Press Release

Lekcon Infrastructure Private Limited

July 01, 2020

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	24.00	IVR BBB+ / Stable Outlook (IVR Triple B Plus with Stable Outlook)	Revised from IVR BBB; Positive (IVR Triple B; Outlook: Positive)
Short Term Bank Facilities – Bank Guarantee	116.00 (enhanced from Rs.91.00 crore and Including proposed limit of Rs.26.00 crore)	IVR A2 (IVR A Two)	Revised from IVR A3+ (IVR A Three plus)
Total	**140.00**		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the ratings assigned to the bank facilities of Lekcon Infrastructure Private Limited (LIPL) is on account of improvement in its financial performance in FY20 (Prov.) and sustenance of its comfortable capital structure and healthy debt protection metrics. Further, the ratings continue to derive comfort from its experienced promoters with proven project execution capability, reputed clientele, strong order book position and government thrust on road infrastructure. However, these rating strengths are partially offset by its geographical and sectorial concentration risk, susceptibility of operating margin to volatile input prices, intense competition in the construction sector and working capital intensive nature of its operations. The outlook is also revised from ‘Positive’ to ‘Stable’ on account of expected stable financial performance with comfortable debt protection metrics in the near to medium term.

Key Rating Sensitivities:

Upward factors

- A sustained improvement in the revenue and debt protection metrics while maintaining the profitability and credit metrics
- Reduction in revenue concentration risks

- Improvement in liquidity position with average working capital limit utilisation remained below 90% on a sustained basis

Downward factors

- Sharp decline in revenue and/or profitability and/or an increase in the gross working capital cycle or concentration risk
- Moderation in the capital structure with overall gearing below 1x and TOL/TNW below 3x
- Significant deterioration in debt protection parameters and /or liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The promoter, Mr. Lekkala Purushotham Naidu, is a first- generation entrepreneur having more than two decades of experience in the construction sector. Mr. Jeevan Sivakrishna Lekkala and Mr. Gopi Sivakrishan Lekkala (sons of Mr. Naidu) looks after the day to day operations of the company under the guidance of Mr. Naidu. The directors are well supported by a team of experienced and qualified professionals.

Proven project execution capability

Over the past years, the entity has successfully completed many projects across Odisha, Telangana and Andhra Pradesh and ensured timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities.

Reputed clientele albeit customer concentration

LIPL mainly bids for tenders floated by various government departments/entities and is mainly engaged in road construction. Moreover, the company also works as a sub-contractor for other contractors. However, top five customers cater to almost 100% of total operating income in FY20 (provisional), indicating a concentrated customer profile. Though customers being government departments imparts comfort with low counterparty risk.

Strong order book reflecting satisfactory medium-term revenue visibility

The company has a strong unexecuted order book of Rs.321.59 crore as on March 31, 2020 with orders across eight contracts which is about 1.40 times of its FY20 (provisional) construction revenue (i.e.Rs.230.15 crore). The orders are expected to be completed within next one-three years, indicating a satisfactory near to medium term revenue visibility.

Improvement in financial performance in FY20 (Prov.)

Total operating income increased from Rs.171.89 crore in FY19 to Rs.230.15 crore in FY20 (Prov.) registering a y-o-y growth of ~34% in FY20 (prov.) over FY19 driven by increase in flow of orders and higher execution of the same. The EBITDA margin improved sequentially from 11.96% in FY18 to 12.46% in FY19 and to 12.99% in FY20 (Prov.) on the back of execution of relatively high margin road contracts with better rate realization leading to increase in overall profitability. The PAT margin also improved from 3.90% in FY18 to 3.97% in FY19 and 5.65% in FY20 (prov.). GCA improved from Rs.10.93 crore in FY18 to Rs.11.78 crore in FY19 and Rs.18.45 crore in FY20 (prov.).

