



Press Release

Concrete Udyog Limited

March 22, 2021

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facility- Fund Based Limit	24.85	IVR BBB- / Stable (Triple B Minus with Stable Outlook)	Re-affirmed
Proposed Long Term Bank Facilities- Fund Based Limit	1.15	IVR BBB- / Stable (Triple B Minus with Stable Outlook)	Assigned
Short Term Bank Facilities- Non-Fund Based Limit	25.65	IVR A3 (IVR A Three)	Assigned
Proposed Short Term Bank Facilities- Non-Fund Based Limit	8.35	IVR A3 (IVR A Three)	Assigned
Total	60.00 (Rupees sixty crores only)		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of the rating assigned to the above bank facilities of Concrete Udyog Ltd (CUL) continues to derive comfort from its experienced promoters with long track record of operation in pipes/poles manufacturing industry, healthy medium-term revenue visibility backed by satisfactory order book, reputed clientele with low counter party payment risk and above average financial risk profile marked by growth in revenue, comfortable capital structure and adequate debt protection metrics. However, these rating strengths are partially offset by its modest scale of operation, intense competition and susceptibility to risks inherent in tender-based business and high working capital intensity driven by elongated receivable cycle.

Key Rating Sensitivities:

Upward Factors:

- Substantial and sustained growth in operating income, operating margin and cash accrual
- Improvement in working capital management with improvement in liquidity
- Improvement in capital structure and debt protection metrics on sustained basis



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Downward Factors:

- Moderation in operating income and cash accrual impacting the debt protection metrics on a sustained basis
- Stretch in the working capital cycle driven by stretch in receivables, or sizeable capital expenditure weakens the financial risk profile, particularly liquidity.
- Any unplanned capex and /or deterioration in overall gearing to over 1.0x
- Withdrawal of USL from promoters and relatives amounting to Rs.13.40 crore

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters with long track record of operation in pipes/poles manufacturing industry

Incorporated in 1980 by one Saraogi Family, CUL has a track record of more than three decades of operations in the cables and conductor's industry. The promoters are vastly experienced in this industry and associated with this industry for more than four decades. Presently, the day-to-day operations of the company is managed by Mr. Ramesh Kumar Saraogi and Mr. Gagan Saraogi, having experience of more than four decades and 16 years in this business respectively, well supported by a team of experienced personnel.

Healthy medium-term revenue visibility

Unexecuted orders of over Rs. 253.03 crore as of December 31, 2020, translating into 2.8 time of fiscal 2020 revenue, thereby providing healthy medium-term revenue visibility. These orders have been received from several government departments and private entities, including Tamil Nadu Electricity Board (TNEB), UP Jal Nigam, Tata Project Ltd, and NCC Ltd. Though the order book is expected to be executed over next 1.5-2 years, however, actual execution would remain a key monitorable amid on-going manpower and logistical challenges and expected to ramp-up with easing restrictions imposed to contain the spread of novel coronavirus.

Reputed Clientele with low counter party payment risk

CUL caters mainly to renowned government sectors like UP Jal Nigam, Tamil Nadu Electricity Board, Tata Projects etc., among others. The repeat orders received from its clientele validate its capabilities. Though CUL has low bargaining power with its customers, its clientele base



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has sound credit risk profile, which does reduce the counter party payment risk to a certain extent.

Above average financial risk profile marked by growth in revenue, comfortable capital structure and adequate debt protection metrics

The total operating income of the CUL grew at CAGR of ~14% over the last three years FY18-FY20. Despite lockdown in FY20 for last 15 days of March, revenue of CUL improved by around 8% in FY20 to Rs.90.51 crore from Rs.83.84 crore in FY19. This improvement was driven by higher orders executed during the year. However, CUL's EBITDA margin remains satisfactory and rangebound between 15.23% to 16.76% during the last three years ended FY18-FY20. It declined marginally from 15.36% in FY19 to 15.23% in FY20 due to increase in manufacturing expenses. However, PAT margin improved due to lower interest expense vis-a-vis total operating income.

