Press Release

Ayoki Fabricon Private Limited

August 29, 2020

Ratings

Sl. No.	Facilities	Amount (Rs. Crore)	Current Ratings	Rating Action
1.	Long term Bank Facilities	29.00	IVR BBB/ Stable Outlook (IVR Triple B with Stable Outlook)	**Assigned**
2.	Short term Bank Facilities	81.00	IVR A3+ (IVR A Three Plus)	**Assigned**
	Total	**110.00 (One Hundred and Ten Crores Only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of Ayoki Fabricon Private Limited (AFPL) derives comfort from its experienced promoters, long record of accomplishment of operations with sound FEC contracting acumen with proven project execution capability, reputed clientele and strong order book position reflecting satisfactory medium-term revenue visibility. The ratings also positively factors in its growing scale of operations, healthy profitability and comfortable capital structure with healthy debt protection metrics. These rating strengths however are tempered by its susceptibility of operating margin to volatile input prices, highly fragmented & competitive nature of the construction sector and working capital intensive nature of operations.

Key Rating Sensitivities

Upward Rating Factors

- Growth in scale of operations with improvement in profitability and debt protection metrics on a sustained basis with improvement in its capital structure
- Management of working capital requirements efficiently with improved in liquidity position

Downward Rating Factors

- Moderation in scale of operations and/or profitability impacting the debt protection metrics on a sustained basis
- Moderation in the capital structure

Detailed Description of Key Rating Drivers

Key Rating Strengths:

Experienced promoters

Both Mr. Ganesh Kumar and Mr. K Krishnan Kutty are associated with AFPL since inception in 1984 and have accumulated an experience of almost four decades in infrastructure industry. Mr. Ganesh Kumar is a Post-Graduate and holds the title of Managing Director in the company; Mr. K Krishnan Kutty holds a Diploma in Engineering and is the Technical Director with the Company. Mr. Sanooj K with an experience of a decade is the Executive Director with AFPL and is a Post-Graduate by qualification.

Long record of accomplishment of operations with sound Fabrication, Erection, Installation and Commissioning (FEC) acumen with proven project execution capability

Being operational since 1984, the company has a vast record of accomplishment of almost four decades. Over the years, the company has acquired strong fabrication, erection, installation and commissioning (FEC) acumen through its successful operations and has completed a number of large, medium and small-sized projects such as: Bulk Material Handling, Oil & Gas Plants, Distilleries, Foundries, Pollution Control Equipment's, Steel Plants, Sugar Plants, Cement Plants, Boilers, Co-generation Plants, etc. across India and Abroad while ensuring timely completion of all its projects. The repeat orders received from its clients validate its construction capabilities.

Reputed clientele

AFPL bids for tenders floated by various government departments/entities and caters to private players. Moreover, the company also works as a sub-contractor for other contractors. Over the years of its operations, the company has established a strong business relationship with various government departments as well as private clients. AFPL has undertaken fabrication, erection and commissioning services of plants for clients, which include Jaypee Group, Ambuja Cements, Aditya Birla Group, Lafarge, Dangote Group, JK cement Group, etc.

Strong order book position reflecting satisfactory medium-term revenue visibility

AFPL has a strong unexecuted order book of Rs.1,176 crore as on July 30, 2020, which is about 3.84x of the total operating income reported in FY20 (provisional). The orders are expected to be completed by the end of FY22, indicating a satisfactory near to medium term revenue visibility.

Growing Scale of Operations coupled with Healthy profitability

Over the past four financial years, (FY17-FY20) total operating income of AFPL has increased by a CAGR of ~18% and witnessed a YOY growth of ~30%. Gross Cash Accruals of the company also reported a healthy growth and stood at Rs.40.10 crore in FY20 (provisional) as against Rs.30.66 crore in FY19. In addition, the company has maintained a healthy profitability marked by satisfactory EBITDA margin and healthy PAT margin. In FY20 (provisional), AFPL witnessed improvement in its EBIDTA margin from 8.85% in FY19 to 9.61% in FY20 (provisional). The improvement was mainly because of consistent cost control and efficiency measures stipulated by the Company. Driven by improvement in EBITDA margin the PAT margin also improved from 3.41% in FY19 to 4.30% in FY20 (provisional). Further, in 3MFY21, AFPL achieved total operating income of Rs.165.41 crore and reported EBITDA and PAT margins of 10.41% and 5.63%, respectively.

