



Press Release
Annai Infra Developers Limited
October 11, 2023
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	93.99	ACUITE BBB- Stable Reaffirmed	-
Bank Loan Ratings	206.01	-	ACUITE A3 Reaffirmed
Total Outstanding Quantum (Rs. Cr)	300.00	-	-

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**'.

The rating takes into account the improved operating performance and healthy financial profile of AIDL. The operating income of AIDL has been consistently growing since the last two years from FY2023. The Company's revenue stood at Rs.781.15 Cr in FY2023 as against Rs. 613.22 Cr in FY2021. The operating margins ranged between 15.58-15.82 percent for the last two years ended FY2023. The financial risk profile of AIDL continues to be healthy with healthy debt protection metrics and minimal gearing. The overall gearing of the Company stood at 0.32 times as on March 31, 2023 as against 0.27 times as on March 31, 2022. The interest coverage ratio stood at 9.39 times in FY2023 as against 8.19 times in FY2022.

The rating continues to derive strength from the extensive experience of the promoters, healthy order book albeit significant proportion of slow moving orders, healthy 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

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 order book position, albeit significant proportion of slow moving orders**

The company has an unexecuted order book position of Rs.1832.80 Cr as on March 31, 2023. The company is planning to execute around Rs.850-864 Cr in FY2024. The outstanding order book is 2x of the FY2023 revenue. However, of the total outstanding orderbook ~53% of the orderbook pertains to orders pending execution since FY2017 out of which 13% pertains to orders received between FY2017 to FY2020 and 40% pertains to orders received in FY2021. ~38% of unexecuted orderbook pertains to orders received in FY2023. The orders received in FY2019 and FY2021 on an aggregate basis are completed to an extent of 45-55 percent. The slow execution is attributable to overall slowdown due to the pandemic and political scenarios in the state. However, Acuité believes that AIDL's business risk profile to remain stable on account of healthy order book and ability of company to win new orders.

- **Healthy Financial risk profile**

The financial risk profile of the company has remained healthy with healthy capital structure and debt protection metrics. The net worth of the company stood healthy at Rs.383.93 Cr and Rs.304.16 Cr as on March 31, 2023 and 2022 respectively. The improvement in the net worth is due to accretion of reserves. The gearing of the company stood at 0.32 times as on March 31, 2023 against 0.27 times as on March 31, 2022. Debt protection metrics – Interest coverage ratio and debt service coverage ratio stood at 9.39 times and 4.97 times as on March 31, 2023 respectively as against 8.19 times and 3.93 times as on March 31, 2022 respectively. TOL/TNW stood at 0.84 times and 1.19 times as on March 31, 2023 and 2022 respectively. The debt to EBITDA of the company stood at 0.96 times as on March 31, 2023 as against 0.79 times as on March 31, 2022. Acuite 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 GCA days at 245 days as on March 31, 2023 as against 330 days as on March 31, 2022. however GCA days improved in FY2023 as compared to FY2022. Inventory days stood at 115 days as on March 31, 2023 as against 176 days as on March 31, 2022. Subsequently, the payable period stood at 83 days as on March 31, 2023 as against 345 days as on March 31, 2022 respectively. The debtors day stood at 41 days as on March 31, 2023 as against 44 days as on March 31, 2022. Further, the average bank limit utilization in the last 12 months ended July, 23 remained at ~74 percent for fund based and 80 percent for non-fund based.

- **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 95 percent of the unexecuted order book. Further, the segmental concentration of the order book is high with the water supply infrastructure works contributing over 95 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**

AIDL was alleged in involvement in a goods and services tax (GST) dispute in October 2019, 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 made 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 estimated a liability of around Rs.3.27 Cr along with applicable interest and penalties under the provision of the GST Act however, after the issue of GST circular dated 06.07.2022, the management expects ADIL to be penalized maximum upto Rs.45000 under Section 122 and 125 of the Act. However, the matter as on date is still sub-judice.

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

All Covenants

None

Liquidity Position: Adequate

The company has generated adequate net cash accruals to service its debt obligations. The net cash accruals stood at Rs.84.69 Cr in FY2023 as against the repayment of Rs.6.13 Cr for the same period and expected to generate cash accruals in the range of Rs.99-113 Cr. against CPLTD of Rs.12-13 Cr. over the medium term. Unencumbered cash and bank balances stood at Rs. 3.75 Cr as on March 31, 2023. The current ratio of the company stood at 2.54 times as on March 31, 2023. Acuité believes that AIDL's liquidity will remain sufficient over the medium term backed by repayment of its debt obligations and improving 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 23 (Actual)	FY 22 (Actual)
Operating Income	Rs. Cr.	781.15	613.22
PAT	Rs. Cr.	79.99	63.78
PAT Margin	(%)	10.24	10.40
Total Debt/Tangible Net Worth	Times	0.32	0.27
PBDIT/Interest	Times	9.39	8.19

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

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
28 Oct 2022	Bank Guarantee	Short Term	35.00	ACUITE A3 (Reaffirmed)
	Proposed Bank Facility	Long Term	33.20	ACUITE BBB- Stable (Reaffirmed)
	Bills Discounting	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Letter of Credit	Short Term	10.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	12.82	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Reaffirmed)
	Bank Guarantee	Short Term	45.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	4.50	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
	Cash Credit	Long Term	15.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Short Term	49.48	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	30.00	ACUITE A3 (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A3 (Reaffirmed)
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)
		Short		

	Bank Guarantee	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	Complexity Level	Quantum (Rs. Cr.)	Rating
Kotak Mahindra Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	34.50	ACUITE A3 Reaffirmed
Dhanlaxmi Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	8.64	ACUITE A3 Reaffirmed
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	60.00	ACUITE A3 Reaffirmed
HDFC Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	35.00	ACUITE A3 Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Stable Reaffirmed
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE BBB- Stable Reaffirmed
Kotak Mahindra Bank	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB- Stable Reaffirmed
Dhanlaxmi Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	39.36	ACUITE BBB- Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Letter of Credit	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A3 Reaffirmed
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	52.87	ACUITE A3 Reaffirmed
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.63	ACUITE BBB- Stable Reaffirmed

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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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