

June 18, 2024

Tribeni Constructions Limited: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash credit	53.00	53.00	[ICRA]A- (Stable); Reaffirmed
Fund-based – Standby line of credit	6.00	6.00	[ICRA]A- (Stable); reaffirmed
Fund-based – Working capital demand loan	5.00	12.00	[ICRA]A- (Stable); reaffirmed/ assigned
Non-fund based – Bank guarantee	236.00	304.00	[ICRA]A- (Stable)/ [ICRA]A2+; reaffirmed/ assigned
Total	300.00	375.00	

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings for Tribeni Constructions Limited (TCL) factors in its comfortable leverage (TOL/TNW of 0.89 times) and debt coverage metrics (interest cover and DSCR of 4.6 times and 1.82 times, respectively), along with its healthy order book of Rs. 1,688 crore as on March 31, 2024 providing medium-term revenue visibility and its reputed clientele, as it executes orders mainly for Government departments and public sector entities. Further, the ratings favourably note the extensive experience of its promoters in the Indian construction industry and healthy capital structure in FY2024 (provisional). In absence of any major capex/investment plans, ICRA expects the company's leverage and coverage metrics to remain comfortable with interest cover likely to remain above 5 times going forward.

The ratings are, however, constrained by TCL's moderately high execution risk, with ~56% projects (by value) in the nascent stages (0-10% executed), moderate scale of operations and working capital-intensive operations. Despite presence across 13 states, its order book remains concentrated with top 3 states contributing 72% of order book (Assam accounting for the largest share with 37% of order book) as on March 31, 2024. TCL's unbilled revenues (inventory) remained high at Rs. 147.7 crore in FY2024 (FY2023: Rs. 165.3 crore), on account of pending bills to be approved by counterparties. Given the working capital-intensive operations and elongated cash conversion cycle, its ability to get timely approvals and reduce the inventory remain crucial for improvement in working capital intensity and remain a key monitorable. Moreover, the company's ability to tie-up working capital lines to maintain liquidity remains important from the credit perspective. TCL is exposed to sizeable contingent liabilities in the form of bank guarantees (BGs), mainly for contractual performance and retention money. Nonetheless, ICRA draws comfort from its execution track record and absence of any invocation of guarantees in the past.

ICRA takes note of an investigation and arrest carried out by the Central Bureau of Investigation (CBI) in February 2023, involving a former employee and a director of the company. While no material impact has been noted on TCL's financial or operational profile thus far, any adverse outcome of the investigation could impact its credit profile and would remain a key monitorable going forward.

The Stable outlook on TCL's rating reflects ICRA's opinion that the company will continue to benefit from its long track record of operations in the construction industry and a comfortable capital structure.

Key rating drivers and their description

Credit strengths

Healthy order book gives medium-term revenue visibility – TCL had an order book of Rs. 1,688 crore as of March 2024 (2.7 times of FY2024 revenue), providing medium-term revenue visibility. The company's order book position was supported by healthy fresh order inflows of nearly ~Rs. 1,179 crore in FY2024. Further, the order book is reasonably diversified with top five projects accounting for 41% of the outstanding order book. However, the geographical concentration remained high with top 3 states constituting 72% of the order book.

Extensive experience of promoters in construction business; reputed clientele – The company's promoters have more than four decades of experience in the construction business. The vast experience of TCL's promoters and established track record of operations support its business profile. The company executes orders mainly for Government departments and public sector entities. The clientele includes Central Public Works Departments (CPWD), North Frontier Railway, Eastern Railways, Rail Vikas Nigam Limited, National Projects Construction Company Limited, NBCC (India) Limited, Assam PWD, etc.

Comfortable debt coverage metrics – TCL's leverage is comfortable with TOL/TNW of 0.89 times as on March 31, 2024, which led to comfortable debt coverage indicators, with interest coverage of 4.6 times and DSCR of 1.82 times in FY2024. The company does not have any major capex plans over the medium term. With expected improvement in working capital cycle, the coverage metrics are likely to improve.

Credit challenges

Moderate scale of operations and high execution risk – TCL's scale of operations, though improved, remain moderate. In FY2024 (provisional, unaudited), it achieved billing of Rs. 630 crore (up 14%) on the back of improved order execution and the growth is expected to continue into FY2025, with estimated 7-9% YoY revenue growth. The company faces high execution risk, given that nearly 56% of the order book is in the nascent stages (<10% executed).

Intense industry competition impacting profitability margins – TCL procures orders through tenders. Due to such tender-based order procurement, the company faces stiff competition, which limits its pricing flexibility and exerts pressure on margins. Its profitability remained moderate within 10-11% during the past two years ending FY2024 and are expected to remain at similar levels over the medium term as well.

Elongated cash conversion cycle – TCL has high cash conversion cycle (around 104 days as of FY2024-end) due to the high unbilled revenues. While unbilled revenues (inventory) has decreased to Rs. 147.7 crore in FY2024 (provisional) from Rs. 165.3 crore in FY2023, the overall funds blocked in inventory/working capital remains high. TCL's inability to improve its cash conversion cycle could drag its growth momentum while impacting its liquidity position and overall credit profile, and hence remains a key monitorable.

Liquidity position: Adequate

TCL's liquidity is expected to remain adequate, supported by steady cash flows from operations and cushion available in working capital lines (of ~Rs. 23.46 crore as on May 31, 2024) with average fund-based utilisation of around 78% for 12 months ending May 2024. The company is expected to generate cash profits of over Rs. 45-50 crore in FY2025e, which should be adequate to meet its debt repayment obligations of ~Rs. 11.4 crore. In the past, the promoters have infused financial assistance to the company, and the same is expected to continue going forward as well.

Rating sensitivities

Positive factors – ICRA may upgrade TCL’s ratings if there is a significant growth in the scale of operations, along with diversification in order book and improvement in liquidity position, while sustaining low leverage and robust coverage metrics.

Negative factors – Pressure on TCL’s ratings may arise in case of sustained pressure on earnings or elongation in working capital cycle thereby impacting its liquidity position. Specific credit metrics for a rating downgrade include the DSCR falling below 1.8 times on a sustained basis. Additionally, any adverse outcome of the ongoing CBI investigation, affecting the company’s financial flexibility may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction entities
Parent/Group support	Not Applicable
Consolidation/Standalone	The ratings are based on the company’s standalone financials

About the company

TCL is involved in the construction business, working primarily in the eastern part of India. The promoters started the entity as a partnership firm in 1982 and then converted it into a public company in 2007. It has expertise in earthwork and construction of bridges, tunnel, multi-storied buildings, etc. The company works for clients like CPWD, North Frontier Railway, Eastern Railways, Bharat Heavy Electricals Limited, Indian Oil Corporation Limited ([ICRA]AAA(Stable)/[ICRA]A1+), Assam PWD, etc.

Key financial indicators (audited)

TCL, standalone	FY2022	FY2023	FY2024*
Operating income (Rs. crore)	505.7	553.6	631.2
PAT (Rs. crore)	25.8	26.3	34.3
OPBDIT/OI (%)	10.8%	9.9%	10.8%
PAT/OI (%)	5.1%	4.8%	5.4%
Total outside liabilities/Tangible net worth (times)	1.1	1.1	0.9
Total debt/OPBDIT (times)	1.7	1.8	1.7
Interest coverage (times)	6.2	5.2	4.6

Source: ICRA Research, Company; 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	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on Mar 31,2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022	
				Jun 18,2024	May 19, 2023	-	Feb 10, 2022	
1	Cash credit	Long-term	53.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)
2	Standby line of credit	Long-term	6.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)
3	Working capital demand loan	Long-term	12.00	-	[ICRA]A-(Stable)	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)
4	Bank guarantee	Long-term / Short term	304.00	-	[ICRA]A-(Stable)/ [ICRA]A2+	[ICRA]A-(Stable)/ [ICRA]A2+	-	[ICRA]A-(Stable)/ [ICRA]A2+
5	Term loan	Long-term	-	-	-	-	-	[ICRA]A-(Stable)
6	Proposed cash credit	Long-term	-	-	-	[ICRA]A-(Stable)	-	[ICRA]A-(Stable)
7	Proposed bank guarantee	Long-term / Short term	-	-	-	[ICRA]A-(Stable)/ [ICRA]A2+	-	[ICRA]A-(Stable)/ [ICRA]A2+

Complexity level of the rated instruments

Instrument	Complexity Indicator
Cash credit	Simple
Standby line of credit	Simple
Working capital demand loan	Simple
Bank guarantee	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	Cash credit	-	-	-	53.0	[ICRA]A- (Stable)
NA	Standby line of credit	-	-	-	6.0	[ICRA]A- (Stable)
NA	Working capital demand loan	-	-	-	12.0	[ICRA]A- (Stable)
NA	Bank guarantee	-	-	-	304.0	[ICRA]A- (Stable)/ [ICRA]A2+

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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