CUL has a comfortable capital structure on the back of its satisfactory net worth base of Rs.45.37 crore as on March 31, 2020 (after adjusting for subordinated USL of Rs.13.40 crore, which has been treated as quasi equity and excluding all the investments in group companies of Rs.0.43 crore). The overall gearing ratio of CUL remains comfortable and stood at 0.61x on Mar.31, 2020 vis-a-vis 0.87x as on March 31, 2019. Total indebtedness of the CUL as reflected by the TOL/TNW stood satisfactory at 0.95x as on March 31,2020. Debt protection parameters marked by interest coverage ratio remained moderate at 2.80x in FY20. Further, Total debt to GCA also remain moderate at 3.96 years in FY20. In 10MFY21, the company reported revenue of Rs.80.32 crore with EBITDA margin of 15.59% and interest coverage of 3.02x.

Key Rating Weaknesses

Modest scale of operation

CUL's scale of operation remains modest with Total operating income of Rs.90.51 crore in FY20. Modest scale of operations in a competitive industry restricts the financial flexibility of the company to an extent.

Intense competition and susceptibility to risks inherent in tender-based business

Revenue and profitability will remain vulnerable to risks inherent in tender-based business. The entities in this segment face intense competition, thus requiring to bid aggressively to get contracts, which restricts the operating margin to a moderate level. Also, given the cyclicity



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inherent in the construction industry, the ability to maintain profitability margin through operating efficiency becomes critical.

Receivable cycle remains elongated leading to high working capital intensity

The receivable cycle of CUL remained high, largely on account of elongated payment cycle from its clients and sizeable retention money. Operations are working capital intensive, with gross current assets and receivables expected to be around 217 days and 134 days, respectively, as on March 31, 2020 (as against 237 days and 139 days respectively as on March 31, 2019). Receivables have remained high on account of stretched payments from government departments. The working capital intensity is further reflected from around 89% utilization of its fund-based limit during the 12 months ended December, 2020.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Manufacturing Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity of the company is expected to remain adequate on the back of its adequate cash flow. CUL had generated adequate cash accrual of around Rs.7.03 Cr in FY20 as against its debt repayment obligation of around Rs.2.45 crore. Further, CUL is also expected to generate steady cash accrual in the range of ~Rs.8.80-14.39 crore against its repayment obligation in the range of ~Rs.2.14-2.75 crore during FY21-24. Moreover, CUL has adequate gearing headroom on the back of its satisfactory capital structure.

About the Company

Concrete Udyog Limited (CUL) was incorporated in early 1980s as a partnership firm under a stewardship of Late. Mr. Cheddi Lal Saraogi. Later on, it was handed over to Mr. Ramesh Kumar Saraogi who is also a promoter and present managing director as well. Currently, the company is being led by Mr. Gagan Saraogi, whole time director. The Company's registered office is at Kanpur, Uttar Pradesh. It has three manufacturing plants – one at Jhansi, Uttar Pradesh (for manufacturing of pipes) and the other two at Jabalpur, Madhya Pradesh and Nilkottai, Tamil Nadu (for manufacturing of poles). CUL is engaged in manufacturing of highly engineered concrete and steel products, such as pre-stressed cement concrete poles, pre-stressed concrete pipes, pre-stressed cement concrete pressure pipes with cylinders,



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bar-wrapped steel cylinder pipes and mild steel pipes. It also undertakes turnkey projects for installation of pipes for government entities.

Financials (Standalone)

(Rs. Crore)

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	83.84	90.51
EBITDA	12.88	13.79
PAT	3.89	4.73
Total Debt*	34.02	27.81
Tangible Net worth*	38.93	45.80
EBITDA Margin (%)	15.36	15.23
PAT Margin (%)	4.63	5.21
Overall Gearing Ratio (x)*	0.88	0.61

*Excluding subordinated USL from total debt and considering it as quasi equity

*Classification as per Infomerics' standards.

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Fund Based Limit	Long Term	24.85	IVR BBB-/Stable	IVR BBB-/Stable (March 08, 2021)	-	-
2.	Proposed Fund Bases Limit	Long Term	1.15	IVR BBB-/Stable	-	-	-
3.	Non Fund Based Limit	Short Term	25.65	IVR A3	-	-	-
4.	Proposed Non Fund Based Limit	Short Term	8.35	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. 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.

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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 Fund based Limits	-	-	-	24.85	IVR BBB-/Stable
Proposed Long term Fund based Limits	-	-	-	1.15	IVR BBB-/Stable
Short term Fund based Limits	-	-	-	25.65	IVR A3



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Proposed term Fund Limits	Short based	-	-	-	8.35	IVR A3
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