

Infomerics Valuation And Rating Pvt. Ltd.

Press Release

Agrawal Global Infratech Private Limited

October 04, 2018

Rating

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	2.50	IVR BBB- / Stable Outlook (IVR Triple B minus with Stable Outlook)	Assigned
Long Term Bank Facilities – Bank Guarantee	18.50	IVR BBB- / Stable Outlook (IVR Triple B minus with Stable Outlook)	Assigned
Short Term Bank Facilities – Bank Guarantee	5.00	IVR A3 (IVR A Three)	Assigned
Total	26.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating derives comfort from its experienced promoters, project execution capability, reputed clientele and comfortable debt protection metrics. Strong order book position and improvement in financial performance in FY18 also support the rating. However, the rating is constrained by concentrated portfolio, volatile input prices and competitive nature of the construction sector with significant price war. Growth and profitability, gearing level and working capital management are the key rating sensitivities.

List of Key Rating Drivers

- Experienced promoter
- Proven project execution capability
- Reputed clientele
- Strong order book reflecting satisfactory medium term revenue visibility
- Improvement in financial performance
- Comfortable capital structure with healthy debt protection metrics
- Concentrated portfolio
- Volatile input prices

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

Detailed Description of Key Rating Drivers

Key Rating Strengths

Experienced promoter

The overall operation of the company is looked after by Mr. Rakesh Agrawal. He is having a decade long experience in the construction sector. Before incorporation of the proprietorship concern, Mr. Agrawal was involved in construction related activities including supplying of construction related materials to Public Works Department (PWD) and other Government departments. Mr. Agrawal is well supported by a team of experienced professionals.

Proven project execution capability

Over the past years, the entity has successfully completed many projects across Jharkhand, Odisha and Chhattisgarh in the direct construction space. In order to manage the projects in a better way, the entity has a policy to apply for short to medium duration projects (1-3 years) and handle limited number of projects at a time to ensure timely completion. The repeat orders received from its clientele validate its construction capabilities.

Reputed clientele

The company mainly bids for tenders floated by various government departments/entities and is mainly engaged in roads, highways, bridges and building construction for various government departments through direct contracts as evident from the order book of the company. Further, the scope of work of projects undertaken by the company encompasses widening, strengthening and improvement of existing roads. With its moderate size of operation, association with big government contractees adds credence to the company and the promoter and the construction ability as well.

Strong order book reflecting satisfactory medium term revenue visibility

The company has a strong order book position (Rs.321.60 crore as on June 30, 2018) across eight contracts which is about 3.09 times of its FY18 construction revenue (i.e. Rs.104.06 crore). The orders are expected to be completed within next one-three years, indicating a

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satisfactory medium term revenue visibility. The company has also bid for new tenders and is expecting further orders to the tune of Rs.300 crore.

Improvement in financial performance

The Company has expertise in construction of roads, highways, bridges and building with construction material, reinforced earth & earthwork. The total operating income of the entity increased at a CAGR of 90% during FY15-18 since the entity obtained new orders for road and highway construction from Public Works Department and NHAI which was duly completed in time. This led to gradual improvement in margins during the last three years.

Comfortable capital structure with healthy debt protection metrics

The long term debt equity ratio and the overall gearing ratio were comfortable at 1.18x and 1.23x respectively as on March 31, 2018. Other debt protection metrics (like interest coverage, Long-term Debt/GCA, Long-term Debt/EBIDTA and Total Debt/GCA) have also been satisfactory. The average of monthly maximum CC utilisation for the past 12 months ended Aug-18 was satisfactory at 51.25%.

Key Rating Weaknesses

Concentrated portfolio

The company's presence in the construction segment has predominantly remained in the execution of road projects in Jharkhand and Chhattisgarh leading to sectoral and geographical concentration of portfolio. While any political turbulence in these regions may negatively impact the performance of the company, such incident is highly unlikely considering the precedence. The customer concentration of the company is also high, as the top five customers contributed 75% of the total revenue for FY18. However, mostly being government clientele, the customer concentration risk is mitigated to a large extent.

Volatile input prices

Major raw materials used in road construction activities are steel, cement stone, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The input prices are generally volatile and consequently the profitability of the company remains susceptible to fluctuation in input prices. However, presences of escalation clause in most of the contracts protect the margin to an extent.

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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:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

About the Company

M/s. Agrawal Global Infratech Private Limited was incorporated in January 2017 to take over the business of M/s. Agrawal Infrastructure, a proprietorship entity, with effect from 1st April, 2017. M/s. Agrawal Infrastructure was set up by Mr. Rakesh Agrawal in January 2011. M/s. Agrawal Infrastructure was involved in the business of construction of roads, highways, bridges and building as a direct contractor. All the assets and liabilities of the entity were taken over by the company by virtue of a takeover agreement executed on 1st April, 2017. The Company has expertise in construction of roads, highways, bridges, and building with construction material, reinforced earth & earthwork. Currently, the company undertakes the work orders in the state of Jharkhand, Odisha and Chhattisgarh. The company is registered as Class” A” contractor under the Public Works Department, Chhattisgarh.

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Financials (Standalone):

The financial parameters furnished below are those of the proprietorship firm for FY17 for the private limited company for FY18:

(Rs. crore)		
For the year ended* / As On	31-03-2017	31-03-2018
	Audited	Audited
Total Operating Income	84.03	104.06
EBITDA	13.56	17.31
PAT	8.36	5.88
Total Debt	19.78	19.49
Tangible Net worth	8.22	15.87
EBITDA Margin (%)	16.14	16.63
PAT Margin (%)	9.89	5.63
Overall Gearing Ratio (x)	2.41	1.23

*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 2018-19)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17	Date(s) & Rating(s) assigned in 2015-16
1.	Long Term Fund Based Limits - Cash Credit	Long Term	2.50	IVR BBB- / Stable Outlook	-	-	-
2.	Long Term Non Fund Based Limits - Bank Guarantee	Long Term	18.50	IVR BBB- / Stable Outlook	-	-	-
2.	Short Term Non Fund Based Limits - Bank Guarantee	Short Term	5.00	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 Bank Facilities – Cash Credit	-	-	-	2.50	IVR BBB- / Stable Outlook
Long Term Bank Facilities – Bank Guarantee	-	-	-	18.50	IVR BBB- / Stable Outlook
Short Term Bank Facilities – Bank Guarantee	-	-	-	5.00	IVR A3