

Press Release

Waterfront Constructions Private Limited

January 24, 2023



Rating Reaffirmed & Withdrawn

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	41.38	ACUITE BBB- Reaffirmed & Withdrawn	-
Bank Loan Ratings	49.62	-	ACUITE A3 Reaffirmed & Withdrawn
Total Outstanding Quantum (Rs. Cr)	0.00	-	-
Total Withdrawn Quantum (Rs. Cr)	91.00	-	-

Rating Rationale

Acuite has reaffirmed and withdrawn the long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and the short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.91.00 crore bank facilities of Waterfront Constructions Private Limited (WCPL). The rating withdrawal is in accordance with Acuite's policy on withdrawal of rating.

The rating is being withdrawn on account of request received from the company and NOC received from the banker.

Rationale for rating reaffirmation

The rating reaffirmation 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 has a tie up with Ambuja Cement.

Analytical Approach

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

Key Rating Drivers

Strengths

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 manufacturing plant, 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.

WCPL reported revenues of Rs.174 Cr for FY2022 as against Rs.132 Cr in FY2021 which is a growth of ~32 percent year on year. The growth in revenue has been achieved by the company on account of its contract receipts upon executing various projects related to irrigation, roads, railways and coastal projects majorly for government authorities of Maharashtra and Jharkhand as well as through sale of products such as crushed sand, plaster sand and other aggregates during the year. In 9M FY2023, company has achieved revenue of Rs.94 Cr. The operating margin of the company had subdued moderately at 17.41 percent in FY2022 as against 18.93 percent in FY2021. This is majorly on account of increase in the cost of raw materials, employee cost and other administrative expenses. On the other hand, the net profit margin of the company remained stable at 7.59 percent in FY2022 as against 7.57 percent in FY2021.

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

Moderate financial risk profile

Financial risk profile of WCPL is moderate marked by moderate networth, low gearing and comfortable debt protection metrics. The networth of the company has improved to Rs.72 Cr as on 31 March, 2022 as against Rs.59 Cr as on 31 March, 2021 on account of healthy accretion to reserves. The gearing (debt-equity) stood improved at 0.55 times as on 31 March, 2022 as against 0.96 times as on 31 March, 2021. The total debt of Rs.39 Cr as on 31 March, 2022 consists of long term bank borrowings of Rs.14 Cr, unsecured loans from directors of Rs.9 Cr and short term bank borrowings of Rs.16 Cr.

The interest coverage ratio stood improved at 3.35 times for FY2022 as against 2.89 times for FY2021 while the DSCR stood lower at 1.61 times for FY2022 as against 1.79 times for FY2021. The Net Cash Accruals to Total debt stood improved at 0.41 times for FY2022 as against 0.23 times for FY2021. The Total outside liabilities to Tangible net worth stood improved at 1.75 times for FY2022 as against 2.38 times for FY2021.

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 book of ~Rs. 1038 Cr. as on December 2022. 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). This project is expected to be fully completed by the end of March 2023.

The other project is from Water Resources Department, Jharkhand amounting ~Rs. 600 Cr. where work has not started yet due to several land acquisition issues for which the company has to undergo process of obtaining clearances from respective authorities which generally takes time and hence there were delays in execution. It is expected that the orders will now commence by the end of March 2023.

Acuité believes the healthy order book position provides stable 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 factor.

Weaknesses

Working capital intensive nature of operations

The operations of WCPL are highly working capital intensive marked by its Gross Current Assets (GCA) days of 270 days for FY2022 which stood high albeit improved against 427 days for FY2021. This is on account of its elongated receivable cycle which though remains elongated, recorded an improvement in FY022 as it stood at 185 days as against 259 days in FY2021. This makes the company dependent on bank borrowings for working capital requirement. The average bank limit utilization for 6 months' period ended December 2022 stood high at ~90 percent.

During FY2021 and FY2022, around 53 percent and 73 percent 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.

