

Press Release

JSR Infra Developers Private Limited (JSR)

December 09, 2019

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Rating Assigned	Rating Action
1.	Long Term Bank Facilities – Term Loan	25.00	IVR BBB-/ Stable Outlook (IVR Triple B Minus with Stable Outlook)	Assigned
2.	Long Term/Short Term Bank Facilities – Bank Guarantee	156.10	IVR BBB-/ Stable Outlook/ IVR A3 (IVR Triple B Minus with Stable Outlook/IVR A Three)	Assigned
3.	Proposed Long Term/Short Term Bank Facilities – Bank Guarantee	78.90	IVR BBB-/ Stable Outlook/ IVR A3 (IVR Triple B Minus with Stable Outlook/IVR A Three)	Assigned

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of JSR Infra Developers Private Limited (JSR) derives comfort from its Experienced promoters & qualified management team, Proven project execution capability, Reputed clientele, Sufficient asset base, Strong order book reflecting satisfactory medium-term revenue visibility, Expected reversal of declining revenue trend, Healthy EBITDA margins, Comfortable capital structure with healthy debt protection metrics, Liquidity remained strong supported by working capital management, Government thrust on infrastructure sector. However, the rating strengths are partially offset by Geographical and customer concentration, highly fragmented & competitive nature of the construction sector with significant price war

Key Rating Sensitivities

Upward revision factors:

Procurement of new orders providing medium to long term revenue visibility along with a substantial and sustained improvement in the revenue while maintaining the debt protection metrics.

Downward revision factors:

Any decline in the revenue & profitability leading to deterioration of the debt protection metrics and/or deterioration in gross working capital cycle.

Key Rating Drivers with detailed description

Key Rating Strengths

Experienced promoters & Qualified management team

The promoter, Mr. Jagannathan Sekar, is a first- generation entrepreneur having around two-decade experience in the construction sector. The other Directors of the company Mrs. Sekar Jayasree looks after the day to day operations of the company. The directors are supported by a team of experienced and qualified professionals

Proven project execution capability

Over the past years, the entity has successfully completed many projects in Tamil Nadu and ensured timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities. The management also contends that many of the projects they have completed before the schedule and received the bonus for the same.

Reputed clientele

JSR mainly bids for tenders floated by various government departments/entities and is mainly engaged in road & irrigation construction. Moreover, the company also works as a sub-contractor for other contractors and also enters into a Joint venture to secure the orders.

Sufficient Asset Base

Company has over the years built up a strong asset base and with sizeable asset addition every year. Company has almost all the assets required to execute the current order book. Going forward also company continue to add the plant & machinery required to execute the orders which will be funded majorly by debt.

Strong order book reflecting satisfactory medium-term revenue visibility

The company has a strong unexecuted order book of Rs.1950.0 crore as on March31, 2019 with orders across eleven contracts which is about 7.94 times of its FY19 revenue. The orders are expected to be completed by FY22, indicating a satisfactory near to medium term revenue visibility. The company thrust is to secure the orders which is being floated by NHAI or funded by Asian Development Bank or World Bank, where the fund is already allocated to the projects leading to timely payments.

Expected reversal of declining revenue trend

JSR's revenue expected to improve significantly in FY20 after two consecutive years of declining trend. During FY19 the company reported revenue of Rs.245.60 crore (FY18: Rs.375.23 crore; FY17: Rs.450.82 crore). The decline in the revenue was attributed to slower orders flows in FY17 & FY18. However, the company had received a good order to the tune of around Rs.1300.0 crore from NHAI at the end of FY19 which will drive the revenue for the next three years. The company is also bidding for the new project and expect to receive the order of around Rs.2000.0 crore by the end of FY20. The Company is expecting to clock revenues of around Rs.325 crore for FY20 and is in a comfortable position to achieve the same considering satisfactory sales in H1FY20.

Healthy EBITDA margin

EBITDA margins remains healthy and remained in the range of 14%-20% in the last four years ended FY19. The volatility in the margin is attributed to type & size of project executed. However, the company strategy is to bid only for the projects where they able to achieve the EBITDA margins of more than 15%. Almost all the contracts executed by the company have escalation clauses built-in, safeguarding its margins from input price volatility.

