

May 24, 2024

Laxmi Civil Engineering Services Pvt. Ltd.: Long-term rating upgraded to [ICRA]A+(Stable); short-term rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term - Fund-based limit (Cash credit)	50.00	50.00	[ICRA]A+ (Stable) upgraded from [ICRA]A (Stable)
Long-term/Short-term - Non-fund based limits	700.00	1,000.00	[ICRA]A+ (Stable) upgraded from [ICRA]A (Stable); [ICRA]A1 reaffirmed
Unallocated	300.00	0.00	-
Total	1,050.00	1,050.00	

*Instrument details are provided in Annexure-I

Rationale

The rating upgrade favourably factors in Laxmi Civil Engineering Services Pvt. Ltd.'s (LCESPL) increase in scale of operation, supported by healthy execution in FY2023 and FY2024 (Estimated) and a strong order book (OB) position of ~Rs. 12,042 crore (OB/Operating Income (OI) of 4.1 times) as on March 31, 2024. LCESPL's revenue grew by 81% to Rs. 2,335 crore in FY2024e from Rs. 1,290 crore in FY2023. The growth momentum is likely to sustain in FY2025e with expected revenue growth of 20%-25%, driven by healthy pace of execution. The ratings continue to reflect LCESPL's comfortable financial profile, marked by comfortable leverage with TOL/TNW of 0.97 times as on March 31, 2024, healthy interest coverage of 19.8 times in FY2024E and strong liquidity position with free cash and liquid investments of Rs. 543 crore as on March 31, 2024. ICRA expects the company to maintain TOL/TNW below 1.0 times in FY2025.

The ratings continue to favourably factor in LCESPL's reputed clientele, with about 85% of orders being partly funded by the Central Government or multilateral agencies. This is reflected in the relatively shorter payment cycle of less than 30 days and NWC/OI below 5% over the past four years. Some of its major clients include Narmada Valley Development Authority (NVDA), Madhya Pradesh Jal Nigam Maryadit (MPJNM), Maharashtra Krishna valley Development Corporation (MKVDC), Namami Gange & Rural Water Supply Department (NGRSD), Uttar Pradesh, Rural Water Supply and Sanitation department, Odisha (RWSS).

The ratings are constrained by a concentrated order book as on March 31, 2024. It faces high segmental concentration with ~99% of the order book pertaining to water management projects, high geographical concentration with top three states accounting for ~78% of the order book as well as high client concentration with top three customers constituting 60% of the order book. The ratings factor in the execution risk, with ~59% projects, by value, in nascent stages (less than 15% executed), although majority of these orders were received in the last 12-18 months. Nonetheless, ICRA derives comfort from the established track record of timely execution by LCESPL and receipt of timely extension for its various projects in the past. LCESPL 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 normally have a defect liability period ranging between 5-10 years, wherein operations and maintenance (O&M) obligations are also the responsibility of LCESPL. In case of any inadequate provisions with respect to these obligations, there could be an impact on the future operating margins. However, ICRA takes comfort from the fact that the company as a policy intends to maintain free cash and cash equivalents of Rs. 350-400 crore in the medium term and the historical O&M expenses were in line with its estimates. 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. ICRA takes note of the proposed investments in a non-core business to the tune of ~Rs.

150 crore in FY2025 and FY2026. Any material increase in investments in non-core business could have an impact on the liquidity position and hence would be a key monitorable going forward.

The Stable outlook reflects ICRA's expectations that LCESPL will continue to witness 15-25% annual growth in OI during FY2025 and FY2026, while maintaining EBITDA margins of 9%-9.5% with comfortable leverage level and strong liquidity profile.

Key rating drivers and their description

Credit strengths

Healthy order book provides revenue visibility – LCESPL has a healthy order book position, including addition of new projects aggregating ~Rs. 6,400 crore in FY2024, resulting in outstanding order book of Rs. 12,042 crore as on March 31, 2024 (up from Rs. 6,329 crore in November 2022), which translates into OB/OI of FY2024 of 4.1 times. The order book is executable over an average period of 24 to 36 months, thereby providing healthy medium-term revenue visibility. ICRA notes the healthy YoY revenue growth of 81% in FY2024 and expects the growth momentum to sustain in FY2025e as well with estimated revenue growth of 20%-25%, supported by healthy pace of execution.

