

September 30, 2024

Kaveri Infraprojects Private Limited: Ratings reaffirmed; outlook revised to Negative from Stable

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term – Fund-based facilities	30.00	30.00	[ICRA]BBB-; reaffirmed; outlook revised to Negative from Stable
Long-term/short-term – Non-fund-based facilities	120.00	120.00	[ICRA]BBB-/ [ICRA] A3; reaffirmed; outlook revised to Negative from Stable
Total	150.00	150.00	

*Instrument details are provided in Annexure-I

Rationale

The revision in the outlook to Negative reflects ICRA's expectation that the credit profile of Kaveri Infraprojects Private Limited (Kaveri) could come under pressure in the near to medium term, given the sizeable investment towards a real estate project in Hyderabad, which is expected to adversely impact its free cash flows and liquidity position in the interim. Kaveri proposes to invest Rs. 35 crore over FY2024-FY2026, of which it has already invested Rs. 11 crore as of September 2024 and the balance Rs. 24 crore is expected to be infused by March 31, 2026 resulting in an asset-liability mismatch. The company's scale of operations remains modest, with revenue of Rs. 172.02 crore in FY2024 and net worth of Rs. 49.5 crore as on March 31, 2024. It's ability to fund these large non-core investments and generate healthy returns without hindering its liquidity position remains a key rating monitorable.

The ratings are constrained by high segmental concentration as two segments (water supply schemes and irrigation) account for the entire order book. It has a geographically concentrated order book with top three states (Karnataka, Telangana, and Odisha) constituting for 76% of the order book as on July 31, 2024. The company has high exposure to various state government departments, and therefore, the ability to realise the bills and secure enhancement in working capital limits in a timely manner, will be crucial for managing its working capital requirements and future order addition. Further, the operating margins were moderate, at 8.5-8.7% in the past two years, owing to stiff competition and limited value addition. The ratings also consider the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance and security deposits. Nonetheless, ICRA draws comfort from Kaveri's execution track record and absence of invocation of guarantees in the past.

The ratings however consider Kaveri's healthy increase in scale of operations over the past two years, to Rs. 172.2 crore in FY2024 from Rs. 82.3 crore in FY2022 albeit on a low base, which is likely to sustain over the medium term. The company has an outstanding order book of Rs. 616.58 crore as on July 31, 2024, translating into 3.6 times of FY2024 revenues, providing medium-term revenue visibility. Further, the ratings factors in the comfortable coverage metrics with interest coverage of 10 times in FY2024, which is expected to sustain in the medium term owing to lower debt levels. The rating also considers Kaveri's established track record in executing rural water supply works.

Key rating drivers and their description

Credit strengths

Healthy revenue growth and order book – Kaveri’s revenues witnessed a healthy growth over the past two years, to Rs. 172.2 crore in FY2024 from Rs. 82.3 crore in FY2022 albeit on a low base, and the growth is expected to continue in the medium term. The company has received five orders in FY2024, which cumulatively amounts to Rs. 152.69 crore in Telangana, Uttar Pradesh, and Maharashtra, supporting its orderbook position. It has an outstanding orderbook of Rs. 616.58 crore as on July 31, 2024, translating into 3.6 times of FY2024 revenues, providing medium-term revenue visibility.

Established operational track record – Kaveri has established presence in execution of rural water supply and irrigation projects. The company completed projects for various clients like Rural Water Supply & Sanitation (RWS&S), state irrigation departments, Public Health and Municipal Engineering Department (PHMED) and Hyderabad Metropolitan Water Supply and Sewerage Board etc, in Andhra Pradesh, Telangana and Karnataka and has completed various works of Mission Bhagiratha in Telangana in the past.

Credit challenges

Concentrated orderbook – Although the order book is geographically diversified with orders from six states, the top three states (Karnataka, Telangana, and Odisha) accounted for 76% of the order book as on July 30, 2024. The company is exposed to high segmental concentration as these two segments accounted for the entire order book as on July 31, 2024. It is also exposed to moderate execution risk with 29% of order book in initial stages of execution (<20% of the project progress), which have been moving slow on account of budgetary constraints or delay in approvals from the state Governments, resulting in low progress in project execution. Going forward, the company’s ability to significantly increase its billings remains crucial for sustaining the revenue growth.

