



## Infomerics Valuation And Rating Pvt. Ltd.

### PRESS RELEASE

#### Fortune Group

August 1, 2019

#### **Ratings**

<b>Instrument / Facility</b>	<b>Amount (Rs. crore)</b>	<b>Ratings</b>	<b>Rating Action</b>
Long Term Facilities -Cash Credit	9.00	IVR BBB-/Stable (IVR Triple B Minus with Stable Outlook)	Assigned
Short Term Bank Facilities - Bank Guarantee	17.00	IVR A3 (IVR A Three)	Assigned
<b>Total</b>	<b>26.00</b>		

**Details of Facilities are in Annexure 1**

#### **Detailed Rationale**

The aforesaid ratings assigned to the bank facilities of Fortune Group (FG) derives comfort from its experienced promoters with proven project execution capability, reputed clientele and Government thrust on road infrastructure. The ratings also factor in stable operating performance, improvement in capital structure coupled with comfortable debt protection metrics, prudent working capital management and strong order book reflecting satisfactory medium-term revenue visibility. However, the rating strengths are partially offset by its susceptibility of operating margin to volatile input prices, concentration risk in the highly fragmented & competitive construction sector and its constitution as a partnership concern. Steady flow of orders & timely execution of the same, containment of operating costs in the wake of increasing competition, improvement in gearing ratios and efficient working capital management are the key rating sensitivities.

#### **List of Key Rating Drivers with Detailed Description**

##### **Key Rating Strengths**

##### **Experienced promoters**

FG has a track record of more than a decade in the construction sector. The firm was established by Mr. Tapas Kumar Pathy, Mr. Rajendra Narayan Nayak and Mrs. Meenakshi Panda, who each have an experience of over a decade in civil construction and infrastructure related activities. They are well supported by a team of experienced professionals.



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### **Proven project execution capability**

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

### **Reputed clientele**

FG is registered as an approved contractor with Odisha State R&B department, Odisha State irrigation department, Odisha State RWD department and Odisha State RWSS department. Over the years, the firm has established a strong business relationship with various government departments as well as private clients in Odisha.

### **Strong order book reflecting satisfactory medium-term revenue visibility**

FG has an unexecuted order book of ~Rs.239 crore as on July 1, 2019 with orders across 20 contracts which is about 2.43 times of its FY19 (provisional) operating revenue (i.e. Rs.98.03 crore). The orders are expected to be completed within the next one-two years, indicating a satisfactory near to medium term revenue visibility.

### **Stable operating performance**

FG's total operating income registered a CAGR of ~15% during FY17-FY19 driven by increased inflow of orders and higher execution of the same. Following a y-o-y growth of ~31% in FY18, the operating income of the firm remained stagnant in FY19. Due to procedural issues regarding implementation of GST, the firm did not bid for many contracts during FY18. Consequently, the execution remained slow in FY19. The EBITDA margin and the PAT margin, though remaining range bound, have been adequate over the years, mainly due to the relatively high margin road contracts. The firm has generated cash accruals of Rs.7.01 crore vis-à-vis its repayment obligations of Rs.3.35 crore in FY19 (Prov.).

### **Improvement in the capital structure coupled with robust debt protection metrics**

The capital structure of the firm remained comfortable and witnessed continuous improvement over the last three fiscals. The long-term debt equity ratio improved from 0.60x as on March 31, 2017 to 0.20x as on March 31, 2019 and the overall gearing ratio improved from 0.84x as on March 31, 2017 to 0.42x as on March 31, 2019 (Prov.). The improvement in



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the leverage ratios was on account of reduction of debt due to scheduled repayments along with healthy accretion of profit to net worth. Further, ICR stood at 7.74x for FY19 (improved from 6.95x in FY18).

### **Government thrust on road infrastructure**

India has one of the largest road networks in the world, spanning over a total of 5.5 million kms 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. FG being mainly in road construction is likely to be benefitted in the near to medium term due to the increased thrust of the government in developing road infrastructure.

### **Prudent working capital management**

The firm receives payments on a running account basis. The firm has managed its payment cycle well which gets reflected in its debtors days (being below 15 days in the last 3 fiscals). A strong relationship with creditors allows the firm to avail credit period of about 30-60 days, which has kept the working capital cycle negative in the last three fiscals.

### **Key Rating Weaknesses**

#### **Operation in a highly fragmented segment with many unorganized players**

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.

#### **Concentration risk**

FG's order book is skewed towards roads and bridges (about 70%) (including construction, rehabilitation and up-gradation). Hence, the sectorial concentration risk is high. Further, the present order book is geographically skewed towards Odisha only from various government departments and private clients indicating a geographical concentration risk. However, the company has adequate experience to execute projects in Odisha which imparts comfort.



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### **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, the company has an in-built price variation clause for major raw materials like cement, bitumen & steel in majority of its contracts. Hence FG is largely safeguarded from the adverse movement in the raw material prices.

### **Constitution as a partnership concern**

M/s Fortune Group is exposed to risks of withdrawal of capital inherent to constitution as a partnership firm.

**Analytical Approach:** Standalone.

### **Applicable Criteria:**

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **Liquidity**

The firm's liquidity position is expected to remain adequate marked by sufficient cushion in accruals vis-à-vis repayment obligations. The firm has repayment obligations to the tune of around Rs.2.60 crore in FY20. However, its bank limits are highly utilized to the extent of ~96% on an average during the past 12 months ended on April 2019 indicating limited buffer.

### **About the Company**

M/s Fortune group (FG) was initially set up as a proprietorship firm in 2003 and reconstituted as a partnership firm in 2009 with Mr. Tapas Kumar Pathy, Mr. Rajendra Narayan Nayak and



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Mrs. Meenakshi Panda as partners. Presently, the firm is governed by the partnership deed dated April 15, 2015 with a profit-sharing ratio of 85:5:10.

The firm offers a wide range of services in construction and infrastructure related developmental works across several sectors which includes execution of heavy earth work, construction of road embankment, raising of subgrade, concrete structures, asphalt topping of roads, reservoirs, steel structures, road projects, drainage work, etc. with major focus on roads and bridges.

### Financials (Standalone):

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Provisional
Total Operating Income	97.16	98.03
EBITDA	10.63	10.30
PAT	3.78	3.64
Total Debt	9.70	9.67
Tangible Net worth	18.96	23.22
EBITDA Margin (%)	10.94	10.51
Overall Gearing Ratio (x)	0.51	0.42

\*Classification as per Infomerics' standards.

### Status of non-cooperation with previous CRA:

Ind-Ra has moved the rating of FG into the Issuer Non-Cooperating category as the firm did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated May 16, 2019.

**Any other information:** Nil

### Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2019-20)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits - Cash Credit	Long Term	9.00	IVR BBB- / Stable Outlook	-	-	-



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2.	Short Term Non-Fund Based Limits - BG	Short Term	17.00	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](http://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.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength



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of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### 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–Cash Credit	-	-	-	9.00	IVR BBB-/Stable Outlook
Short Term Non-Fund Based Limits–BG	-	-	-	17.00	IVR A3