

Press Release

Lekcon Infrastructure Private Limited

July 09, 2019

Ratings

Instrument / Facility	Amount (Rs. Crore)	Ratings	Rating Action
Long Term Bank Facilities – Cash Credit	24.00	IVR BBB / Positive Outlook (IVR Triple B with Positive Outlook)	Assigned
Short Term Bank Facilities – Bank Guarantee	91.00	IVR A3+ (IVR A Three plus)	Assigned
Total	115.00		

Details of Facilities are in Annexure 1

Detailed Rationale

The aforesaid rating assigned to the bank facilities of Lekcon Infrastructure Private Limited (LIPL) derives comfort from its experienced promoters with proven project execution capability, reputed clientele and Government thrust on road infrastructure. The ratings also factor in improvement in financial performance in FY19 (Prov.), comfortable capital structure with healthy debt protection metrics and strong order book reflecting satisfactory medium-term revenue visibility. However, the rating strengths are partially offset by its modest scale of operations, susceptibility of operating margin to volatile input prices, customer concentration, revenue concentration risk in highly fragmented & competitive construction sector with significant price war and its working capital-intensive nature of operation. 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. The outlook is positive due to expected improvement in revenue and cash accruals in near to medium term.

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The promoter, Mr. Purushotham Naidu, is a first-generation entrepreneur having more than a decade of experience in the construction sector. Mr. Jeevan Sivakrishna Lekkala and Mr. Gopi Sivakrishan Lekkala (sons of Mr. Naidu) look after the day to day operations of the company under the guidance of Mr. Naidu. The directors are well supported by a team of experienced professionals.

Proven project execution capability

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

Reputed clientele albeit customer concentration

LIPL mainly bids for tenders floated by various government departments/entities and is mainly engaged in road construction. Moreover, the company also works as a sub-contractor for other contractors. However, top five customers cater to almost 100% of total operating income in FY19 (provisional), indicating a concentrated customer profile. Though customers being government departments imparts comfort with low counterparty risk.

Strong order book reflecting satisfactory medium-term revenue visibility

The company has a strong unexecuted order book of Rs.654.48 crore as on March 31, 2019 with orders across six contracts which is about 3.77 times of its FY19 (provisional) construction revenue (i.e.Rs.173.52 crore). The orders are expected to be completed within next one-three years, indicating a satisfactory near to medium term revenue visibility.

Improvement in financial performance

LIPL has achieved continuous growth, despite slackness in the infrastructure/ construction industry in the recent past. LIPL's total operating income registered a CAGR of ~12% during FY16-FY18 with a y-o-y growth of about 8.95% in FY18, mainly driven by increased order inflow and higher execution of orders. However, there was a marginal decline in EBITDA Margin from 12.21% in FY17 to 11.96% in FY18 due to increase in operational cost. The PAT Margin also deteriorated in FY18 with increase in interest and depreciation cost due to addition of new machineries. However, the total operating income increased to Rs.173.52 crores in FY19 (provisional) with increase in the EBITDA Margin to 13.61% in FY19 (provisional) backed by higher execution of relatively high margin road contracts.

Comfortable capital structure with healthy debt protection metrics

LIPL's capital structure remained comfortable as on the past three account closing dates. The overall gearing ratio further improved from 0.51x as on March 31, 2018 to 0.41x as on March 31, 2019 (provisional) driven by scheduled repayment of term loans and accretion of profit to reserves. With improvement in cash accruals in FY19, Total debt/GCA also improved from 2.69x in FY18 to 1.98x in FY19 (Prov.). Moreover, the interest coverage ratio also remained healthy at 4.24x in FY19 (Prov.).

Government thrust on road infrastructure

India has the one of largest road network across the world, spanning over a total of 5.5 million km 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. A total of 200,000 km national highways is expected to be completed by 2022. LIPL being mainly in road construction likely to be benefitted in near to medium term the increased thrust of the government in developing the road infrastructure.

Key Rating Weaknesses

Modest scale of operation

The scale of operation of the company is modest in the construction sector with a total operating income of Rs.159.94 crore in FY18 and a net worth base of Rs.58.06 crore as on March 31, 2018 signifying the fact that LIPL is a small player in the industry. In FY19 (provisional), though the total operating income increased to Rs.173.52 crore, it continues to remain modest.

Revenue concentration risk

The present order book is skewed towards road construction in Odisha, Telangana and Andhra Pradesh from various government departments indicating a geographical and sectorial concentration risk. However, the company has adequate experience in order to execute projects in these states which provides a comfort.

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, presences of escalation clause (for raw materials) in most of the contracts protect the margin to an extent.

Highly fragmented & competitive nature of the construction sector

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities.

Working capital intensive nature of operation

The operations of LIPL are working capital intensive as a large amount of working capital remains blocked in earnest money deposits and retention money. Further, most of its road construction works and consequent billings are skewed towards last two quarters (~30-40% of sales are booked in the last quarter of the financial year on an average) which led to high debtors outstanding as on the last date of the financial year and resulted in high average collection period. This apart, its clients are government departments/entities having various procedural requirements where payments are relatively slow. However, despite high collection period, comfort can be derived from the fact that the dues are from various government departments which carries a low default risk. Further, the company's creditor's period is also high as it tries to match the payments of its suppliers and sub-contractors with its receipt of payments from debtors.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity -

The liquidity position of the company remained adequate characterized by sufficient cushion in accruals vis-à-vis its repayment obligations. Further, its bank limits are utilized to the extent of ~83% during the past 12 months ended April, 2019 indicating a moderate liquidity buffer. However, the liquidity is dependent on successful completion of projects and speedy realisation of contract proceeds.

About the Company

Incorporated in 2009, Hyderabad based Lekcon Infrastructure Private Limited (LIPL) is promoted by Shri L. Purushotham Naidu. The company is engaged in contract-based construction and renovation of roads and highways, irrigation work, housing, etc. for various Government bodies and private entities.

Financials (Standalone):

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Provisional
Total Operating Income	159.94	173.52

For the year ended* / As On	31-03-2018	31-03-2019
EBITDA	19.13	23.62
PAT	6.27	9.33
Total Debt	29.46	27.68
Tangible Net worth	58.06	67.39
EBITDA Margin (%)	11.96	13.61
PAT Margin (%)	3.90	5.36
Overall Gearing Ratio (x)	0.51	0.41

Status of non-cooperation with previous CRA: Not Applicable

Any other information: Nil

Rating History for last three years with Infomerics:

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	24.00	IVR BBB / Positive Outlook	-	-	-
2.	Short Term Non-Fund Based Limits – Bank Guarantee	Short Term	91.00*	IVR A3+	-	-	-

*Letter of Credit of Rs.5.00 crores is sublimit of Bank Guarantee.

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.

Name and Contact Details of the Rating Analyst:

Name: Ms. Harshita Didwania

Tel: (033) 46022266

Email: hdidwania@infomerics.com

Name: Mr. Avik Podder

Tel: (033) 46022266

Email: apodder@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	-	-	-	24.00	IVR BBB / Positive Outlook
Short Term Bank Facilities – Bank Guarantee	-	-	-	91.00*	IVR A3+

*Letter of Credit of Rs.5.00 crores is sublimit of Bank Guarantee.