Sizeable investment outlay to constrain liquidity position – The company has sizeable investment plans of Rs. 35 crore towards real estate project in Hyderabad over FY2024-FY2026. Although the company envisaged a total investment outlay of Rs. 55 crore initially, the promoters decided to reduce the outflow to Rs. 35 crore from the company while the remaining Rs. 20 crore will be infused by the promoters. As of September 2024, Kaveri has already infused Rs. 11 crore and the balance to be infused by March 31, 2026, which is expected to adversely impact its free cash flows and liquidity position in the interim. It’s scale of operations remains modest, with revenue of Rs. 172.02 crore in FY2024 and net worth of Rs. 49.5 crore as on March 31, 2024. Kaveri’s ability to fund these large non-core investments and generate healthy returns without impacting the liquidity position remains a key rating monitorable. The company has high exposure to counterparty risk as the client profile primarily comprises various state government departments, and therefore, the ability to realise the bills and secure enhancement in working capital limits in a timely manner, will be crucial for managing its working capital requirements and future order addition.

Competitive business environment to keep margins under check – The operating margins remained moderate at 8.5-8.7% over the past two years, as the segment is characterised by stiff competition and limited value addition. Further, the operating margins are exposed to volatility in raw material prices. It has exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance and retention money. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past.

Liquidity position: Adequate

The company’s liquidity position is adequate, with average utilisation of working capital limits at around 82% in the past 16 months ending July 2024. Further, it has low debt repayment obligations and capex plans, which is expected to be comfortably meet from the cash flow from operations. Given the sizeable investment plans, the company’s ability to realise the payments in timely manners remains critical to support its liquidity position.

Rating sensitivities

Positive factors – ICRA could revise the outlook to Stable, if the company is able to improve the earnings along with the timely receipt of payments resulting in an improved liquidity position, on a sustained basis.

Negative factors – ICRA could downgrade the ratings, if material deterioration in earnings or delay in payments resulting in weakening of its liquidity position, on a sustained basis. Further, delay in working capital enhancement or higher than expected investments which could materially impact its liquidity position will be a credit negative. Specific triggers for a downgrade include TOL/TNW increasing to more than 2 times, on a sustained basis.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Construction
Parent/Group support	Not applicable
Consolidation/Standalone	Standalone

About the company

Kaveri Infraprojects Pvt. Ltd. (Kaveri) was founded as a partnership firm in 1998, at Warangal (Telangana), as a manufacturer of high-density polyethylene (HDPE) pipes used in water supply systems. Later it was converted to Kaveri Infraprojects Private Limited on August 08, 2014. The company is a civil contractor and has completed various projects in rural and urban water supply, including Mission Bhageeratha in Telangana in the past.

Key financial indicators (audited)

	FY2023	FY2024
Operating income	123.0	172.2
PAT	5.9	9.7
OPBDIT/OI	8.5%	8.3%
PAT/OI	4.8%	5.7%
Total outside liabilities/Tangible net worth (times)	1.9	1.7
Total debt/OPBDIT (times)	1.2	0.3
Interest coverage (times)	5.3	10.0

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	Current (FY2025)			Chronology of rating history for the past 3 years					
	Type	Amount Rated (Rs. crore)	September 30, 2024	FY2024		FY2023		FY2022	
				Date	Rating	Date	Rating	Date	Rating
Fund-based facilities	Long term	30.00	[ICRA]BBB-(Negative)	June 19, 2023	[ICRA]BBB-(Stable)	-	-	-	-
Non-fund Based facilities	Long term /short term	120.00	[ICRA]BBB-(Negative)/[ICRA]A3	June 19, 2023	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Long-term – Fund-based facilities	Simple
Long-term/ Short-term – Non-fund based facilities	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](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated	Current Rating and Outlook
NA	Fund-based facilities	NA	NA	NA	30.00	[ICRA]BBB- (Negative)
NA	Non-fund-based facilities	NA	NA	NA	120.00	[ICRA]BBB- (Negative) / [ICRA]A3

Source: Company; Amount in Rs. crore

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

Annexure II: List of entities considered for consolidated analysis: Not Applicable

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