

## Press Release

### Waterfront Constructions Private Limited

November 30, 2021



### Rating Assigned

Product	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Long Term Rating	Short Term Rating
<b>Bank Loan Ratings</b>	5.00	5.00		ACUITE A3   Assigned
<b>Bank Loan Ratings</b>	10.00	10.00	ACUITE BBB-   Stable   Assigned	
<b>Total</b>	15.00	15.00	-	-

### Rating Rationale

Acuite has assigned a long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short term rating of '**ACUITE A3**' (read as **ACUITE A three**) to the Rs.15.00 crore bank facilities of Waterfront Constructions Private Limited (WCPL). The outlook is '**Stable**'.

The rating of WCPL takes into account the experienced management, established track record and comfortable financial risk profile. Although the rating draws comfort from the healthy order book it is constrained by the concentration observed in the order book. Work on majority of orders is yet to begin or is at an initial stage of completion and any delays in completion of orders will remain a key rating sensitivity. The highly working capital intensive nature of operations marked by higher GCA days, imparts a negative bias to the rating and any further elongation in the working capital cycle will be a key rating sensitivity.

### About the Company

WCPL is a Pune based company incorporated in the year 2002. It was started by Mr. Anil Mundada who also looks after the day to day operations. WCPL is engaged in contracting for irrigation, roads, railway and coastal projects. It is an ISO 9001-2008 & 14001-2004 accredited company. It majorly operates in Maharashtra primarily executing projects for the Government department. However it has recently also made a foray into Jharkhand. Besides this WCPL is engaged in manufacturing basaltic sand used primarily in cement production and also has a tie up with Ambuja Cement. It currently has an unexecuted order book of Rs. 1003 Crore as on September 2021.

### Analytical Approach

Acuite has considered the standalone business and financial risk profiles of WCPL for arriving at the rating.

### Key Rating Drivers

#### Strengths

**Established track record and experienced management and established track record in the civil construction segment**

WCPL was Incorporated in the year 2002 in Pune. It has been executing various Irrigation, roads, railways and coastal construction project contracts majorly in Maharashtra. It has now

also made a foray into Jharkhand. The types of projects undertaken by WCPL in the past consist of construction of roads, tunnels, canals, dams, spillways and jetties. Besides civil construction it also has a basaltic sand plant manufacturing sand used in cement

production. Mr. Anil Mundada, is the promoter and managing director of the company who looks after the day to day operations. He has an experience of over two decades in the civil construction industry.

Acuité believes the company will benefit from its established presence and experienced management over the medium term.

### **Comfortable financial risk profile**

WCPL's financial risk profile is comfortable marked by moderate net worth of Rs.62.22 Cr. as on 31 March, 2021 (Prov.) as against Rs. 48.75 Cr. as on 31 March, 2020 on account of accretion to reserves. The gearing (debt-equity) remains low at 0.88 times as on 31 March, 2021 (Prov.) as against 1.01 times as on 31 March, 2020. However the company's outstanding limits where utilizations stood at Rs. 44.19 Cr. (90 percent) for period ending August 31, 2021. The total debt of Rs. 55.01 Cr. as on 31 March, 2021 (Prov.) consists of term loan of Rs. 4.63 Cr., Rs.14.78 Cr. unsecured loans and short term working capital limit of Rs.30.36 Cr. The interest coverage ratio also stood comfortable at 3.82 times for FY2021 (Prov.) as against 3.75 times for FY2020. The DSCR stood at 2.22 times for FY2021 (Prov.) as compared to 1.76 times for FY2020. The Net Cash Accruals to Total debt stood at 0.31 times for FY2021 (Prov.) and 0.28 times as on FY2020. The Total outside liabilities to Tangible net worth stood at 1.96 times for FY2021 (Prov.) as against 3.30 times in FY2020. Going forward WCPL will have to infuse funds into its SPV for the HAM project over the next three years. However these are expected to be sourced through promoter's own funds and are not expected to have significant impact on its financial risk profile.

Acuité expects the company to maintain a stable financial risk profile over the medium term in absence of any significant debt funded capex.

### **Healthy order book position**

WCPL has an unexecuted order of ~Rs. 1003 Cr. as on September 2021. This is expected to provide stable revenue visibility over the medium term. However, significant concentration in the order book is observed with ~80 percent of the unexecuted order book is concentrated in two orders. Out of these two one is at a Hybrid Annuity Model (HAM) model project which WCPL has undertaken through an SPV. Total project value stands at ~ Rs. 200 Cr., where in promoters will have to infuse 40 percent of total cost and the rest will be funded through a grant from PWD, Government of Maharashtra (GOM). It is at a nascent stage of completion. Significant investment in the SPV by WCPL - its parent entity will be required for the timely completion of the project. The other project is from Water Resources Department Jharkhand amounting ~Rs. 600 Cr. where work has not started yet.

