December 18, 2023

# L.N. Malviya Infra Projects Pvt. Ltd.: Ratings removed from Issuer Not Cooperating category; 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 – Cash Credit** | 10.00 | 55.00 | [ICRA]BB+(Stable); reaffirmed/ assigned for enhanced limit; removed from Issuer Not Cooperating category |
| **Short-term – Non-fund Based** | 75.00 | 205.00 | [ICRA]A4+; reaffirmed/ assigned for enhanced limit; removed from Issuer Not Cooperating category |
| **Long-term/Short-term - (Fund based/ non-fund based)** | 0.00 | 75.00 | [ICRA]BB+(Stable)/[ICRA]A4+; reaffirmed/ assigned for enhanced limit; removed from Issuer Not Cooperating category |
| **Long-term/Short-term – Unallocated** | 15.00 | 0.00 | - |
| **Total** | **100.00** | **335.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

For arriving at the ratings, ICRA has taken a consolidated view of L.N. Malviya Infra Projects Pvt. Ltd. (LNM) 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 and operational linkages.

The reaffirmation of ratings factor in the Group's healthy order book position of Rs. 1,423.5 crore (Rs. 1,226.7 crore for LNM as on October 31, 2023 and Rs. 196.8 crore for HEC as on August 31, 2023) translating to ~5.0 times of FY2023 cumulative operating income (OI), which provides near-term revenue visibility. LNM has diversified its business into the engineering, procurement and commissioning (EPC) segment with the addition of three packages worth Rs. 402.6 crore from Madhya Pradesh Jal Nigam in February 2023. The Group's financial profile remains satisfactory, characterised by moderate leverage and adequate coverage indicators (total outside liabilities/tangible net worth of 0.6 times and interest cover of 14.5 times in FY2023). ICRA takes note of the Group's experience in the engineering consultancy services segment (like preparation of detailed project reports, supervision) and its reputed clientele (National Highways Authority of India, Ministry of Road Transport and Highways, Madhya Pradesh Road Development Corporation, among others).

These strengths are offset by the Group's significant investments in non-core business activities, which were funded by high-cost short-term debt leading to an asset-liability mismatch and exposes the company to refinancing risk. Moreover, sizeable capital withdrawal in HEC and deployment of funds in non-core investment strained its liquidity position, as reflected in limited cushion in fund-based limits. The Group is in the process of enhancing its bank facilities, and timely enhancement in working capital limits and recoupment of these non-core investments will be crucial to improve the liquidity position and remains a key rating monitorable. Moreover, Group has recently forayed into the EPC segment where it has limited track record. The ratings note the stiff competition in the construction sector, which could put pressure on new order inflows and the Group's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and retention money. Nonetheless, ICRA draws comfort from the Group's healthy execution track record and no invocation of guarantees in the past. The LNM Group's ability to judiciously manage its working capital cycle and its ability to recoup its non-core investment remains a key monitorable going forward.

## Key rating drivers and their description

### Credit strengths

**Experience in engineering consultancy services and diversification to EPC business –** 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 and have worked with reputed clients like NHAI and MPRDC. LNM has recently diversified in the EPC segment, with orders worth Rs. 402.6 crore from Madhya Pradesh Jal Nigam, which is expected to improve its scale of operations. The scope of work involves setting up of rural drinking water pipelines under National Jal Jeevan Mission. ICRA notes the Group is a relatively new entrant in the EPC segment, therefore its ability to win and successfully execute orders while sustaining its margins and improving its overall liquidity position will be a key monitorable. The presence of strong, reputed clients in the order book lowers the counterparty credit risk.

**Order book position provides near-term revenue visibility –** The LNM Group's healthy order book position of Rs. 1,423.5 crore (Rs. 1,226.7 crore for LNM as on October 31, 2023 and Rs. 196.8 crore for HEC as on August 31, 2023), translating to ~5.0 times of its OI in FY2023, thereby providing healthy near-term revenue visibility.

### Credit challenges

**Substantial increase in non-core investments; exposed to refinancing risk owing to increased reliance on short-term funding –** The LNM Group has made investments worth Rs. 68.7 crore in non-core businesses in the form of Rs. 38.3 crore invested in acquiring 100% stake in an educational institution, Rs. 25.7 crore invested in a news media entity and an additional Rs. 4.75 crore in a plot of land adjoining LN Hotels and Resorts Pvt Ltd. Owing to these long-term investments, there is an increase in short-term debt resulting in an asset-liability mismatch, which exposes the company to refinancing risk. Moreover, sizeable capital withdrawal in HEC and deployment of funds in non-core investment strained its liquidity position, as reflected in limited cushion in fund-based limits. Any increase in non-core investments, which could materially impact the liquidity, will be a credit negative.

