

Press Release

Trenzet Infra Private Limited (Erstwhile K Venkata Raju Engineers A Contractors Private Limited)

November 18, 2022



Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	12.00	-	ACUITE A4+ Assigned
Bank Loan Ratings	15.00	ACUITE BB Positive Reaffirmed Stable to Positive	-
Bank Loan Ratings	3.00	ACUITE BB Positive Assigned	-
Bank Loan Ratings	30.00	-	ACUITE A4+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	60.00	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BB**' (read as **ACUITE double B**) and short term rating of '**ACUITE A4+**' (read as **ACUITE A four plus**) on the Rs. 45.00 Cr bank facilities and assigned long term rating of **ACUITE BB** (read as **ACUITE double B**) and short term rating of **ACUITE A4+** (read as **ACUITE A four Plus**) on the additional Rs.15.00Cr bank facilities of Trenzet Infra Private Limited (TIPL) Erstwhile K venkata raju Engineers and contractors. The outlook is revised from Stable to '**Positive**'.

Rationale for the reaffirmation and revision of the outlook:

The revision in outlook is primarily driven by the sustained improvement in revenue in FY22 to Rs.126.82Cr, on account of strong order book capture and its timely execution. Although, company continues to depend more on sub-contracting leading to decline in EBITDA margins for FY22. Strong order book continues to provide adequate revenue visibility for the medium to long term coupled with moderate financial risk profile and liquidity.

The rating reaffirmation continues to take cognizance of the experienced management and healthy order book providing adequate revenue visibility over the medium term, geographically well diversified order book and moderate financial risk profile. However, the rating is constrained by risks of moderate working capital cycle and tender based operations along with segmental concentration risk.

About the Company

Trenzet Infra Pvt Ltd, a partnership firm based in Vijayawada Andhra Pradesh location, was established in 1990 carrying civil construction work mainly buildings for government bodies and private companies. The firm was later re-constituted as private limited company named - K

Venkata Raju Engineers & Contractors Private Limited (KVRECPL) in the year 2014 and Changed its name to Trenzet Infra Private Limited (TIPL). TIPL is now a special class civil Construction Company engaged in the construction of mainly railway infrastructure work, roads and bridges and national highways amongst others. The Company is promoted and managed by Mr. T. Kishan Kumar who has around three years of experience in civil construction

Analytical Approach

Acuité has adopted change in analytical approach from consolidated to standalone for arriving at the rating on non-receipt of adequate clarity on inter-company transactions amongst the standalone entity and the JVs along with non-availability of consolidated audited financials for past 3 years ending FY22. Acuité believes that change in approach provides a clear view of the credit profile of the company.

Key Rating Drivers

Strengths

Experienced management and healthy order book providing adequate revenue visibility over the next 2-3 years

TIPL, a special class contractor, is promoted and managed by Mr. T. Kishan Kumar who has more than two decades of extensive experience in civil construction segment with its forte in railway infrastructure works, roads and bridges, national highways among others. Mr. T. Kishan Kumar, in 1989, established 'Vijayawada Construction Company' (VCC). VCC was engaged in civil construction of buildings for private companies and government bodies. VCC after operating for approx. 20 years is non-operational and closed as on date. With intent to bid for high value projects through formation of Joint Ventures and enlarge its operations, TIPL was formed along with Mr. Murali Mohan (Executive Director) and others. Forming TIPL was a step towards diversification into railway, R&B and highway infrastructure work from the buildings work. With the promoter's extensive industry experience and timely execution of past projects, TIPL has been able to establish long-standing relationship with various government bodies such as East Central railways (Bihar and Jharkhand), South Central railway. TIPL has outstanding order book of Rs.750crores of order book as on September 30, 2022 to be executed in the next 24-36 months of time. The outstanding order book is 5x of the FY22 revenue. TIPL has got new orders from South eastern railway, Wester railway, NHAI, Indian port rail & ropeway corporation worth Rs.395Cr to be executed from FY22 onwards. Acuité believes that TIPL performance will improve in the medium term on account of healthy order book.

Geographically well-diversified order book:

TIPL executes orders across Telangana, AP, UP, Maharashtra, Odisha & Gujarat. Out of the total outstanding orders of Rs.750 crores as on September 30, 2022, 47 percent is from Odisha (which are newly awarded tenders in FY22). This depicts less geographical concentration risk on the revenue profile of the company.