Acuité believes the healthy order book position provides revenue visibility over the medium term, any delays in the above mentioned two orders will have an significant impact on WCPL's revenue and will remain a key rating sensitivity.

### **Weaknesses**

#### **Working capital intensive nature of operations**

The operations of the company are highly working capital intensive as reflected by Gross Current Assets (GCA) days which stood at 330 in FY2021 (Provisional) as compared to 393 in FY2020. GCA days are high primarily on elongated receivable period. While its inventory days stood at 102 for FY2021 (Provisional) against 73 in FY2020. The receivable days stood at 179 in FY2021(Provisional) and 275 in FY2020. This elongation has increased WCPL's dependency on bank borrowing for funding its working capital. WCPL's bank lines have been utilized at ~85 percent for the past six-month period ending September 2021.

During FY20 and FY21, around 78% and 59% of the billing was done in fourth quarter. While the

execution of the projects happens throughout the year; most of the billing towards the work happens in Q4 once the department receives the funds and ready to make the payments. Hence the debtors at the end of year looks high. Part of the work which is completed and not approved for billing gets accounted as WIP. Due to this the working capital requirement is

high. The same is being funded through Working Capital borrowings; payables (Credit availed from vendors and sub-contractors) and security deposits from Job work contractors.

Acuité believes WCPL's ability to improve its working capital facility will be a key rating sensitivity and any further elongation in working capital cycle will impart a negative bias to the rating.

### **Customers concentration risk**

WCPL is exposed to significant customer concentration risk as it majorly works for the Maharashtra Water Conservation Corporation (MWCC), Government of Maharashtra (GOM). Although they have made a foray into underatking project for Government of Jharkhand, work on that project has not yet started. This makes the company highly dependant on two clients for its revenue. WCPL is susceptible to any volatility in financial and operational performance of its clients. Any adverse impact in performance or lower order flow from these clients is likely to have an adverse impact on the operating and financial risk profile of WCPL.

### **Competitive and fragmented industry**

WCPL majorly provides civil construction services to the Government of Maharashtra and more recent has also started working for Government of Jharkhand. The revenue of the company is highly dependent on the number and value of tenders floated by each of these Governments. Also, WCPL faces intense competition from several mid to big size players. Risk is more pronounced as tendering is based on minimum amount of bidding of contracts, resulting into thin margins.

### **Liquidity Position: Adequate**

WCPL generated net cash accruals of Rs.13.05 Cr to Rs. 16.84 Cr in the last three years through 2019 – 2021 while the debt obligation for the same period is Rs.5.01 Cr to Rs.5.24 Cr. Going forward WCPL's net cash accruals are expected to be in the range of Rs.13.73 Cr to Rs.12.13 Cr during FY 2022-24 against a repayment obligation of ~Rs.5.24 Cr for the same period. The Gross Current Asset (GCA) days were around 330 as on March 31, 2021 (Provisional). The working capital intensive nature of operations requires the company to depend on external borrowings, with average bank limit utilization of ~85 percent in the past six months, ending September 2021. The current ratio of the company stood at 1.80 times as on March 31, 2021(Provisional). WCPL has maintained a cash and bank balance of Rs. 0.11 Cr as on March 31, 2021 (Provisional) and Rs.0.10 Cr in the previous year. Acuite believes that liquidity profile of the company will remain adequate in medium term backed by adequate net cash accrual vis-a-vis their repayment obligations constrained to some extent on account of working capital intensive nature of operations.

### **Rating Sensitivities**

- Timely execution of order without significant delays
- Further elongation in working capital cycle leading to deterioration in liquidity position.

### **Material covenants**

None

### **Outlook: Stable**

Acuité believes that the outlook on WCPL's rated facilities will remain stable over the medium term on account of its promoter's extensive experience, established operational track record and comfortable financial risk profile. The outlook may be revised to 'Positive' in case of

sustained growth in revenue and profitability. Conversely, the outlook may be revised to 'Negative' in case slower than expected growth in revenue or deterioration in the financial and liquidity profile most likely as a result of higher than envisaged working capital requirements.

### Key Financials

Particulars	Unit	FY 21 (Provisional)	FY 20 (Actual)
Operating Income	Rs. Cr.	154.60	152.47
PAT	Rs. Cr.	13.47	10.88
PAT Margin	(%)	8.72	7.14
Total Debt/Tangible Net Worth	Times	0.88	1.01
PBDIT/Interest	Times	3.82	3.75

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

Not Applicable

### Any other information

None

### Applicable Criteria

- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Default Recognition: <https://www.acuite.in/view-rating-criteria-52.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>

### Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Initial Quantum (Rs. Cr.)	Net Quantum (Rs. Cr.)	Rating
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	5.00	5.00	ACUITE A3   Assigned
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	10.00	ACUITE BBB-   Stable   Assigned

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### About Acuité Ratings & Research

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