September 30, 2022

L.N. Malviya Infra Projects Pvt. Ltd.: 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	3.00	10.00	[ICRA]BBB (Stable); reaffirmed/assigned
Short-term – Non-fund based	67.00	75.00	[ICRA]A3+; reaffirmed/assigned
Long-term/short-term - Unallocated	-	15.00	[ICRA]BBB (Stable)/[ICRA]A3+; reaffirmed/assigned
Total	**70.00**	**100.00**	

**Instrument details are provided in Annexure I*

Rationale

For arriving at the ratings, ICRA has consolidated the operational and financial profile of L.N. Malviya Infra Projects Pvt. Ltd. (LNMIPPL) and Highway Engineering Consultants (HEC), hereinafter referred to as the LNM Group, given that the two entities have a common key management, similar business profile, operational linkages, and promoters being close relatives.

The ratings reaffirmation continues to derive comfort from the Group's favourable financial profile, characterised by its conservative capital structure and comfortable coverage indicators. The ratings factor in the Group's experience in the engineering consultancy services segment (preparation of detailed project report (DPR), supervision, etc) and its reputed clientele (NHAI, MoRTH, MPRDC among others). The ratings positively note the pending order book of Rs. 488 crore, at a consolidated level, as on August 31, 2022 (translating to an Order Book/Operating Income (OB/OI) ratio of 1.85 times of its OI in FY2022), which supports near-term revenue visibility.

The ratings, however, factor in the reputation risk with the recent debarment action on HEC by one of its clients; though some comfort is derived from the stay on the debarment by the High Court. Besides, HEC, on a standalone basis had robust order book of ~Rs. 191 crore (translating to an OB/OI of 3.0 times of HEC's FY2022 revenues), which provides comfort for its near-term revenue growth. ICRA also notes that there has been no material adverse impact because of this debarment on the Group (LNM and HEC) as the Group has been receiving new order inflows. Given its adequate order book position as of August 2022, its revenues are likely to grow by 15% - 20% YoY in the current fiscal. The ratings remain constrained by the stagnation in revenues in FY2022, which led to a moderation in its operating margin to 22% in FY2022 from 25% in FY2021. Nevertheless, the Group's profitability continues to remain robust and supports the debt coverage metrics. The ratings are constrained by the Group's high sectoral concentration, with nearly 90% of its revenues being derived from the roads/highways segment, and the intense competition in the consultancy services segment. The ratings also consider the Group's exposure to sizeable contingent liabilities in the form of bank guarantees, primarily for contractual performance. Nevertheless, ICRA draws comfort from the Group's track record of no crystallisation of these guarantees in the past.

ICRA also makes note of the sizeable investments of ~Rs. 10.0 crore made by LNIMPPL in two of its subsidiaries in FY2022. This along with increase in the working capital intensity has reduced the liquidity cushion available with the Group in the past. Going forward, any significant investments in the subsidiaries, which impacts its liquidity profile will remain a credit monitorable.

The Stable outlook on the long-term rating reflects ICRA's opinion that LNMIPPL will continue to benefit from its experience in the infrastructure consultancy services segment, its reputed clientele including the NHAI, and MPRDC, and its current order book position. However, the developments pertaining to the debarment and the subsequent stay order will be a key monitorable.

Key rating drivers and their description

Credit strengths

Long experience in engineering consultancy services and reputed clientele – The Group's promoters Mr. Laxmi Narayan Malviya and Mr. Satya Narayan Malviya have extensive experience of over two decades in the engineering consultancy services industry. The Group's long experience and track record in the segment supports its ability to competitively bid for future projects. In the past, the LNM Group had executed projects for Government institutions such as the NHAI and MPRDC, among others. The strong client profile results in low counterparty credit risk.