Comfortable capital structure with healthy debt protection metrics

JSR's capital structure remained comfortable as on the past three account closing dates ending FY19. The overall gearing ratio was around 0.30x in FY19 (FY18: 0.29x) driven by scheduled repayment of term loans and accretion of profit to reserves. Total debt/GCA & interest coverage albeit deteriorated but remains healthy at 1.46x (0.90x) & 11.73x (22.46x)

respectively. The deterioration was on account of decline in the revenue in FY19 leading to decline in absolute EBITDA to Rs.49.32 crore in FY19 (Rs.54.34 crore).

Liquidity remained strong supported by working capital management

The current ratio & quick ratio of the company remains comfortable as on March 31,2019. The company cash flow from operation also remains adequate. The liquidity of the company expected to remain Strong in the near to medium term in view of sufficient cash accruals in comparison to debt repayment. At present, the company doesn't enjoy any fund based working capital limits. The company able to manage the working capital by keeping the gross cash conversion cycle below three months. The company reputation also able to enjoy it high credit period from the suppliers & sub-contractors.

Government thrust on infrastructure sector

India has the one of largest road network across the world, spanning over a total of 5.5 million km with gradual increase in road transportation over the years attributable to improvement in connectivity between cities, towns and villages in the country. The government, through a series of initiatives, is working on policies to attract significant investor interest. A total of 200,000 km national highways is expected to be completed by 2022. JSR being mainly in road construction likely to be benefitted in near to medium term the increased thrust of the government in developing the road infrastructure.

Key Rating Weaknesses

Geographical & Customer concentration

The present unexecuted order book is entirely concentrated in the states of Tamil Nadu. However, the company has adequate experience to execute projects in the state and also operating in a concentrated geography provides efficient control and reduces the logistical expense. Customer concentration also remains high as five customers contributed to around 95% of the total revenue in FY19. However, receivables risk remains low as most of the project are from NHAI or fund by world Bank & Asian Development Bank.

Highly fragmented & competitive nature of the construction sector with significant price war

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years

back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.

Analytical Approach & Applicable Criteria:

Standalone Approach

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-Financial Sector)

Liquidity

The current ratio & quick ratio of the company remains comfortable as on March 31, 2019. The company cash flow from operation also remains adequate. The liquidity of the company expected to remain strong in the near to medium term in view of sufficient cash accruals in comparison to debt repayment.

The company had cash & cash equivalents (Includes restricted cash upto 12 months) of Rs.66.06 crore (FY18: Rs.45.37 crore) as on 31 March 2019. Cash & bank balances include margins money deposit for non-fund based working capital limits to the tune of Rs.50.61 crore & Rs.3.12 crore respectively in FY19 & FY18.

About the Company

Incorporated in 2015 by Mr. J Sekar and Mrs. Sekar Jayasree. JSR executes civil engineering construction and infrastructure contracts for the National Highway Authority of India (NHAI), Public Works Department (PWD) and highways department of Tamil Nadu. JSR primarily has presence in Tamil Nadu. It is registered as a “Class one” contractor for Tamil Nadu.

Financials:

For the year ended* / As On	31-03-2018 (Audited)	31-03-2019 (Audited)
Total Operating Income	375.23	245.60
EBITDA	54.34	49.32
PAT	30.07	31.06
Total Debt	41.03	51.63
Tangible Net-worth	142.15	169.45

EBITDA Margin (%)	14.48	20.08
PAT Margin (%)	7.88	13.62
Overall Gearing Ratio (x)	0.29	0.30

* Classification as per Infomerics' standards

Status of non-cooperation with previous CRA: Not applicable

Any other information: N.A

Rating History for last three years:

Sl. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Bank Facilities – Term Loan	Long Term	25.00	IVR BBB-/ Stable Outlook	--	--	--
2.	Long Term/Short Term Bank Facilities – Bank Guarantee	Long Term/Short term	235.00	IVR BBB-/ Stable Outlook/ IVR A3	--	--	--

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

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Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities – Term Loan	NA	NA	November 2021	25.00	IVR BBB-/ Stable Outlook
Long Term/Short Term Bank Facilities – Bank Guarantee	NA	NA	NA	235.00	IVR BBB-/ Stable Outlook/ IVR A3