDBI Bank Ltd.	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- Stable Reaffirmed
Indusind Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	4.50	ACUITE BBB- Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	33.20	ACUITE BBB- Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	49.48	ACUITE A3 Reaffirmed

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Moparthy Anuradha Devi Analyst-Rating Operations Tel: 022-49294065 moparthy.anuradha@acuite.in	Varsha Bist Senior Manager-Rating Operations Tel: 022-49294011 rating.desk@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité.