

Kompass Infrastructures Private Limited

January 29, 2020

Ratings

Sl. No.	Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Fund Based Facilities – Secured Overdraft	2.60	IVR BB/Positive Outlook (IVR Double B with Positive Outlook)	Assigned
2.	Short Term Non Fund Based Bank Facilities – Bank Guarantee	9.00	IVR A4 (IVR A Four)	Assigned
3.	Proposed Fund based /Non fund based	18.40	IVR BB/Positive Outlook (IVR Double B with Positive Outlook) and IVR A4 (IVR A Four)	Assigned
	Total	30.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Kompass Infrastructures Private Limited (“KIPL” or “the Company”) derives comfort from its experienced promoters, proven project execution capability and reputed clientele with relatively low counter party payment risks. The ratings also factor in its comfortable capital structure with satisfactory debt protection metrics and near to medium term revenue visibility backed by satisfactory order book. These rating strengths are partially offset by its modest scale of operations with customer concentration, high execution risk as most orders in early stages of execution and susceptibility to regulatory risk coupled with uncertainty in infrastructure & real estate sector. The outlook is positive due to expected improvement in revenue and cash accruals leading to improvement in debt protection metrics in the near to medium term

Key Rating Sensitivities

Upward revision factors:

- Sustained improvement in the revenue while maintaining the debt protection metrics.



Infomerics Valuation And Rating Pvt. Ltd.

- Sustenance of the capital structure

Downward revision factors:

- Any decline in the revenue & profitability leading to deterioration in debt protection metrics and liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters in civil construction sector

The company is managed by Mr. K. Santosh Reddy, who is a mechanical engineer and has experience over 12 years in the civil construction industry. The top management comprises qualified and experienced members, with average experience of a decade. The company has adequate technical and project management capabilities to handle multiple projects at a time and has supported the overall performance.

Proven project execution capability

Over the past years, the entity has successfully completed many civil construction projects majorly in South India and ensured timely completion of all its projects. The Company has executed a few minor sub-contracted projects of major infrastructure players which leads to receives repeat orders from its principal contractor validate its execution capabilities as sub-contractor.

Reputed clientele

KIPL, is a sub-contractor and has built up a strong clientele over the years, which is constantly expanding. Some of the reputed clients served by the company are irrigation department of Govt. of Maharashtra, Govt. of Andhra Pradesh, Greater Hyderabad Municipal Corporation, Southern railways, Govt of Karnataka Panchayat Department, Kalpatru Projects, IOCL etc. with such strong clientele company expects constant flow of orders and to maintain its steady growth and reduces the counter party default risk.



Infomerics Valuation And Rating Pvt. Ltd.

Strong order book reflecting satisfactory short to medium-term revenue visibility:

As on September 30, 2019, the company has healthy order book of above ~Rs.200 Crore along with unexecuted orders aggregating to ~Rs.173.00 crore which is expected to get executed in next 2 years. Furthermore, total order book comprises above 6 times of FY2019 operating revenues provide strong revenue visibility over the medium term.

Average financial risk profile

The capital structure of the company remained comfortable with a comfortable overall gearing at 0.94x as on March 31, 2019. Total indebtedness of the company as reflected by TOL/TNW also remained moderate at 3.63x as on March 31, 2019. Further, the debt protection metrics also remained comfortable marked by satisfactory interest coverage and Total debt to GCA at 3.07x (1.79x in FY18) and 3.10 years (9.97 years in FY18) respectively in FY19. The debt protection metrics are expected to remain above average over the medium term with a rise in cash accruals.