Low leverage and comfortable debt-coverage indicators – The LNM Group's financial profile remains favourable, characterised by comfortable capital structure and healthy coverage indicators. Its gearing (total debt/tangible net worth) remains low (at less than 0.1 times during the past five fiscals and as on March 31, 2022, it stood at 0.04 times), aided by its limited reliance on external borrowings. Its TOL/TNW remained comfortable at 0.3 times as on March 31, 2022, against 0.4 times as on March 31, 2021. The debt servicing indicators continue to remain healthy as evidenced by interest coverage and DSCR of over 14.0 times and Total debt/OPBDITA of 0.1 times in FY2022, aided by the Group's robust profits and low debt obligations.

Pending order book position provides near-term revenue visibility – The LNM Group's pending order book position stood at Rs. 488 crore as on August 31, 2022, translating to an OB/OI ratio of 1.85 times (of FY2022's revenues) and the same is expected to provide moderate near-term revenue visibility.

Credit challenges

Moderation in revenues and profitability in FY2022 – LNM Group's revenues witnessed stagnation in FY2022 and registered a YoY growth of 2%, mainly owing to slowdown of its fresh order inflows. Subsequently, its profitability declined from ~25% at the operating level in FY2021 to that of 21%, owing to weaker fixed cost absorption. Nonetheless, given the rebound in fresh order inflows in YTD FY2023, the Group expects its order book to improve further in the upcoming months and the same is likely to support its near-term revenue growth. ICRA notes the sizeable investments of ~Rs. 10.0 crore made by LNIMPPL in two of its subsidiaries in FY2022. This along with increase in the working capital intensity has reduced the liquidity cushion available with the Group in the past. Going forward, any significant investments in the subsidiaries, which impacts its liquidity profile, will remain a credit monitorable.

Revenue concentration risk – The LNM Group faces high sectoral concentration risk (nearly 90% of its revenues, in general, is derived from the highways segment) and its fresh order receipt is vulnerable to the overall investments in the highway infrastructure sector. Although the Group has presence in other segments such as water resources and pipelines, the revenue contribution of such segments has been minimal in the past. The firm's ability to further diversify its revenues and maintain its growth momentum will remain a key credit monitorable.

Intense competition and reputation sensitivity – The LNM Group procures orders through competitive bidding. With multiple players in the independent engineering consultancy services segment, the firm faces stiff competition, which could constrain its ability to procure new orders. Further, there have been few incidents in the past when the key clients had given show-cause notice to/debarred the entities in the Group. While these issues had limited or no impact on the firm's operations thus far, reputation sensitivity in the business remains high. Any adverse development could affect its ability to secure new projects in future and consequently impact its credit risk profile.

HEC has been recently by one of its clients; though some comfort is derived from the stay on the debarment by the High Court. Besides, HEC, on a standalone basis had robust order book of ~Rs. 191 crore (translating to an OB/OI of 3.0 times of HEC's FY2022 revenues), which provides comfort for its near-term revenue growth. ICRA also notes that there has been no material adverse impact because of this debarment on the Group (LNM and HEC) as the Group has been receiving new order inflows.

Sizeable non-fund based exposure – The LNM Group is exposed to sizeable contingent liabilities in the form of bank guarantees (Rs. 61 crore as on March 31, 2022), primarily towards performance guarantee and security deposits. Nonetheless, ICRA draws comfort from the track record of no crystallisation of guarantees.

Liquidity position: Adequate

The LNM Group's liquidity position is adequate, characterised by moderate buffer availability in its working capital facilities and considerable unencumbered cash balances maintained. While LNMIPPL's average working capital utilisation stood at 37% of the sanctioned limits for the past 12 months (August 2021 to August 2022), that of HEC remains higher, with an average utilisation of 85% of the sanctioned limits for the corresponding period. ICRA notes that the utilisation in the recent past (June 2022 to August 2022) has been upwards of 90% - 95% of the sanctioned limits. However, the management expects the same to reduce in the upcoming months, as the execution and billing improves, post the monsoon season. The Group's free cash balances stood at ~Rs. 19.2 crore as on March 31, 2022, and ~Rs. 17.0 crore as on August 31, 2022. The Group has limited repayment obligation of ~Rs. 0.4 – Rs. 0.5 crore/year during FY2023-FY2025 on its outstanding term loans.

