December 31, 2024

# 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 |
|---|---|---|---|
| **Long-term - Fund-based limit (Cash credit)** | 50.00 | 50.00 | [ICRA]A+ (Stable); Reaffirmed |
| **Long-term/ Short-term - Non-fund based limits** | 1,000.00 | 1,300.00 | [ICRA]A+ (Stable)/ [ICRA]A1; Reaffirmed & Assigned for enhanced amount |
| **Total** | **1,050.00** | **1,350.00** | |

**Instrument details are provided in Annexure-I*

## Rationale

The rating reaffirmation favourably factors in Laxmi Civil Engineering Services Pvt. Ltd.'s (LCESPL) strong order book position (order book to operating revenue (OB/OI) ratio of 4.1 times [based on FY2024 operating income] as on September 30, 2024), which provides medium-term revenue visibility. Its order book recorded a CAGR of 27% over the last five years ending FY2024, with fresh order inflows worth ~Rs. 8,600 crore added over the last 19 months ending October 31, 2024. The company reported a significant increase in scale of operation in FY2024 (YoY growth of 83.8% and CAGR of 24% during FY2018 – FY2024). ICRA estimates LCESPL to report healthy revenue growth of ~15%-20% in FY2025, given the strong outstanding order book position. The ratings reflect LCESPL's healthy capital structure (TOL/TNW of 1.0 times as on March 31, 2024), strong coverage metrics (interest coverage of 16.8 times and DSCR of 19.4 times in FY2024) and strong liquidity position (free cash and investments of ~Rs. 400 crore as on October 30, 2024). More than 75% of LCESPL's order book as on September 30, 2024, is being partly funded by the Central Government or development agencies such as NABARD, SIDBI, etc, resulting in a relatively shorter payment cycle of less than 30 days. The ratings factor in the extensive experience LCESPL's promoters, spanning over four decades and established track record in executing projects in the water management infrastructure segment.

The ratings, however, are constrained by the high order book concentration risk (in terms of segment, geography and client) and execution risk, with ~45% projects, by value, in the nascent stages (less than 15% executed) of execution. Although ~24% of orders were received over the last six-eight months, the balance 21% comprises slow moving/stuck projects. 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. The water management projects executed by the company have operations and maintenance (O&M) obligations within between 5-10 years. 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 being in line with its estimates. LCESPL faces stiff competition from established and much larger peers as well as several mid-size regional entities, which limits its pricing flexibility. The company is also exposed to sizeable contingent liabilities in the form of bank guarantees (~Rs. 780 crore as on September 30, 2024), 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.

LCESPL has completed share buyback of Rs. 175 crore in H1 FY2025. However, the same has been re-introduced in the company as an unsecured loan and is planned to be repaid from FY2026 onwards. This is estimated to result in TOL/TNW temporarily increasing to above 1.2 times in FY2025. Nevertheless, with sustained revenue growth, improved operating margin from FY2025 onwards and the resultant healthy accretion to reserve is expected to lead to TOL/TNW improving to below 1.2 times in the medium term. ICRA notes that the company has made an investment of Rs. 140 crore in non-core business in YTD

FY2025 and plans to further invest Rs. 60 crore in the rest of FY2025 and FY2026. Any notable increase in investments in non-core business and/or higher-than-expected dividend payout impacting the liquidity position materially, will remain a key rating monitorable.

The Stable outlook reflects ICRA's expectations that LCESPL will benefit from its strong order book position, along with its proven execution ability, which is likely to support its credit profile, backed by strong coverage metrics and liquidity profile.

## Key rating drivers and their description

### Credit strengths

**Strong order book position provides medium-term revenue visibility** – LCESPL has a strong order book position of ~Rs. 11,300 crore (including GST) as on September 30, 2024, which translates into OB/OI (based on FY2024 operating income) of 4.1 times, providing medium-term revenue visibility. In H1 FY2025, the order inflow has been relatively slow with order addition of only ~Rs. 650 crore due to the General Elections. However, with the elections now over, the order inflow is expected to improve in H2 FY2025, as reflected in order addition of ~Rs. 1,550 crore in October 2024. The company reported a significant increase in scale of operation in FY2024 (YoY growth of 83.8% and CAGR of 24% during FY2018 – FY2024). ICRA estimates LCESPL to report healthy revenue growth of ~15%-20% in FY2025, given the strong outstanding order book position.

**Healthy capital structure and strong coverage metrics** – Given the moderate cash conversion cycle (FY2024: 91 days), the company's reliance on external funds is low. This is reflected in LCESPL's healthy capital structure (TOL/TNW of 1.0 times as on March 31, 2024), strong coverage metrics (interest coverage of 16.8 times and DSCR of 19.4 times in FY2024) and strong liquidity position (free cash and investments of ~Rs. 400 crore as on October 30, 2024). It has completed a share buyback of Rs. 175 crore in H1 FY2025. However, the same has been re-introduced in the company as an unsecured loan and is planned to be repaid from FY2026 onwards. This is estimated to result in TOL/TNW temporarily increasing to above 1.2 times in FY2025. Nevertheless, with sustained revenue growth, improved operating margin from FY2025 onwards and the resultant healthy accretion to reserve is expected to result in TOL/TNW improving to below 1.2 times in the medium term.

