May 19, 2023

# 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** | 33.0 | 53.0 | [ICRA]A- (Stable); Reaffirmed/ Assigned |
| **Fund-based – Standby Line of Credit** | 4.0 | 6.0 | [ICRA]A- (Stable); Reaffirmed/ Assigned |
| **Fund-based – Working Capital Demand Loan** | 5.0 | 5.0 | [ICRA]A- (Stable); Reaffirmed |
| **Non-fund based -Bank Guarantee** | 173.0 | 236.0 | [ICRA]A- (Stable)/[ICRA]A2+; Reaffirmed/Assigned |
| **Fund-based – Term Loan** | 20.0 | - | - |
| **Fund-based – Proposed Cash Credit** | 5.0 | - | - |
| **Non-fund based -Proposed Bank Guarantee** | 30.0 | - | - |
| **Total** | **270.0** | **300.0** | |

**Instrument details are provided in Annexure-I*

## Rationale

The reaffirmation of ratings for Tribeni Constructions Limited (TCL) factors in its healthy execution and revenue growth (11% YoY) in FY2023 and a healthy order book of Rs. 1,486 crore as on January 31, 2023, that provides medium-term revenue visibility. The ratings are supported by reputed clientele, as it executes orders mainly for Government departments and public sector entities. Further, the ratings continue to favourably factor in the extensive experience of its promoters in the Indian civil construction industry, TCL’s execution track record of over 15 years and healthy capital structure, characterised by moderate leverage (TOL/TNW of 1.1 times) and healthy debt coverage metrics (interest cover and DSCR of 6.2 times and 2.2 times, respectively) in FY2022. 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 6 times going forward.

The ratings are, however, constrained by TCL’s by moderately high execution risk, with ~52% projects (by value) in the nascent stages (0-10% executed), moderate scale of operations and working capital-intensive operations. The company’s cash conversion cycle is high at around 113 days, resulting in limited cushion in working capital limits (average fund-based utilisation of 80% in FY2023) and low free cash balances. TCL’s unbilled revenues (inventory) as on balance sheet date increased to Rs. 144.5 crore in FY2022 and further to Rs. 165.6 crore in FY2023 (provisional, unaudited) from Rs. 109.5 crore in FY2021, partially on account of pending escalation claims in completed projects. Given the working capital-intensive operations, its ability to get necessary approvals and realise the pending escalation claims remains crucial for improvement in working capital intensity. Moreover, the company’s ability to tie-up working capital lines to maintain adequate liquidity buffer, 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.

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 civil 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. 1,486 crore as of January 2023 (2.9 times of FY2022 revenue), providing medium-term revenue visibility. The overall execution risk remains high with 52% of the order book having an execution progress of less than 10%. Any delay in ramping up the billing of these projects will adversely impact the revenues for FY2024 and will be a key rating monitorable. Further, the order book is reasonably diversified with top five projects accounting for 47% of the order book.

**Reputed clientele –** 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 (RVNL), National Projects Construction Company (NPCC) Limited, NBCC (India) Limited, Assam PWD, etc. With majority of them being government entities, the risk of bad debt write-off is relatively low.

**Comfortable debt coverage metrics –** TCL's leverage is comfortable with TOL/TNW of 1.1 times as on March 31, 2022, which led to comfortable debt coverage indicators, with interest coverage of 6.2 times and DSCR of 2.2 times in FY2022. The company does not have any major capex plans or plans to enter build operate transfer (BOT) projects over the medium term, which limits the likelihood of any major increase in debt levels.

**Extensive experience of promoters in construction business –** The company's promoters have more than four decades of experience in the civil construction business. The vast experience of TCL's promoters and established track record of operations support its business profile.

### Credit challenges

**Moderate scale of operations and high execution risk –** TCL's scale of operations remain moderate compared to its peers in the similar rating category. In FY2023 (provisional, unaudited), it achieved billings of Rs. 561 crore (up 10.8%) on the back of improved order execution and the momentum is expected to continue into FY2024, with estimated 6-8% YoY revenue growth. Given that nearly 50% of the order book is in the nascent stages (<10% execution), the company faces high execution risk.

