

March 01, 2023

## Laxmi Civil Engineering Services Pvt. Ltd.: Ratings reaffirmed; rated amount enhanced

### Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based limit (Cash credit)	50.00	50.00	[ICRA]A (Stable); Reaffirmed
Non-fund based limits	700.00	700.00	[ICRA]A (Stable) / [ICRA]A1; Reaffirmed
Unallocated	0.00	300.00	[ICRA]A (Stable) / [ICRA]A1; Assigned
<b>Total</b>	<b>750.00</b>	<b>1,050.00</b>	

\*Instrument details are provided in Annexure-I

### Rationale

The reaffirmation of ratings of Laxmi Civil Engineering Services Pvt. Ltd. (LCESPL) factors in its healthy execution and revenue growth in FY2022 and 8M FY2023 and a sizeable order book (~Rs. 6,329 crore as on November 30, 2022), which provides a healthy medium-term revenue visibility. ICRA notes that LCESPL was awarded sizeable orders worth Rs. 3,987 crore in 8M FY2023 and its outstanding order book translates into 5.4 times of the operating income (OI) in FY2022. Even when adjusted for the slow-moving orders, the OB/OI remained comfortable at 4.7 times. The ratings continue to reflect the company's experienced promoters, established track record in the water management infrastructure segment, along with its comfortable financial profile marked by low leverage (TOL/TNW of 1.0 times as on March 31, 2022), healthy debt coverage metrics (interest coverage of 14.1 times in FY2022) and strong liquidity position (free cash and investments of Rs. 362 crore as on December 31, 2022).

The ratings are, however, constrained by moderately high execution risk, with ~65% projects (by value) in the nascent stages (0-10% executed). The ratings also factor in the customer concentration risk, with the largest customer accounting for 36% of the order book, of which 28% is from a single project, though the counterparty is the Narmada Valley Development Authority. The ratings are also constrained by the geographic concentration (top three states accounting for over 80% share) and segment concentration risks (~96% orders pertain to water management projects) of the order book as on November 30, 2022. Any delay in receipt of the requisite approvals for these projects could affect the billing. The company faces stiff competition from established and much larger peers as well as several mid-size regional entities, which limits its pricing flexibility. The water management projects executed by the company has a defect liability period, generally in the range of three to five years, wherein operations and maintenance (O&M) obligations are also the responsibility of the engineering, procurement and construction (EPC) entity i.e., LCESPL. In case of any inadequate provisions with respect to these obligations, there could be an impact on the future operating margins. However, the company has adequate liquidity to take care of such contingencies. The company is also exposed to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advances and retention money. Nonetheless, ICRA draws comfort from its execution track record and absence of any invocation of guarantees in the past.

The Stable outlook reflects ICRA's expectations that LCESPL will continue to witness healthy billings and collections, while maintaining a strong liquidity profile. The company's leverage level is expected to remain comfortable, going forward.

### Key rating drivers and their description

#### Credit strengths

**Healthy order book provides revenue visibility** – The company was awarded new projects, aggregating Rs. 3,987 crore in 8M FY2023., and as a result it had an outstanding order book of Rs. 6,328.9 crore as on November 30, 2022 (up from Rs. 2,958 crore in June 2021). This translates into OB/OI of FY2022 of 5.4 times, up from 3.3 times FY2021 OI in June 2021. The order book is executable over an average period of 24 to 36 months providing healthy revenue medium-term visibility. The ongoing projects are spread across eight Indian states, viz., Madhya Pradesh, Maharashtra, Karnataka, Gujarat, Chhattisgarh, Odisha, Uttar Pradesh, and Goa and are from different state government agencies.

**Comfortable financial risk profile with low leverage and healthy coverage metrics** – LCESPL's financial risk profile remains comfortable. With the policy of ploughing back profits, the company's reliance on outside fund is very low and coverage indicators remain healthy, evident from TD/OBITDA and interest cover at 0.3 times and 14.1 times, respectively, as on March 31, 2022. It is further supported by a strong liquidity position.

**Established track record of promoters in executing water management projects for Government and semi-Government agencies** – The promoters (Mr. Vijay Kumar Shah and Mr. Rajendra Doshi) have an experience of more than four decades in the water management segment. LCESPL is registered as a Class-I civil contractor with various departments across nine states (Maharashtra, Karnataka, Goa, Chhattisgarh, Madhya Pradesh, Kerala, Uttar Pradesh, Bihar, and Gujarat).

### Credit challenges

**High customer, geographical and segment concentration risks** – LCESPL has a moderately diversified segmental presence, with lift irrigation, sewerage, water supply, roads, etc, being the major areas of operations. With substantial order book addition in the water and waste-water segments (viz. irrigation, sewerage, water supply), this segment formed ~96% of the unexecuted order book as on November 30, 2022. With addition of Odisha and Uttar Pradesh, LCESPL now operates in around eight states, increasing its geographical diversification. However, the top-three states continue to contribute over 80% of the order book. The management has indicated that the concentration is primarily attributable to the fact that the company bids for projects only in states where the funding tie-up is available from various authorities. With few large orders from the Narmada Valley Development Authority and Rural Water Supply and Sanitation, the client concentration risk remains high as 60% of the unexecuted order book is from top three customers.