Rating sensitivities

Positive factors – The ratings could be upgraded if the Group achieves significant scale up in its revenues and considerable business diversification, while maintaining its profitability and improving its liquidity profile on a sustained basis.

Negative factors – Negative pressure on the ratings could arise if any material decline in the Group's revenues and profitability adversely impacts its key credit metrics. The ratings could face downward pressure if any deterioration in its working capital cycle stretches the liquidity position. Any adverse action from the authority with regards to the debarment of HEC, impacting the Group's order book position and receivables will also exert pressure on the ratings.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology
Parent/Group support	Not Applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has considered the consolidated financials of LNMIPPL and HEC (refer Annexure-II).

About the company

LNMIPPL was established in 2000, in Bhopal, as a proprietorship firm by Mr. Laxmi Narayan Malviya and was later incorporated as a private limited company in 2010. HEC was established in 2007 by Mr. Satya Narayan Malviya (elder brother of Mr. L. N. Malviya) and Ms. Tapsya Malviya as partners. Both the entities are into similar line of business of providing engineering consultancy services focused towards the infrastructure sector including segments such as highways, roads and water supply, among others. Its key service offerings include supervision, quality control and detailed project reports. The company's projects are distributed across the country, with its key focus on Madhya Pradesh.

Key financial indicators

LNMIPPL and HEC – Consolidated	FY2021	FY2022 Prov.
Operating income (Rs. crore)	258.1	263.6
PAT (Rs. crore)	46.1	48.4*
OPBDIT/OI (%)	25.2%	20.8%
PAT/OI (%)	17.9%	18.4%
Total outside liabilities/Tangible net worth (times)	0.4	0.3
Total debt/OPBDIT (times)	0.1	0.1
Interest coverage (times)	11.0	14.3

*(Source: LNMIPPL and HEC); Prov. – Provisional; *PAT – for FY2022, the PAT figure indicates profit before tax*

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

Status of non-cooperation with previous CRA:

LNMIPPL's rating was moved to 'Issuer Non Cooperation' category by Brickwork Ratings India Private Limited (Brickwork) vide its press release in October 2019, as LNMIPPL did not cooperate in submission of requisite information for conducting the rating review. As of March 2022, the ratings of LNMIPPL continues to remain in non-cooperation category with Brickwork.

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 September 30, 2022	FY2022		FY2021	FY2020
						June 15, 2021	June 08, 2021	--	--
1	Fund-based facilities (CC)	Long-term	10.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-	-
2	Non-fund based facilities (BG)	Short-term	75.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	-	-
3	Unallocated	Long-term/short-term	15.00	-	[ICRA]BBB (Stable)/[ICRA]A3+	-	-	-	-

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	10.00	[ICRA]BBB (Stable)
NA	Non-fund based facilities	NA	NA	NA	75.00	[ICRA]A3+
NA	Unallocated	NA	NA	NA	15.00	[ICRA]BBB (Stable)/[ICRA]A3+

Source: LNMIPPL and ICRA

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

Annexure II: List of entities considered for consolidated analysis

Company Name	LNMIPPL's Ownership	Consolidation Approach
L.N. Malviya Infra Projects Pvt. Limited	-	Full Consolidation
Highway Engineering Consultants	-	Full Consolidation

Source: LNMIPPL, ICRA Research

ANALYST CONTACTS

Rajeshwar Burla
+91 40 4067 6527
rajeshwar.burla@icraindia.com

Ashish Modani
+91 22 6114 3414
ashish.modani@icraindia.com

Abhishek Gupta
+91 124 4545863
abhishek.gupta@icraindia.com

Vinodhini M
+91 44 4297 4313
vinodhini.m@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee
+91 80 4332 6401
jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani
Tel: +91 124 4545 860
communications@icraindia.com

Helpline for business queries

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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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For more information, visit www.icra.in

ICRA Limited

Registered Office

B-710, Statesman House, 148, Barakhamba Road, New Delhi-110001
Tel: +91 11 23357940-45

Branches