January 22, 2024

INCKAH Infrastructure Technologies 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 facilities	5.0	10.0	[ICRA] BBB-(Stable); Reaffirmed/ Assigned for enhanced amount
Short-term – Non-fund based – Bank guarantees	26.5	55.0	[ICRA] A3; Reaffirmed/ Assigned for enhanced amount
Long-term / Short-term – Unallocated	13.5	0.0	-
Total	**45.0**	**65.0**	

**Instrument details are provided in Annexure-I*

Rationale

The rating reaffirmation for INCKAH Infrastructure Technologies Private Limited (IITPL) factors in the healthy execution ramp- up in 8M FY2024, and a comfortable order book of ~Rs. 350 crore (translating into 1.4 times of FY2022/FY2024e operating income or OI) as on November 30, 2023, which provides healthy near-term revenue visibility. This apart, the company regularly receives short-term orders for micro surfacing, which adds to the revenue. Despite 36% YoY decline in revenues in FY2023 on account of delay in commencement of full-depth reclamation (FDR) road works awarded in H1 FY2023 by Uttar Pradesh Rural Roads Development Agency (UPRRDA), healthy scale-up was seen in these projects in 8M FY2024, resulting in total revenues of Rs. 175 crore (vis-à-vis Rs. 140.5 crore in FY2023). ICRA expects IITPL to surpass its previous peak revenues (FY2022 levels) in FY2024, and the growth momentum to sustain in FY2025.

The ratings continue to note the company's long track record, extensive experience of the promoters in the highway operation and maintenance (O&M) segment including micro-surfacing works, reputed clientele, along with healthy coverage and leverage metrics. IITPL's current order book comprises primarily FDR road works (55%) from UPRRDA (centrally funded under the Pradhan Mantri Gram Sadak Yojna) and contracts for O&M of roads from reputed entities/groups viz Cube Highways, IRB Infrastructure Trust, IndInfravit Trust, Highway Infrastructure Trust, which are strong counterparties. The ratings draw comfort from the company's comfortable coverage indicators as reflected in interest coverage of 12.6 times in 8M FY2024 (provisional data; Vs. 5.6 times in FY2023) and moderate leverage with total outside liabilities to tangible net worth (TOL/TNW) of 1.2 times as on November 30, 2023 (Vs. 1.3 times as on March 31, 2023).

The ratings, however, remain constrained by the company's modest scale of operations (which limit pricing flexibility), order book concentration (top three clients accounting for ~89%) and execution risks (with mainly short duration projects; ~50% of orders in < 25% completion stage as on November 30, 2023). IITPL's O&M contract (average execution time of 5-7 years) does not have an in-built price variation clause, which exposes it to the input price volatility. However, ICRA draws comfort from its risk mitigation strategies, which has enabled it to maintain relatively stable OPM of 9-10% over the last five years. The company's working capital intensity, which improved to 16.5% in FY2022, deteriorated in FY2023 to 28.5% owing to elongated receivable cycle and high unbilled revenues (mainly UP-FDR projects). However, the same improved in 8M FY2023 to 20%, with commencement of billing in these projects. Going forward, the company's ability to judiciously manage its working capital cycle would remain a key rating sensitivity. The ratings consider IITPL's exposure to sizeable contingent liabilities in the form of bank guarantees (BGs), mainly for contractual performance, earnest money deposit and security deposits. Nonetheless, ICRA takes comfort from the company's healthy execution track record and no crystallisation of guarantees in the past.

The Stable outlook on IITPL's rating reflects ICRA's opinion that the company will continue to benefit from its adequate order book position and comfortable capital structure.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters and reputed clientele – The management has over two decades of experience in O&M and road repair works. Moreover, the company has been dealing in modified bituminous products since 1991 and has expertise in micro surfacing (a road maintenance technology), which helped in getting repeat business from reputed clients like Cube Highways, IndInfravit Trust, etc.

Healthy order book providing revenue visibility – The company's order book stood at ~Rs. 350 crore as on November 30, 2023, translating into OB/OI ratio of 1.4 times based on its revenues in FY2022 (2.5 times of FY2023 revenues) providing healthy revenue visibility. While a part of the order book includes O&M contracts, which are spread over a longer period (typically 5- 7 years), it is undertaking micro surfacing and FDR projects with two months to one year tenor. Its order book is adequate to provide near-term revenue growth.

Low leverage and comfortable debt coverage indicators – IITPL had low external debt of Rs. 9.1 crore as on November 30, 2023, and total debt/tangible net worth (TD/TNW) of 0.4 times (0.5 times as on March 31, 2023). Its working capital utilisation in the 12-month period ending in November 2023 was ~40% of its sanctioned limits. Further, healthy accruals in YTD FY2024 led to comfortable debt coverage indicators with interest coverage of 12.6 times in 8M FY2024 vis-à-vis 5.6 times in FY2023. With marginal projected capex requirement, the debt levels and the leverage are likely to remain comfortable.