Comfortable financial risk profile with low leverage and healthy coverage metrics – LCESPL's financial risk profile remains comfortable. Given the relatively modest working capital cycle, the company's reliance on outside funds is low and the coverage indicators remain healthy, as evident from TOL/TNW and interest cover at 0.97 times (FY2023: 1.02 times) and 19.8 times (FY2023: 18.2 times), respectively, as on March 31, 2024. This is further supported by a strong liquidity position. The management has no plans for any debt-funded capex/investments and hence the leverage (TOL/TNW) is likely to remain below 1.0 times in the medium term.

Reputed client profile – The company has a reputed client profile, with about 85% of the orders being partly funded by the Central Government or multilateral agencies. This is also reflected in the relatively shorter payment cycle of less than 30 days and NWC/OI below 5% over the past four years. Some of its major client includes NVDA, MPJNM, MKVDC, NGRSD, RWSS.

Credit challenges

High segment, geographical and customer 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 addition in the recent past in the water sector, the segment concentration increased to 99% as on March 31, 2024 from 88% as of November 2022. While LCESPL operates in nine states, the top three states contribute to ~78% of the order book leading to high geographical concentration. The concentration is primarily attributable to the fact that the company bids for projects only in select states and also where the projects being tendered have adequate funding tie-up in place. With few large orders from NVDA, MPJNM and MKVDC, the client concentration risk remains high with top three customers accounting for 60% of the unexecuted order book.

Moderately high execution risk – With major orders being awarded over the last six to 12 months, 59% of the order book is in the nascent stage with less than 15% progress in execution, exposing the company to execution risk. Nonetheless, ICRA derives comfort from the established track record of timely execution by LCESPL and receipt of timely extension for its various projects in the past.

Liquidity position: Strong

The company's liquidity profile is strong, supported by free cash balances of ~Rs. 124 crore and undrawn fund-based working capital limits of Rs. 40 crore as on March 31, 2024. Moreover, it has investments of ~Rs. 419 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 – ICRA could upgrade LCESPL’s ratings upon substantial improvement in business risk profile, driven by order book diversification, along with a significant improvement in scale of operations as well as profitability margins while maintaining strong debt coverage metrics and liquidity position.

Negative factors – The ratings may be downgraded, if there is any slowdown in order execution impacting profitability and coverage metrics or if liquidity is materially impacted owing to deterioration in working capital cycle. A specific credit metric for a downgrade is if TOL/TNW is above 1.2 times, on a sustained basis. Further, any higher-than-expected investment in non-core businesses, leading to material deterioration in liquidity profile would result in a negative rating action.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction Entities
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

LCESPL is a civil contractor, engaged in the water management related infrastructure development in India. The company undertakes developmental work in various areas such as process designing, installation, civil constructions, commissioning, and O&M services spread across Water Supply Schemes, Lift Irrigation Schemes, wastewater treatment and distribution, among others. LCESPL is an ISO 9001:2000 company and is also registered as Class I civil contractors with various departments across various states. It is currently operating in nine states namely Maharashtra, Karnataka, Goa, Chhattisgarh, Madhya Pradesh, Kerala, Uttar Pradesh, Bihar, Gujarat and Jammu and Kashmir. It is executing work for various reputed government, semi government and municipal authorities.

Key financial indicators (audited)

LCESPL	FY2022	FY2023	FY2024 Est.
Operating income (Rs. crore)	1,176	1,290	2,335
PAT (Rs. crore)	106.8	147.3	195.8
OPBDIT/OI (%)	9.5%	13.3%	8.4%
PAT/OI (%)	9.1%	11.4%	8.4%
Total outside liabilities/Tangible net worth (times)	0.99	1.02	0.97
Total debt/OPBDIT (times)	0.3	0.1	0.1
Interest coverage (times)	14.1	18.2	19.8

Source: Company, ICRA Research; All ratios as per ICRA’s calculations; Amount in Rs. crore; 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

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years				
		Amount rated (Rs. crore)	Amount outstanding as on May 02, 2024 (Rs. crore)	Date & rating in FY2025	Date & rating in FY2024	Date & rating in FY2023		Date & rating in FY2022
				May 24, 2024	-	Mar 01, 2023	Feb 07, 2023	Dec 24, 2021
1 Fund-based limit (Cash credit)	Long-term	50.0	-	[ICRA]A+ (Stable)	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2 Non-fund based limits	Long-term/short term	1,000.0	691.3	[ICRA]A+ (Stable) / [ICRA]A1	-	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1	[ICRA]A (Stable) / [ICRA]A1
3 Unallocated	Long-term/short term	0.00	-	-	-	[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

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	Fund-based – Cash credit	FY2022-23	NA	NA	50.0	[ICRA]A+ (Stable)
NA	Non-fund based limits	FY2022-23	NA	NA	1,000.0	[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: LCESPL's annual report FY2023

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