**Moderately high execution risk** – With major orders being awarded over the last six months, 65% of the order book is in the nascent stage with less than 10% progress in execution, exposing the company to moderately high execution risk. LCESPL remains exposed to risks associated with delays in these projects. Any delay in receipt of the requisite approvals for these projects could affect the billing and revenue.

### Liquidity position: Strong

The company's liquidity profile is expected to remain strong, with steady cash accruals, supported by free cash balances of ~Rs. 33 crore and undrawn Fund Based working capital limits of Rs. 35 crore as on January 31, 2023. Moreover, the company also has investments of ~Rs. 430 crore deployed in mutual funds. In the backdrop of marginal capex plans and minimal long-term debt repayment obligations the liquidity position is expected to remain strong.

### Rating sensitivities

**Positive factors** – The ratings may be upgraded, if there is any substantial increase in scale of operations and profitability, coupled with improved geographical and project diversification.

**Negative factors** – The ratings may be downgraded, if there is any slowdown in order execution or if liquidity is significantly impacted by any change in the cash conversion cycle. A specific credit metric for a downgrade is if TOL/TNW is above 1.5 times, on a sustained basis.

## Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	<a href="#">Corporate Credit Rating Methodology</a> <a href="#">Rating Methodology for Construction Entities</a>
Parent/Group support	Not applicable
Consolidation/Standalone	For arriving at the ratings, ICRA has used a limited consolidation approach, under which only the proposed equity investments/funding commitments to various subsidiaries and joint ventures (JVs) towards debt servicing and operational shortfall have been considered. The list of companies that are considered to arrive at the ratings are shared in Annexure II.

## About the company

Founded in 1980 by Mr. Vijay Kumar Shah and his nephew, Mr. Rajendra Doshi, as a partnership firm, LCESPL was incorporated in 2000. It is a construction company based in Kolhapur, Maharashtra. It undertakes developmental work in various areas such as process design, installation, civil constructions, commissioning and O&M services in lift irrigation schemes, water supply schemes, sewerage treatment and distribution, among others.

## Key financial indicators (audited)

	FY2021	FY2022
Operating income (Rs. crore)	901.9	1176.3
PAT (Rs. crore)	96.2	106.8
OPBDIT/OI (%)	10.1%	9.5%
PAT/OI (%)	10.7%	9.1%
Total outside liabilities/Tangible net worth (times)	1.2	1.0
Total debt/OPBDIT (times)	0.3	0.3
Interest coverage (times)	11.7	14.1

Source: ICRA Research; 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

Current Rating (FY2023)						Chronology of Rating History for the Past 3 Years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding as on Jan 31, 2023 (Rs. crore)	Date & Rating on		Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
				Mar 1, 2023	Feb 7, 2023	Dec 24, 2021	Oct 29, 2020	Jul 11, 2019
1 Fund-based limit (Cash credit)	Long-term	50.0	14.6	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A- (Stable)
2 Non-fund based limits	Long-term/short term	700.0	513.67	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A- (Stable) / [ICRA]A2+
3 Unallocated	Long-term/short term	300.0	-	[ICRA]A (Stable) / [ICRA]A1	-	-	[ICRA]A (Stable) / [ICRA]A1	

### Complexity level of the rated instruments

Instrument	Complexity Indicator
Fund-based limit (Cash credit)	Simple
Non-fund based limits	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: [Click Here](#)

## Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Outlook	Rating and
NA	Fund-based – Cash credit	FY2022-23	NA	NA	50.0	[ICRA]A (Stable)	
NA	Non-fund based limits	FY2022-23	NA	NA	700.0	[ICRA]A (Stable)/ [ICRA]A1	
NA	Unallocated	NA	NA	NA	300.0	[ICRA]A (Stable)/ [ICRA]A1	

Source: Company

[Please click here to view details of lender-wise facilities rated by ICRA](#)

## Annexure II: List of entities considered for consolidated analysis

Company Name	LCESPL Ownership	Consolidation Approach
Laxmi Civil Engineering Infrastructure Pvt Ltd	100%	Limited Consolidation
Nine Elements Developers Pvt. Ltd.	49%	Limited Consolidation
Laxmi SSEPL JV	50%	Limited Consolidation
Laxmi Trittech JV	80%	Limited Consolidation
Aquatech Laxmi JV	51%	Limited Consolidation
Arihant Laxmi JV	100%	Limited Consolidation
HCC LCESPL JV	49%	Limited Consolidation
Laxmi Civil Engineering Services Pvt Ltd - P Das Infrastructure JV	75%	Limited Consolidation
Laxmi Civil Engineering Services Pvt Ltd - PVRPL JV	51%	Limited Consolidation
JMC Laxmi Wilo JV (51%-42%-7%)	42%	Limited Consolidation
Laxmi Civil Engineering Services Pvt Ltd- Rectronic-Devices and Systems JV	50%	Limited Consolidation
JMC-LCESPL Joint venture	30%	Limited Consolidation

Source: LCEPL's annual report FY2022

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