Credit challenges

High working capital intensity – The company's working capital intensity remained high owing to elongated receivable cycle. The NWC/OI deteriorated to 28.5% as on March 31, 2023 from 16.5% as on March 31, 2022 on account of higher unbilled revenues and debtor levels. However, the same improved in 8M FY2024 to 20%, as billing for UP-FDR projects had started. Going forward, any elongation in working capital cycle would remain a key rating sensitivity. With increasing scale of operations, the working capital requirement could increase significantly, which could put pressure on the liquidity position. The company is in the process of getting its working capital limits enhanced (from current limit of Rs. 65 crore), which will increase the cushion available.

Moderate scale of operations and profitability – The company's scale of operations remained moderate despite being in the business for over two decades. High dependency on few clients, short-term contracts with volatile order inflows in the past had impacted its turnover. While its revenues grew to Rs. 231.1 crore in FY2022 (from Rs. 123.1 crore in FY2021), the same contracted to Rs. 140.5 crore in FY2023 due to unanticipated delays in commencement of a few projects. Nonetheless, the revenues are expected to bounce back to around Rs. 250-260 crore in FY2024. Despite being one of the largest players in the micro-surfacing segment, the company's operating profitability remained rangebound within 9-10% over the past few years.

Execution risks and sector-related risk including BG risk – IITPL's ratings factor in the execution risks, as nearly half of the projects progressed less than 25%. Around 31% of the projects were yet to commence as on November 30, 2023. Further, as inherent to the construction industry, the company is exposed to cyclicality and intense competition in the tender-based contract award system, resulting in risk of volatility in order inflows, revenues, and pressure on profit margins. It also has sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, earnest money deposit, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from IITPL's long presence and established relationship with clients, healthy execution track record and no invocation of guarantees in the past.

Liquidity position: Adequate

The company has adequate liquidity with cash flow from operations expected to be sufficient to meet its debt servicing obligations. It has moderate long-term debt repayment obligations of Rs. 2 crore in 4M FY2024 (December 2023 to March 2024) and Rs. 2.9 crore in FY2025. IITPL has cushion in the fund-based working capital limits with the overall utilisation of fund- based working capital limit averaging at ~40% over the twelve months that ended on November 30, 2023. In addition, it enjoys flexibility through provision to avail mobilisation advances against bank guarantees.

Rating sensitivities

Positive factors – ICRA may upgrade IITPL's ratings if it is able to diversify its order book and demonstrate a significant and sustained increase in its scale of operations and operating profitability. Further, improvement in working capital intensity and liquidity position would also be a rating positive.

Negative factors – Negative pressure on the ratings could arise if there is a slowdown in order book addition leading to a sustained decline in the company's scale and operating profitability. Additionally, deterioration in working capital intensity or liquidity position could also result in a rating downgrade.

Analytical approach

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

About the company

IITPL was incorporated in 2004 and has a long experience in the O&M in road segment in India. It undertakes activities such as pavement maintenance, electrical maintenance, horticulture operations, drainage improvements, bitumen emulsions design and production, asphalt works, etc. Under the asphalt modification business (since 1991), IITPL launched micro surfacing (since 1997) and slurry seal technique in India. The projects undertaken by the company are across Gujarat, Punjab, Madhya Pradesh, Maharashtra, Uttar Pradesh, Delhi, Rajasthan, Karnataka, etc.

Key financial indicators (audited)

Standalone	FY2022	FY2023	8M FY2024*
Operating income (Rs. Crore)	229.0	140.5	174.9
PAT (Rs. Crore)	12.6	6.9	11.5
OPBDIT/OI (%)	9.4%	10.3%	11.4%
PAT/OI (%)	5.5%	4.9%	6.6%
Total outside liabilities/Tangible net worth (times)	1.2	1.3	1.2
Total debt/OPBDIT (times)	0.7	1.6	0.8
Interest coverage (times)	10.7	5.6	12.6

Source: Company data; ICRA Research

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *Provisional*

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current rating (FY2024)				Chronology of rating history for the past 3 years		
		Type	Amount rated (Rs. crore)	Amount outstanding as on Nov 30, 2023 (Rs. crore)	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	Date & rating in FY2021
					Jan 22, 2024	Nov 11, 2022	-	-
1	**Fund Based facilities**	Long term	10.00	-	[ICRA]BBB-(Stable)	[ICRA]BBB-(Stable)	-	-
2	**Non-fund based – Bank guarantees**	Short term	55.00	--	[ICRA]A3	[ICRA]A3	-	-
3	**Unallocated**	Long term and short term	-	-	-	[ICRA]BBB-(Stable)/ [ICRA]A3	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term fund-based facilities	Simple
Short-term – Non-fund based – BG	Very Simple

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: Click Here

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Fund-based facilities	--	--	--	10.00	[ICRA]BBB-(Stable)
NA	Non-fund-based facilities- Bank guarantees	--	--	--	55.00	[ICRA]A3

Source: Company

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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