Globe Civil Projects Private Limited

March 23, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1	Long term bank facilities- Fund based limits	12.00 (enhanced from 2.00)	IVR BBB- Under Credit watch with developing implications (IVR Triple B Minus under Credit Watch with Developing Implication)	Re-affirmed
2.	Short term bank facilities- Non-fund-based limits	83.00 (enhanced from 18.00)	IVR A3 Under Credit watch with developing implications (IVR A Three Under Credit Watch with Developing Implication)	Re-affirmed
	Total	**95.00 (Rupees ninety five crore only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The reaffirmation of rating assigned to the above bank facilities of Globe Civil Projects Private Limited (GCPPL) continues to derive comfort from its long track record & established presence in the construction sector, highly experienced managerial & technical team, sound engineering acumen, reputed clientele leading to lower counterparty default risk, strong order book reflecting satisfactory medium term revenue visibility, stable financial performance and comfortable capital structure with moderate debt protection metrics. However, these rating strengths are partially offset by its project concentration high as top four projects constitute ~85% of the outstanding order book, susceptibility of profitability to volatile input prices, presence in highly fragmented & competitive construction sector with significant price war, high working capital limit utilisation marked by stretched payable cycle and inventory.

Infomerics expects the company's operating as well as financial performance to remain under pressure because of the weak macro-economic environment due to the ongoing pandemic in the near term, at least. The demand recovery is likely to be very small and gradual. The ratings remain under credit watch with developing implications owing to uncertainty in the operating scenario and Infomerics will continue to monitor the developments in this regard and will take a view on the ratings once the exact implications of the above on the credit risk profile of the company are clear.

Key Rating Sensitivities:

Upward Factors:

- Growth in scale of operations with improvement in profitability on a sustained basis
- Sustenance of the capital structure with improvement in the debt protection metrics with interest coverage ratio over 2x
- Improvement in liquidity position

Downward factor:

- Dip in operating income and/or profitability impacting the debt protection metrics
- Withdrawal of subordinated unsecured loans and/or moderation in the capital structure with deterioration in overall gearing to below 1.5x
- Stretch in the operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Long track record & established presence in the construction sector

Over its around four-decade long existence, the company has demonstrated its ability to execute large projects. Some of the notable large projects include indoor stadium for badminton and squash for Commonwealth Games 2010 at Siri Fort Sports Complex, Lawyers' Chamber at District Court Complex at Rohini, new ward blocks with 500 beds for G.T.B Hospital at Shahdara, New Delhi, Indian Institute of Management, Noida etc. The company has completed a large number of construction projects and has positioned itself as one of the established players in the construction sector.

Highly experienced managerial & technical team

Mr. Ved Prakash Khurana, promoters of the company, looks after the overall operations of the company, having an experience of around four decades in construction/infrastructure sector.

He is well supported by other directors and a well experienced management team comprising mainly highly qualified & experienced professionals.

Sound engineering acumen

The company has acquired strong engineering acumen through its successful operations over the years and completed many complex projects.

Reputed clientele leading to lower counterparty default risk

The company's current pending order book comprises urban transport and infrastructure projects awarded mainly by Government organisations like CPWD, Ministry of Health and Family Welfare. Its focus remains primarily on the Government sector because of low credit risk. Even within the Government space, it has been focussing on projects from CPWD, PWD-Delhi or organisations associated with the Central Government such as NBCC.

Strong order book reflecting satisfactory near to medium term revenue visibility

The company has a strong order book position (Rs. ~560 Crore as on October 31, 2020 which is about 3.35 times of its FY20 revenue (i.e. Rs.167.24 crore). The orders are expected to be completed within next two years, indicating a satisfactory medium term revenue visibility.

Stable financial performance

GCPPL has maintained a stable financial performance over the past years, despite slackness in the infrastructure/ construction industry in the recent past. As the projects undertaken by a construction company span over different accounting periods, it may be important to view the financials of the company over a period of three years. GCPPL's total operating income witnessed an erratic trend over the last three years. The same improved by around 45% in FY19 to Rs.189.09 driven by higher orders executed during the year. However, the same declined by around 11% in FY20 to Rs.167.24 crore, due to lockdown in last 15 days of FY20 and lower execution of order during the year. GCPPL posted an EBIDTA margin of 9.51% in FY19, a decrease of 102 bps from 10.53% in FY18. The decline was mainly on account of execution of few lower margin orders. However, the same improved to 11.23% in FY20 due to execution of higher margin contracts. Further, PAT margin also improved from 1.62% in FY18 to 2.81% in FY19 and to 2.98% in FY20, mainly driven by increase in EBITDA level. Overall the financial performance largely remained stable and range bound. Further, in 8MFY21, GCPPL achieved a PBT of Rs.1.68 crore on a total operating income of Rs.82.19 crore whereas the EBIDTA margin and the PBT margin stood at 8.15% and 2.05% respectively.