The inventory cycle of the company stood improved at 42 days in FY2022 as against 113 days in FY2021 on account of reduced work in progress (WIP) levels at various sites. Further, the creditors also stood improved at 77 days in FY2022 as against 93 days in FY2021.

Acuité believes WCPL's ability to improve its working capital cycle over the medium term will remain a key rating sensitivity factor.

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 undertaking project for Government of Jharkhand, work on that project has not yet started. This makes the company highly dependent 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.

Rating Sensitivities

- Ability to maintain scale of operations and operating profitability
- Timely execution of orders without significant delays

- Ability to improve working capital cycle

Material covenants

None

Liquidity position - Adequate

WCPL has adequate liquidity position marked by adequate net cash accruals (NCA) to its maturing debt obligations. The company generated cash accruals in the range of Rs.14 Cr to Rs.16 Cr during FY2020 to FY2022 against its repayment obligation in the range of Rs.3 Cr to Rs.6 Cr during the same period. The working capital operations of the company are moderately intensive marked by its gross current asset (GCA) days of 270 days for FY2022 as against 427 days for FY2021 on account of elongated receivables cycle during the same period. This makes the company dependent on bank borrowings for working capital requirement. The average bank limit utilization for 6 months' period ended December 2022 stood high at ~90 percent. Current ratio stands at 2.02 times as on 31 March 2022. The company has maintained cash & bank balance of Rs.0.13 Cr in FY2022.

Outlook

Not applicable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	173.62	131.84
PAT	Rs. Cr.	13.18	9.99
PAT Margin	(%)	7.59	7.57
Total Debt/Tangible Net Worth	Times	0.55	0.96
PBDIT/Interest	Times	3.35	2.89

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

None

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

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 Dec 2021	Secured Overdraft	Long Term	0.50	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	5.00	ACUITE A3 (Reaffirmed)
	Cash Credit	Long Term	2.35	ACUITE BBB- Stable (Assigned)
	Working Capital Term Loan	Long Term	1.28	ACUITE BBB- Stable (Assigned)
	Proposed Bank Facility	Short Term	0.32	ACUITE A3 (Assigned)
	Term Loan	Long Term	4.82	ACUITE BBB- Stable (Assigned)
	Secured Overdraft	Long Term	20.00	ACUITE BBB- Stable (Assigned)
	Working Capital Term Loan	Long Term	2.43	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Short Term	30.00	ACUITE A3 (Assigned)
	Bank Guarantee	Short Term	14.30	ACUITE A3 (Assigned)
	Cash Credit	Long Term	10.00	ACUITE BBB- Stable (Reaffirmed)
30 Nov 2021	Bank Guarantee	Short Term	5.00	ACUITE A3 (Assigned)
	Cash Credit	Long Term	10.00	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
Catholic Syrian Bank	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	30.00	ACUITE A3 Reaffirmed & Withdrawn
ICICI Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	19.30	ACUITE A3 Reaffirmed & Withdrawn
ICICI Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BBB- Reaffirmed & Withdrawn
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	2.35	ACUITE BBB- Reaffirmed & Withdrawn
ICICI Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	1.28	ACUITE BBB- Reaffirmed & Withdrawn
HDFC Bank Ltd	Not Applicable	Covid Emergency Line.	Not Applicable	Not Applicable	Not Applicable	Simple	2.43	ACUITE BBB- Reaffirmed & Withdrawn
HDFC Bank Ltd	Not Applicable	Dropline Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	0.50	ACUITE BBB- Reaffirmed & Withdrawn
Not Applicable	Not Applicable	Proposed Short Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	0.32	ACUITE A3 Reaffirmed & Withdrawn
Catholic Syrian Bank	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE BBB- Reaffirmed & Withdrawn
HDFC Bank Ltd	Not Applicable	Term Loan	Not available	Not available	Not available	Simple	4.82	ACUITE BBB- Reaffirmed & Withdrawn

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Nilesh Soni Analyst-Rating Operations Tel: 022-49294065 nilesh.soni@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.