**Intense industry competition impacting profitability margins –** TCL procures orders through tenders. Entities that meet the technical qualification criteria qualify for financial bidding, and subsequently the contract is awarded to the lowest (L1) bidder. Due to such tender-based order procurement, the company faces stiff competition, which limits its pricing flexibility and exerts pressure on margins. Its profitability margins have remained moderate within 9-11% during the past two years and are expected to remain around 10-11% over the medium term as well.

**Elongated cash conversion cycle –** TCL has high cash conversion cycle (around 113 days as of FY2022-end) due to the high unbilled revenues. Its unbilled revenues (inventory) as on balance sheet date increased to Rs. 144.5 crore in FY2022 and further to Rs. 165.6 crore in FY2023 (provisional, unaudited) from Rs. 109.5 crore in FY2021, partially on account of pending escalation claims in completed projects. TCL's inability to improve its cash conversion cycle could drag its growth momentum while pressurising its liquidity position and overall credit profile.

## 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 with average fund-based utilisation of around 80% between April 2022 and March 2023. It received enhancement in working limits in Q4 FY2023, which would augment its liquidity position in FY2024. The company has debt repayment obligations of ~Rs. 15.7 crore in FY2024 and modest capex plans, which should be comfortably funded from its cash flows. Unbilled revenues and security deposit withheld, along with the cash margin against BGs, continue to keep the working capital requirement high. Timely sanction of enhanced working capital limits and improvement in cash conversion cycle will be important from the credit perspective.

## Rating sensitivities

**Positive factors –** ICRA may upgrade TCL's ratings if there is a significant growth in the scale of operations along with an improvement in its profitability margins and liquidity position.

**Negative factors –** Pressure on TCL's ratings may arise due to a significant decline in the company's revenue or profits or its inability to improve working capital cycle, impacting its liquidity position. Specific credit metrics for a rating downgrade include the DSCR falling below 1.8 times on a sustained basis.

## Analytical approach

| Analytical Approach | Comments |
|---|---|
| **Applicable rating methodologies** | Corporate Credit Rating Methodology<br>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

Tribeni Constructions Limited (TCL), previously known as Tribeni Constructions Private Limited (incorporated in 2000), is involved in the civil 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, BHEL, IOCL, Assam PWD, etc.

### Key financial indicators (audited)

| Tribeni Constructions Limited | FY2021 | FY2022 | FY2023P |
|---|---|---|---|
| **Operating income** | 481.2 | 505.7 | 561.0 |
| **PAT** | 21.2 | 25.8 | - |
| **OPBDIT/OI** | 9.3% | 10.8% | - |
| **PAT/OI** | 4.4% | 5.1% | - |
| **Total outside liabilities/Tangible net worth (times)** | 1.2 | 1.1 | - |
| **Total debt/OPBDIT (times)** | 1.8 | 1.7 | - |
| **Interest coverage (times)** | 6.0 | 6.2 | - |

*PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; P: Provisional, Amount in Rs. crore*

## 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 March 31, 2023 (Rs. crore) | Date & Rating on | Date & Rating in FY2023 | Date & Rating in FY2022 | Date & Rating in FY2021 |
| | | | | | May 19, 2023 | - | Feb 10, 2022 | - |
| 1 | Cash Credit | Long-term | 53.0 | 36.5 | [ICRA]A- (Stable) | - | [ICRA]A- (Stable) | - |
| 2 | Standby Line of Credit | Long-term | 6.0 | - | [ICRA]A- (Stable) | - | [ICRA]A- (Stable) | - |
| 3 | Working Capital Demand Loan | Long-term | 5.0 | - | [ICRA]A- (Stable) | - | [ICRA]A- (Stable) | - |
| 4 | Bank Guarantee | Long-term /Short term | 236.0 | 153.5 | [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](Click Here)

## Annexure I: Instrument details

| ISIN No | 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** | - | - | - | 5.0 | [ICRA]A- (Stable) |
| NA | **Bank Guarantee** | - | - | - | 236.0 | [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: NA

## ANALYST CONTACTS

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

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

**Ritu Goswami**
+91 124 4545 826
ritu.goswami@icraindia.com

**Soumantak Bagchi**
+91 33 7150 1226
soumantak.bagchi@icraindia.com

## RELATIONSHIP CONTACT

**L. Shivakumar**
+91 22 6114 3406
shivakumar@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.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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