September 30, 2022

Trineva Infra Projects Private Limited: Ratings reaffirmed, rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based/CC	22.00	37.00	[ICRA]BBB- (Stable); reaffirmed/assigned
Short-term – Non-fund based	28.00	41.50	[ICRA]A3; reaffirmed/assigned
Long-term/short-term - Unallocated	-	1.50	[ICRA]BBB- (Stable)/[ICRA]A3; assigned
Total	**50.00**	**80.00**	

**Instrument details are provided in Annexure I*

Rationale

The ratings continue to derive comfort from Trineva Infra Projects Private Limited's (TIPPL) favourable financial profile characterised by a comfortable capital structure and adequate coverage indicators. The ratings draw comfort from the company's pending order book position of Rs. 1,083 crore as on March 31, 2022, which translates to an order book/operating income (OB/OI) of 2.1 times (of FY2022's OI) and provides adequate near-term revenue visibility. The ratings consider the promoters' extensive experience in the construction sector for nearly two decades by virtue of their association with CMK Projects Private Limited and V Sathyamoorthy and Company, respectively. These companies have undertaken civil construction works involving roads, buildings and irrigation projects for government, semi-government, and private entities.

The ratings, however, remain constrained by the concentration of TIPPL's projects in Tamil Nadu, and high share of sub-contracted works (73% of the pending order book position as on March 31, 2022), which are entirely from its Group entities/related parties with end-clients being state government bodies such as Tamil Nadu Slum Clearance Board (TNSCB), Tamil Nadu Housing Board (TNHB) and Chennai Metropolitan Development Authority (CMDA), among others. Given the absence of an escrow arrangement with TIPPL's principals and the project owners, it remains exposed to the counterparty risk. The company's ability to secure more orders as a principal contractor and reduce its reliance on sub-contracted works, while managing the associated increase in the non-fund based limit requirement to support growth, will be a key monitorable. The ratings continue to factor in the susceptibility of its profitability to raw material price fluctuations and the intense competition that prevails in the construction sector.

The Stable outlook on the long-term rating reflects ICRA's opinion that TIPPL will continue to benefit from its current order book position and its reputed clientele including the TNHB, TNSCB and CMDA.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in civil construction industry – TIPPL's promoters, Mr. C.K. Venkatachalam and Mr. S. Anandavadivel, have an extensive experience of nearly two decades in the construction industry by virtue of their association with CMK Projects Private Limited and V Sathyamoorthy and Company, respectively. These companies have undertaken civil construction works involving roads, buildings and irrigation projects for government, semi-government, and private entities.

Favourable financial risk profile – TIPPL's financial profile remains favourable, given the comfortable capital structure and adequate coverage indicators. The company's total debt/tangible net worth stood at 0.6 times as on March 31, 2022 (against 0.9 times as on March 31, 2021). The improvement in its capital structure was led by reduced debt levels, coupled with increase in net worth. Similarly, its TOL/TNW improved to 2.3 times as on March 31, 2022, from 3.1 times as on March 31, 2021. Given the absence of any major debt-funded capital expenditure and the anticipated improvement in its profits, aided by the increased proportion of revenues from direct order execution, its TOL/TNW is likely to improve further in FY2023. The company's coverage indicators remained adequate with an interest coverage, DSCR and total debt/OPBDITA of 8.2 times, 2.0 times and 0.9 times in FY2022, against 7.5 times, 2.1 times and 1.1 times, respectively, in FY2021.

Pending order book position provides healthy near-term revenue visibility – TIPPL's pending order book position stood at ~Rs. 1,083 crore as on March 31, 2022, which translates to OB/OI ratio of 2.1 times of its OI in FY2022, providing adequate near-term revenue visibility. In H1 FY2023 (till September 20, 2022), it has received fresh orders of ~Rs. 110.5 crore. This apart, it has recently emerged as an L1 bidder for an order of ~Rs. 300.0 crore, for which the formal LOA is expected to be received shortly. While nearly 27% of the pending order book as on March 31, 2022, was in form of direct orders (whereby TIPPL is the principal contractor), the rest 73% are sub-contracted work (which are entirely back-to-back sub-contracted to TIPPL by its Group entities/related parties – i.e., the entities promoted by TIPPL's promoters or the promoters' relatives). Going forward, it envisages to reduce its reliance on sub-contracted work and to exclusively bid for projects as a principal contractor, which is likely to favourably impact its profitability. However, this would result in higher bank guarantee (BG) requirement and consequently additional margin money as well as collateral requirement. While the company reported a cushion of ~Rs. 23.5 crore in its BG facilities as of September 2022, its ability to further enhance its BG limits in line with its order book growth will remain a key credit monitorable.