Comfortable capital structure with moderate debt protection metrics

The capital structure of the company remained comfortable over the past three account closing dates. The leverage ratios remained comfortable marked by its low long term debt equity ratio at 0.36x as on March 31, 2020 (0.23x as on March 31, 2019) and the overall gearing of 1.04x as on March 31, 2020 (0.85x as on March 31, 2019). Infomerics has considered Unsecured Loan from the promoters and relatives amounting to Rs.8.06 crore as quasi equity and excluded it from total debt. The debt protection metrics of the company remains moderate, marked by the interest coverage ratio at 1.69x in FY20 as compared to 1.88x in FY19. Total debt to GCA remains high at 7.20 years in FY20 as compared to 5.46 years in FY19. The deterioration in debt protection metrics is driven by higher utilisation of bank borrowings and higher equipment loan during the year.

Key Rating Weaknesses

Project concentration high as top four projects constitute ~85% of the outstanding order book

The top four projects namely AIIMS Raipur, IIT Roorkee, IRCON International Limited and IIM Gandhinagar constitute of Rs.476.53 crore (~85%) out of the total outstanding order book worth Rs. 560 crore signifying skewed nature of its order book. The timely and efficient execution of these projects remains a key monitorable.

Susceptibility of profitability to volatile input prices

Major raw materials used in civil construction activities are steel and cement which are usually sourced from large players at proximate distances. While the input prices being generally volatile and having direct linkage with state of the economy, the cost of raw materials, as a percentage of gross billing, remained at the same level during the last two years on account of optimum use of raw materials. However, comforts can be derived from the fact that most of the contracts having escalation clause.

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.

High working capital limit utilisation and stretched payable cycle and inventory

Relatively longer credit periods availed from suppliers (68 days in FY19 vis-à-vis 87 days in FY20) helped GCPPL to fund its working capital requirements. The collection period remained high at 52 days in FY20 vis-à-vis 42 days in FY19. Currently GCPPL is receiving payment from debtors within 30-50 days. The company keeps inventory (work in progress) of around 180 to 200 days, resulting in high working capital requirement. The average working capital limit utilisation stood moderate at around 85% for last 12 month ended November 30, 2020, reflecting its moderate liquidity.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: Adequate

The liquidity position of the company is expected to remain adequate in the near to medium term driven by sufficient cushion in its expected accruals in the range of ~Rs.10.15-17.69 crore as compared to debt repayment obligation in the range of ~Rs.1.07-9.93 during FY21-23. Further, with a gearing of 1.04 times as of March 31, 2020, the company has sufficient gearing headroom. Moreover, the company has no major near term capex plan, which imparts comfort. Besides, its average of maximum bank limit utilisation remained moderate at ~85% in the last 12 months ended on November 2020 is also indicating a moderate liquidity buffer. The company also has adequate unutilised non-fund based limits to support its operations in the near term.

About the Company

Delhi based Globe Civil Projects Private Limited (GCPPL) was set up in 1981 as a partnership firm, Globe Construction Company, by Mr. Ved Prakash Khurana and his brother, late Mr. Jagdish Khurana. It was reconstituted as a private limited company in 2002. It is an ISO 9001:2008 certified company and is involved in the business of civil construction. It is a registered Class-I (buildings and roads) contractor with the CPWD. It is also registered as a civil contractor with Mahanagar Telephone Nigam Ltd. and the Delhi Metro Rail Corporation It is involved in construction contracting work and undertakes projects involving construction of residential and commercial buildings, structures and other civil work related to infrastructure development for the Government and private organisations.

Financials (Standalone) **(Rs. crore)**

For the year ended* / As On	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	189.09	167.24
EBITDA	17.98	18.79
PAT	5.35	5.03
Total Debt*	39.33	53.11
Tangible Net worth*	46.26	51.09
EBITDA Margin (%)	9.51	11.23
PAT Margin (%)	2.81	2.98
Overall Gearing Ratio (x)*	0.85	1.04

**Excluding subordinated USL from total debt and considering it as quasi equity*
**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: ICRA has moved GCPPL to Issuer Not Cooperating Vide Press Release dated November 27, 2020 due to non-submission of information.

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 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	12.00	IVR BBB- Under Credit watch with developing implications	IVR BBB- Under Credit watch with developing implications (March 10, 2021)	-	-

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 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
2.	Bank Guarantee	Short Term	83.00	IVR A3 Under Credit watch with developing implications	IVR A3 Under Credit watch with developing implications (March 10, 2021)	-	-

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	-	-	-	12.00	IVR BBB- Under Credit watch with developing implications
Short term Non-Fund based Limits	-	-	-	83 .00	IVR A3 Under Credit watch with developing implications

Annexure 2: Facility wise lender details:
https://www.infomerics.com/admin/prfiles/pr-gloecivil-23mar-21.pdf