Comfortable capital structure with healthy debt protection metrics

LIPL does not have any major long-term debt and the debt profile of the company primarily consists of working capital borrowings and short-term unsecured loans from Directors and related parties. The promoters have continuously supported the operations of the company by infusing funds in the form of equity (Rs.4.11 crore in FY18, Rs.3.24 crore in FY19 and Rs.5.30 crore in FY20). The capital structure of the company remained comfortable with overall gearing of 0.61x as on March 31, 2019 and 0.58x as on March 31, 2020 (prov.) (0.51x as on March 31, 2018). Debt protection parameters also remained comfortable with interest coverage ratio of 4.89x in FY19 and 3.98x in FY20 (prov.). (3.63x in FY18). Total debt to GCA remained moderate with 3.38x in FY19 and 2.61x in FY20 (prov.) (2.69x in FY18).

Government thrust on road infrastructure

India has 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. LIPL being mainly in road construction is likely to be benefitted in near to medium term the increased thrust of the government in developing the road infrastructure.

Key Rating Weaknesses

Geographical and sectorial concentration risk

The present order book is skewed towards road construction in Odisha, Telangana and Andhra Pradesh from various government departments indicating a geographical and sectorial concentration risk. However, the company has adequate experience in order to execute projects in these states which provides a comfort. Further to reduce its geographical concentration risk the company has started bidding for projects in other states.

Susceptibility of operating margin to volatile input prices

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including sub-contracting) cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, presence of escalation clause (for raw materials) in most of the contracts protect the margin to an extent.

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.

Working capital intensive nature of operation

The operations of LIPL are working capital intensive as a large amount of working capital remains blocked in earnest money deposits and retention money. Further, most of its road construction works and consequent billings are skewed towards last two quarters (almost ~30-40% of sales are booked in the last quarter on an average) which led to high debtors outstanding as on the last date of the financial year (payments are generally been received in 1st quarter of the next fiscal) and resulted in high average collection period. This apart, its clients are government departments/entities having various procedural requirements where payments are relatively slow. However, despite high collection period, comfort can be derived from the fact that the dues are from various government departments (Mostly NHAI (rated: CRISIL AAA/Stable) though its state wings) which carries a low default risk. Further, the company's creditor's period is also high as it tries to match the payments of its suppliers and sub-contractors with its receipt of payments from debtors.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity - Adequate

The liquidity of the company is expected to remain adequate in the near to medium term with sufficient accruals and absence of any significant term debt repayment. Overall gearing ratio was comfortable at 0.58x as on March 31, 2020 (Prov.) indicating a sufficient gearing headroom. However, the average CC utilisation for the past twelve months ended May, 2020 remained high at ~91% indicating a limited cushion. The cash and bank balance of the company remained satisfactory at Rs.13.38 crore as on May 31, 2020.

About the Company

Incorporated in 2009, Hyderabad based Lekcon Infrastructure Private Limited (LIPL) is promoted by Mr. L. Purushotham Naidu. The company is engaged in contract-based construction and renovation of roads and highways, irrigation work, housing, etc. for various Government bodies and private entities. LIPL is accredited with ISO 9001:2008, ISO 18001-2007, ISO 14001-2015 certification. LIPL primarily has presence in Odisha, Telangana and Andhra Pradesh. It is registered as a "Super Class" contractor with the Odisha roads and building department and "Class 1" contractor in Andhra Pradesh and Telangana.

Financials (Standalone):

(Rs. crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Provisional
Total Operating Income	171.89	230.15
EBITDA	21.42	29.89
PAT	6.87	13.05
Total Debt	39.76	48.23

For the year ended* / As On	31-03-2019	31-03-2020
Tangible Net worth	64.93	83.28
EBITDA Margin (%)	12.46	12.99
PAT Margin (%)	3.97	5.65
Overall Gearing Ratio (x)	0.61	0.58

**As per Infomerics' Standard*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years with Infomerics:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	24.00	IVR BBB+/ Stable Outlook	IVR BBB/ Positive Outlook (July 09, 2019)	-	-
2.	Bank Guarantee	Short Term	116.00 (enhanced from Rs.91.00 crore and Including proposed limit of Rs.26.00 crore)	IVR A2	IVR A3+ (July 09, 2019)	-	-

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

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 – Cash Credit	-	-	-	24.00	IVR BBB+ / Stable Outlook
Short Term Bank Facilities – Bank Guarantee	-	-	-	116.00 (enhanced from Rs.91.00 crore and Including proposed limit of Rs.26.00 crore)	IVR A2