Comfortable capital structure with healthy debt protection metrics

The overall gearing of the company stood comfortable at 0.40x as on March 31, 2020 (provisional) as against 0.56x on March 31, 2019. The debt protection indicators of the company like interest coverage stood comfortable at 4.98x in FY19 and improved to 6.02x in FY20 (provisional). Total Debt/ GCA also improved and stood at 1.22 years in FY20 (provisional) as against 1.80 years in FY19, improvement was mainly on account of repayment of debt and increased GCA levels. Further, total indebtedness of the company as reflected by TOL/Adj. TNW remained comfortable at 3.11x as on March 31, 2020 (provisional).

Key Rating Weaknesses:

Susceptibility of operating margin to volatile input prices

Major raw materials used in civil construction activities are steel & cement, 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. Cost of raw materials as a percentage of cost of sales, increased from ~77% in FY18 to ~86% in FY19 due to increase in labour cost and raw material prices.

Highly fragmented & competitive nature of the construction sector

The 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

Construction business, by its nature, is working capital intensive as large part of working capital remains blocked as earnest money deposits and retention money. Further, the company's revenue is skewed towards the last two quarters with higher proportion in the last quarter of the fiscal. Consequently, the year-end receivables generally remains high. The collection period remained high and stood at 109 days in FY19, which improved and stood at 86 days in FY20 (provisional). The working capital requirement of the company are mainly funded through credit period availed from its creditors based on its established relationship, need based mobilization advances availed and through bank borrowings. Further, the company has a strategy to take up short to medium duration contracts and optimize the execution time to realize the payments faster in order to manage working capital requirements efficiently. Average utilization of its fund-based working capital borrowings of AFPL stood at ~89% for the past trailing 12 months ended June, 2020.

Analytical Approach: Consolidated

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

Adequate liquidity characterized by its expected gross cash accruals ranging between ~Rs.38.00-40.00 crore as against its repayment obligation of ~Rs.1.00 crore during FY21-23. Its capex requirements are modular and expected to be funded through internal accruals and unsecured loans. However, the company has adequate gearing headroom marked by its comfortable capital structure and above unity current ratio as on March 31, 2019. Its bank limits stood utilized to the extent of ~89% during the past 12 months ended June 30, 2020 indicating a moderate liquidity buffer.

About the Company

Based in Pune (Maharashtra), Ayoki Fabricon Private Limited (AFPL) was incorporated in 1984 and was acquired by its then promoters; Mr. Ganesh Kumar and Mr. K Krishnan Kutty, in 1987. AFPL is engaged in fabrication, erection, installation, commissioning (FEC) and testing of projects such as Bulk Material Handling, Oil & Gas Plants, Distilleries, Foundries, Pollution Control Equipment's, Steel Plants, Sugar Plants, Cement Plants, Boilers and Co-generation Plants and has successfully completed various projects in India and abroad. The company largely operates in African continent (overseas business accounted for ~95% of total sales in FY19 as against ~96% of total sales in FY18). AFPL acquired a Bengaluru based company in FY16 'Buildmet Private Limited', engaged in civil construction activities. AFPL has also set up its branch offices in Indonesia, Kenya, Senegal, Zambia, Tanzania and Ethiopia. Further, AFPL owns over 200 cranes of different sizes of its own which are kept and used at its project sites all over the world. AFPL has its own workshop at Sanaswadi (40 km east from Pune), where these cranes are stored and maintained.

Financials: Consolidated **(Rs. Crore)**

For the year ended* / As On	31-03-2019 (Audited)	31-03-2020 (Provisional)
Total Operating Income	441.93	575.71
EBITDA	38.69	55.15
PAT	15.06	24.78
Total Debt*	19.26	13.10
Tangible Net worth*	99.2	124.0
EBITDA Margin (%)	8.85	9.61
PAT Margin (%)	3.41	4.30
Overall Gearing Ratio (x)*	0.56	0.40

*as per Infomerics standards

Status of non-cooperation with previous CRA: N.A.

Any other information: N.A.

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)	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	-	-	-
2.	Proposed	Long Term	5.00	IVR BBB/ Stable	-	-	-
3.	Bank Guarantee	Short Term	61.00	IVR A3+	-	-	-
4.	Proposed	Short Term	20.00	IVR A3+	-	-	-

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

Name and Contact Details of the Rating Analyst:

Name: Mr. Archit Aggarwal Tel: (011) 24611910 Email: aaggarwal@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 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	NA	NA	NA	24.00	IVR BBB/ Stable Outlook
Long Term Bank Facilities– Proposed	NA	NA	NA	5.00	IVR BBB/ Stable Outlook
Short Term Bank Facilities– Bank Guarantee	NA	NA	NA	61.00	IVR A3+
Short Term Bank Facilities– Proposed	NA	NA	NA	20.00	IVR A3+

Annexure 2: Facility wise lender details.

https://www.infomerics.com/admin/prfiles/lender-Ayoki-Fabricon-Private-Limited-29-aug-20-.pdf