**Intense competition; constrained pricing flexibility –** The LNM Group procures orders through competitive bidding. With multiple players in the independent engineering consultancy services segment, the company 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 impact on operations thus far, reputation sensitivity in the business remains high. Given the shift in business towards EPC segment, the Group is vulnerable to inherent risks in the construction sector including exposure to sizeable contingent liability, risk of cost/time overrun and tendering nature of the projects, which constrains the pricing flexibility. Being a relatively new participant, its ability to win and successfully execute orders while sustaining its margins and improving its overall liquidity position will be a key monitorable.

## Liquidity position: Stretched

The liquidity profile is stretched, in the backdrop of limited cushion in working capital facilities. The company has made around Rs. 8 crore of investment in non-core assets in the current fiscal, which along with sizeable repayment obligations in the near term will keep the overall cash flows and liquidity position under pressure. Nevertheless, the management is seeking an enhancement of Rs. 25 crore in fund-based limits, Rs. 65 crore in non-fund based limits and Rs. 75 crore in interchangeable limits. The tie-up of these facilities shall be crucial for the Group's liquidity position.

## Rating sensitivities

**Positive factors –** The ratings could be upgraded if the Group achieves significant improvement in its liquidity position along with a sustained improvement in its scale of operations and earnings.

**Negative factors –** Negative pressure on the ratings could arise if any material decline in the Group's revenues and/or profitability and its working capital cycle stretches the liquidity position. Any material increase in non-core assets impacting its liquidity position, leverage or debt protection metrics 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** | ICRA has taken consolidated view of LNM and HEC, given common management and strong business linkages. |

## About the company

LNM was established in 2000, in Bhopal, as a proprietorship firm by Mr. Laxmi Narayan Malviya. It 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 (audited)

| LNM and HEC – Consolidated | FY2022 | FY2023 |
|---|---|---|
| **Operating income (Rs. crore)** | 261.4 | 286.7 |
| **PAT (Rs. crore)** | 44.2 | 46.9 |
| **OPBDIT/OI (%)** | 23.2% | 22.6% |
| **PAT/OI (%)** | 16.9% | 16.4% |
| **Total outside liabilities/Tangible net worth (times)** | 0.3 | 0.6 |
| **Total debt/OPBDIT (times)** | 0.2 | 1.0 |
| **Interest coverage (times)** | 13.5 | 14.5 |

*Source: LNM, HEC and ICRA Research. PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation*

### Status of non-cooperation with previous CRA:

LNM's rating was moved to 'Issuer Non Cooperation' category by Brickwork Ratings India Private Limited (Brickwork) vide its press release in October 2019, as LNM did not cooperate in submission of requisite information for conducting the rating review. As of March 2023, the ratings of LNM continues to remain in non-cooperation category with Brickwork.

### 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 March 31, 2023 (Rs. crore) | Date & rating in FY2024 | | Date & rating in FY2023 | Date & rating in FY2022 | | Date & rating in FY2021 |
| | | | | | Dec 18, 2023 | Aug 10, 2023 | Sep 30, 2022 | Jun 15, 2021 | Jun 08, 2021 | - |
| 1 | Fund-based – Cash Credit | Long term | 55.00 | - | [ICRA]BB+(Stable) | [ICRA]BB+ (Stable); ISSUER NOT COOPERATING | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | [ICRA]BBB (Stable) | - |
| 2 | Non-fund based facilities | Short Term | 205.00 | - | [ICRA]A4+ | [ICRA]A4+; ISSUER NOT COOPERATING | [ICRA]A3+ | [ICRA]A3+ | [ICRA]A3+ | - |
| 3 | Fund-based/ non-fund based | Long-term/ Short-term | 75.00 | - | [ICRA]BB+ (Stable)/[ICRA]A4+ | - | - | - | - | - |
| 4 | Unallocated limits | Long-term/ Short-term | 0.00 | - | - | [ICRA]BB+ (Stable)/[ICRA] A4+; ISSUER NOT COOPERATING | [ICRA]BBB (Stable)/[ICRA] A3+ | - | - | - |

## Complexity level of the rated instruments

| Instrument | Complexity Indicator |
|---|---|
| **Long-term – Fund-based – Cash Credit** | Simple |
| **Short-term – Non-fund Based facilities** | Very Simple |
| **Long-term/Short-term - (Fund based/ non-fund based)** | Very Simple |
| **Long-term/Short-term – Unallocated limits** | NA |

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** | **Long-term – Fund-based – Cash Credit** | NA | NA | NA | 55.00 | **[ICRA]BB+(Stable)** |
| **NA** | **Short-term – Non-fund Based facilities** | NA | NA | NA | 205.00 | **[ICRA]A4+** |
| **NA** | **Long-term/Short-term - (Fund based/ non-fund based)** | NA | NA | NA | 75.00 | **[ICRA]BB+ (Stable)/[ICRA]A4+** |

*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 | LNM's Ownership | Consolidation Approach |
|---|---|---|
| **L.N. Malviya Infra Projects Pvt. Limited** | - | Full Consolidation |
| **Highway Engineering Consultants** | - | Full Consolidation |

*Source: LNM and HEC, ICRA Research*

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## About ICRA Limited:

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