Moderate financial risk profile:

TIPL's has healthy gearing at 0.60 times as on March 31, 2022 against 0.68 times as on March 31, 2021. The company follows light-asset model strategy and they take the machinery on hire as required by the situation. This draws low dependency in the debt and which further results in healthy debt equity ratio. TIPL's Net worth is comfortable at Rs.34.39Cr as on March 31, 2022 against Rs.28.67Cr for previous year. Net worth Increased by Rs.6.06cr on account of healthy accretions of net profit in the reserves. Total outside liabilities to total tangible net worth (TOL/TNW) as on March 31, 2022 is moderate at 1.35 times against 1.29 times in previous year. TIPL Debt protection metrics are above average marked by interest coverage ratio, Debt service coverage ratio and Net cash accruals to total debt (NCA/TD) of 3.97 times, 1.63 times and 0.29 times respectively as on March 31, 2022 against 2.76 times, 1.90 times and 0.25 times as on March 31, 2021. Acuite believes that financial risk profile of the company will remain moderate over the medium term.

Weaknesses

Tender based nature of operations along with high segmental concentration risk

TIPL executes only tender based projects from government bodies with no reliance on subcontract work. Once the tender is allotted, earnest money deposits (EMD) of ~0.5 per cent is deposited along with performance guarantee of ~5 per cent. The company raises bills on monthly basis. The retention money is usually 5 per cent of the contract value which is released after a defect liability period of 6 month to 1 year or more. Since, the nature of operations is tender based, the business depends on the ability to bid for contracts successfully. TIPL has success rate of 70 to 80 percent in bidding. Furthermore, TIPL is exposed to high segment concentration risk with 72 percent of its unexecuted order book of Rs. 750 Cr being majorly from railway infrastructure work. Acuité believes that TIPL's revenue and profitability are susceptible to risks inherent in tender based operations which limit pricing flexibility in an intensely competitive industry.

Moderate Working capital cycle:

The working capital cycle is moderate with Gross Current Assets (GCA) days of 112 days as on March 31, 2022. The GCA days are marked by moderate inventory days and debtor days. It pays the RM creditors within 1-2 months. However, others pertain to expenses payable to sub-contractors. High creditor days as on March 31, 2022 is a result of high sub-contract work. The moderate GCA cycle has led to high utilization (at an average of 89 percent) of bank lines of Rs.10.00 Cr over the past 12 months ending August, 2022.

Rating Sensitivities

- Substantial improvement in scale of operations while maintaining profitability margins over the medium term
- Stretch in working capital cycle leading to increase in working capital borrowing and weakening of financial risk profile

Material covenants

None

Liquidity : Adequate

TIPL has NCA of Rs.5.79Cr in FY22 against debt repayment obligation of Rs.2.56Cr. The company is expected to generate adequate NCA's in the range of Rs7.00Cr to Rs.9.00Cr with repayment obligations of Rs.2.3Cr-1.75Cr in the medium term. Unencumbered cash and bank balances stood moderate at Rs.7.02Cr as on March 31, 2022 with current ratio of 1.44times. High bank limit utilization at an average of ~89 percent in the past 12 months ending August 2022. Acuite believes that Liquidity of the company will be adequate in the medium term.

Outlook: Positive

Acuité believes that TIPL will maintain 'Positive' outlook over the medium term due to extensive experience of its promoters, healthy growth in sales, improving financial risk profile and efficient working capital management. The rating may be upgraded if the firm registers expected or higher-than expected growth in revenues and profitability. Conversely, the outlook may be revised to 'Stable' in case of firm's inability to achieve the expected increase in revenue and profitability or deterioration in overall financial risk profile or significant withdrawal of capital.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 22 (Actual)	FY 21 (Actual)
Operating Income	Rs. Cr.	126.82	69.37
PAT	Rs. Cr.	5.25	6.17
PAT Margin	(%)	4.14	8.89
Total Debt/Tangible Net Worth	Times	0.62	0.74
PBDIT/Interest	Times	3.97	3.31

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- 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
08 Nov 2021	Bank Guarantee	Short Term	25.00	ACUITE A4+ (Reaffirmed)
	Proposed Bank Facility	Short Term	5.00	ACUITE A4+ (Reaffirmed)
	Secured Overdraft	Long Term	10.00	ACUITE BB Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	5.00	ACUITE BB Stable (Reaffirmed)
06 Aug 2020	Bank Guarantee	Short Term	30.00	ACUITE A4+ (Assigned)
	Secured Overdraft	Long Term	12.00	ACUITE BB Stable (Assigned)
	Proposed Bank Facility	Long Term	3.00	ACUITE BB 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
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A4+ Reaffirmed
State Bank of India	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	12.00	ACUITE A4+ Assigned
Not Applicable	Not Applicable	Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE A4+ Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BB Positive Reaffirmed Stable to Positive
State Bank of India	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	10.00	ACUITE BB Positive Reaffirmed Stable to Positive
State Bank of India	Not Applicable	Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE BB Positive Assigned

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President-Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Katta Akhil Analyst-Rating Operations Tel: 022-49294065 akhil.katta@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.

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