Key Rating Weaknesses

Modest scale and limited track record of operations

Though constituted as a private limited company in 2010, KIPL still has a limited track record of operations with the company starting to execute more and larger value projects only over the last two years. Given this short operational track record and the modest net worth of ~Rs.3.75 crore as on March 31, 2019, (To arrive at the net worth, Infomerics has considered Rs.0.90 crore of unsecured loans from the promoters/ directors as quasi equity as the same is subordinated to the bank facilities), KIPL has limited eligibility to bid for large value projects and has to rely on sub-contracted projects to it by PVR Projects Ltd, CEIPL and other construction majors. The above factors, along with limited fleet and bank facilities required for bidding (bank guarantees), constrain the company's scale of operations and its ability to bid for large projects. Notwithstanding a significant y-o-y growth of ~210% achieved in FY19, the scale of operations



Infomerics Valuation And Rating Pvt. Ltd.

of the company remained small with a total operating income of Rs.30 crore. However, driven by its healthy order book KIPL has achieved substantial improvement in its scale of operation during H1FY20 and achieved a total operating income of ~Rs.58.25 crore.

Exposed to volatility in prices of raw materials

Company's profitability remains vulnerable to volatility in raw material prices (cement and steel) as most of the contracts are fixed priced in nature along with long execution cycle. The order execution cycle varies from 12 months to 36 months for the contracts, from the date of award of contract to contract completion depending upon the work nature.

Exposure to intense competition and customer concentration

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Further, KIPL is exposed to high client concentration risk with a single client contributing a significant portion to the entity's turnover.

High execution risk with most orders in early stages of execution

The outstanding order book of KIPL is above Rs. 200.00 crore as of September 2019. However, there exist high project execution risks as most the projects are in its nascent stage of execution. Execution of newly awarded projects in a timely manner will be a key rating monitorable

Inherent Risk as Civil Contractor

Economic vulnerability and regulatory risks in developing markets, delay in payments from the Government, project execution risk and fluctuating input costs are the key business risk faced by the company is civil constructions as an EPC contractor.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for infrastructure companies.

Financial Ratios & Interpretation (Non-financial Sector).



Infomerics Valuation And Rating Pvt. Ltd.

Liquidity: Adequate

The liquidity profile of KIPL remain adequate marked by its healthy current ratio at 1.86x as on March 31, 2019. The liquidity profile of the company is also expected to remain adequate marked by its satisfactory cash accruals vis a- vis minimal repayment obligations in the near term. Moreover, the company has no debt avilment plan in the near term which imparts further comfort. However, the average cash credit utilisation of the company remained high at ~95% during the past 12 months ended November, 2019 indicating a limited liquidity cushion.

About the Company

Kompass Infrastructure Private Limited (“KIPL” or “the company”) was incorporated as a private limited company in 2010 by Mr. K. Santosh Reddy and Mr. N. Srinivas in Hyderabad, Telangana. KIPL is primarily engaged as an EPC sub-contractor for various infrastructure projects, earthworks and land development, irrigation projects, drinking water and under-ground drainage schemes, supply of railway grade ballast, construction of plant, non-plant buildings and allied facilities, etc. in the states of Telangana, Andhra Pradesh, Maharashtra, Karnataka.

Financials (Standalone):

	(Rs. crore)	
For the year ended*	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	10.10	31.22
EBITDA	0.94	2.25
PAT	0.36	1.12
Total Debt	3.64	3.52
Tangible Net worth	2.63	3.75
EBITDA Margin (%)	9.33	7.22
PAT Margin (%)	3.55	3.57
Overall Gearing Ratio (x)	1.39	0.94

*Classification as per Infomerics’ standards

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. 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 Fund Based Limits – Cash Credit	Long Term	2.60	IVR BB/Positive Outlook	-	-	-
2.	Short Term Non-Fund Based Limits – Bank Guarantee	Short Term	9.00	IVR A4	-	-	-
3.	Proposed Fund Based/Non Fund Based	Long Term/ Short Term	18.40	IVR BB/Positive Outlook & IVR A4	-	-	-

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.

Name and Contact Details of the Rating Analyst:

Name: Mr. Ravi Prakash Tel: (011) 24655636 Email: rprakash@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com
--	---

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. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself



Infomerics Valuation And Rating Pvt. Ltd.

as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine tune its product offerings to best suit the market.

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

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- Secured Overdraft	-	-	-	2.60	IVR BB/Positive
Short Term Bank Facilities – Bank Guarantee	-	-	-	9.00	IVR A4
Proposed Fund Based/Non Fund Based	-	-	-	18.40	IVR BB/Positive & IVR A4