Credit challenges

Revenue concentration risk – The company faces geographical and segmental concentration risks, with its order book dominated by projects from Tamil Nadu, with TNHB, TNSCB and CMDA as the key clients. As on March 31, 2022, of the Rs. 1,083 crore of pending orders, nearly 96% are projects located in Tamil Nadu with the rest in Maharashtra, Karnataka, and Kerala. Besides, the segmental concentration remains high, with the top two segments (building construction such as tenements, bus stands, etc, and roads/highways) accounting for over 95% of the pending order book position as on March 31, 2022.

Counterparty risk pertaining to sub-contracted works – Nearly 73% of the company's pending order book position as on March 31, 2022, was in the form of sub-contracted works from its Group entities – CMK Projects Private Limited, V Sathyamoorthy and Company, and a few entities promoted by TIPPL's promoters' relatives. Given the absence of an escrow arrangement with TIPPL's principals and the project owners, its profitability and cash flows remain exposed to the counterparty risk, to the extent of its reliance on such sub-contracted work. Its ability to secure more orders as a principal contractor and reduce its reliance on sub-contracted works, while managing the associated increase in the non-fund based limit requirement and consequently margin and collateral requirements, will be a key monitorable.

Vulnerability of profitability to adverse fluctuations in input prices and intense competition – TIPPL's margins are susceptible to adverse fluctuations in raw material (steel and cement) prices to the extent not covered under the price escalation clause. It procures orders through competitive bidding. With the presence of multiple players in the construction sector, the company faces stiff competition, which could constrain its ability to procure new orders in future.

Liquidity position: Adequate

TIPPL's liquidity position remains adequate, characterised by the availability of buffer in its working capital facilities and moderate cash balances maintained. The average utilisation of TIPPL's fund-based facilities stood at 87% during April 2021 to September 2022. The unencumbered cash balance stood at ~Rs. 9.3 crore as on March 31, 2022 (against Rs. 2.9 crore as on March 31, 2021). The cash flow from operations is adequate to meet the repayment obligations of ~Rs. 13.0 crore in FY2023.

Rating sensitivities

Positive factors – ICRA could upgrade TIPPL's ratings if it is able to diversify its revenues and order book profile, with a significant increase in direct orders whereby TIPPL is the principal contractor, while improving its liquidity position and capital structure. Specific triggers for a rating upgrade include TOL/TNW below 2.0 times on a sustained basis.

Negative factors – The ratings may be downgraded if the company witnesses slower execution, thereby resulting in lower revenues or profitability and consequently weakened coverage indicators. Further, a stretch in the working capital cycle or large debt-funded capital expenditure leading to a weakened liquidity position will be a negative trigger.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

TIPPL, incorporated in February 2018, by Mr. C. K. Venkatachalam and Mr. S. Anandavadivel, is involved in the civil construction sector with its key focus on buildings and roads for government, semi-government, and private entities. Its registered office is in Bangalore (Karnataka). The company executes projects predominantly in Tamil Nadu and has recently diversified into other geographies such as Maharashtra, Kerala and Karnataka. The promoters, Mr. Venkatachalam and Mr. Anandavadivel, have extensive experience in the construction industry vide their association with other entities involved in similar businesses for over two decades – CMK Projects Private Limited and V Sathyamoorthy and Company, respectively.

Key financial indicators

TIPPL	FY2021	FY2022 Prov.
Operating income (Rs. crore)	426.6	528.2
PAT (Rs. crore)	24.7	29.6
OPBDIT/OI (%)	11.2%	10.3%
PAT/OI (%)	5.8%	5.6%
Total outside liabilities/Tangible net worth (times)	3.1	2.3
Total debt/OPBDIT (times)	1.1	0.9
Interest coverage (times)	7.5	8.2

(Source: TIPPL); Prov. – Provisional

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2023)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on March 31, 2022 (Rs. crore)	Date & rating on	FY2022	FY2021	FY2020
					September 30, 2022	June 18, 2021	January 08, 2021	February 14, 2020
1	Fund-based facilities (CC)	Long-term	37.00	-	[ICRA]BBB- (Stable)	[ICRA]BBB- (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB- (Stable)
2	Non-fund based facilities (BG)	Short-term	41.50	-	[ICRA]A3	[ICRA]A3	[ICRA]A4+	[ICRA]A4
3	Unallocated	Long-term/short-term	1.50	-	[ICRA]BBB- (Stable)/[ICRA]A3	-	[ICRA]BB+ (Stable)/[ICRA]A4+	[ICRA]BB- (Stable)/[ICRA]A4

Complexity level of the rated instrument

Instrument	Complexity Indicator
Fund-based facilities	Simple
Non-fund based facilities	Very Simple
Unallocated	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: www.icra.in

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based facilities	NA	NA	NA	37.00	[ICRA]BBB- (Stable)
NA	Non-fund based facilities	NA	NA	NA	41.50	[ICRA]A3
NA	Unallocated	NA	NA	NA	1.50	[ICRA]BBB-(Stable)/[ICRA]A3

Source: TIPPL and ICRA

Please click here to view details of lender-wise facilities rated by ICRA

Annexure II: List of entities considered for consolidated analysis - Not Applicable

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About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

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