**Established track record of promoters in executing water management projects** – 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

**Exposed to order book concentration risk** – LCESPL faces high segmental concentration with ~99% of the order book pertaining to water management projects (water supply, lift Irrigation and sewerage), and high geographical concentration with top three states accounting for ~78% (Madhya Pradesh alone accounts for 52% of the order book) of the order book as on September 30, 2024. While the geographical concentration supports optimal resource deployment, its impact on the company's revenues could be severe if the region of operations gets affected by unforeseen risks. It also faces high client concentration with top three customers constituting 59% of the order book as on September 30, 2024. Nevertheless, strong counterparty profile mitigates the risks to an extent. 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 and Rural Water Supply Department (NGRSD), Uttar Pradesh, Rural Water Supply and Sanitation department, Odisha (RWSS).

**Exposed to execution risk as 45% of order book is in nascent stages of execution** – LCESPL is exposed to execution risk, with ~45% projects, by value, in the nascent stages (less than 15% executed) of execution, exposing the company to inherent time and cost overrun risks. Although ~24% of orders are received over the last 6-8 months, the balance 21% comprises slow moving/stuck projects. Nonetheless, ICRA derives comfort from the established track record of timely execution by LCESPL and the receipt of timely extension for its various projects in the past.

**Heightened competition, input cost spike could exert pressure on profitability** – LCESPL faces stiff competition from established and much larger peers as well as several mid-size regional entities, which limits its pricing flexibility. The heightened competition, coupled with an increase in input cost, could exert pressure on LCESPL's profitability. The built-in price escalation clause in majority of the contracts protects the operating margin from raw material price fluctuation risk to some extent. The company is exposed to sizeable contingent liabilities (~Rs. 780 crore as on September 30, 2024), 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.

## Liquidity position: Strong

LCESPL's liquidity profile is strong, with free cash and investment of ~Rs. 400 crore as on October 30, 2024. The company has principal debt repayment obligation of Rs. 1.6 crore, moderate capex and investment plans of Rs. 150 crore in FY2025, which can be comfortably met from its cash flow from operations and existing cash balance. The average working capital (fund-based) utilisation against the drawing power for the last 12-month period ending in September 2024 remained low at 15%. The availability of sizeable free cash and investments and management guidance to maintain a free cash and cash equivalents of Rs. 350-400 crore at any point in time is expected to support the liquidity profile, going forward.

## 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 a comfortable debt coverage metrics and strong liquidity position.

**Negative factors** – The ratings may be downgraded if there is any slowdown in order execution impacting profitability and coverage metrics or if the 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 and/or dividend payouts, 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<br>Construction |
| **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, involved 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 a Class I civil contractor with various departments across various states. At present, it is operating in nine states namely Madhya Pradesh, Maharashtra, Odisha, Uttar Pradesh, Karnataka, Goa, Chhattisgarh, Gujarat and Jammu and Kashmir. It is executing work for various reputed government, semi-government and municipal authorities.

## Key financial indicators (audited)

| Standalone | FY2023 | FY2024 |
|---|---|---|
| Operating income (Rs. crore) | 1,290.0 | 2,370.5 |
| PAT (Rs. crore) | 147.3 | 251.9 |
| OPBDIT/OI | 13.3% | 7.4% |
| PAT/OI | 11.4% | 10.6% |
| Total outside liabilities/Tangible net worth (times) | 1.03 | 1.01 |
| Total debt/OPBDIT (times) | 0.1 | 0.1 |
| Interest coverage (times) | 18.2 | 16.8 |

*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

| | Current (FY2025) | | | | | Chronology of rating history for the past 3 years | | | | | |
|---|---|---|---|---|---|---|---|---|---|---|---|
| | FY2025 | | | | | FY2024 | | FY2023 | | FY2022 | |
| Instrument | Type | Amount Rated (Rs. crore) | 31-DEC-2024 | Date | Rating | Date | Rating | Date | Rating | Date | Rating |
| Long-term-cash credit-fund based | Long Term | 50.00 | [ICRA]A+ (Stable) | 24-MAY-2024 | [ICRA]A+ (Stable) | - | - | 07-FEB-2023 | [ICRA]A (Stable) | 24-DEC-2021 | [ICRA]A (Stable) |
| | | | | - | - | - | - | 01-MAR-2023 | [ICRA]A (Stable) | - | - |
| Long-term / short-term - others-non-fund based | Long Term/ Short Term | 1,300.00 | [ICRA]A+ (Stable)/ [ICRA]A1 | 24-MAY-2024 | [ICRA]A+ (Stable)/ [ICRA]A1 | - | - | 07-FEB-2023 | [ICRA]A (Stable)/ [ICRA]A1 | 24-DEC-2021 | [ICRA]A (Stable)/ [ICRA]A1 |
| | | | | - | - | - | - | 01-MAR-2023 | [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** | FY2024-25 | NA | NA | 50.00 | [ICRA]A+ (Stable) |
| **NA** | **Non-fund based limits** | FY2024-25 | NA | NA | 1,300.00 | [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 Tritech 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 |
| **JMC-LCESPL Joint venture** | 30% | Limited Consolidation |
| **Shah Doshi Services LLP** | 20% | Limited Consolidation |

*Source: LCESPL's annual report FY2024*

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## 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

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