

February 07, 2023

Laxmi Civil Engineering Services Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

| Instrument* | Previous Rated Amount (Rs. crore) | Current Rated Amount (Rs. crore) | Rating Action |
|--------------------------------|-----------------------------------|----------------------------------|---|
| Fund-based Limit (Cash Credit) | 50.00 | 50.00 | [ICRA]A (Stable); Reaffirmed |
| Non-fund-based Limits | 700.00 | 700.00 | [ICRA]A (Stable) / [ICRA]A1; Reaffirmed |
| Total | 750.00 | 750.00 | |

*Instrument details are provided in Annexure-I

Rationale

The reaffirmation of ratings of Laxmi Civil Engineering Services Pvt. Ltd. (LCESPL) factors in its healthy execution and revenue growth in FY2022 and 8M FY2023 and a sizeable orderbook (~Rs. 6,329 crore as on November 30, 2022), which provides a healthy medium-term revenue visibility. ICRA notes that LCESPL was awarded sizeable orders of Rs. 3,987 crore in 8M FY2023 and its outstanding order book translates into 5.4 times the operating income in FY2022. Even when adjusted for the slow-moving orders, the OB/OI is comfortable at 4.7 times. The ratings continue to reflect the company's experienced promoters, established track record in the water management infrastructure segment, along with its comfortable financial profile marked by low leverage (TOL/ TNW of 1.0 times as on March 31, 2022), healthy debt coverage metrics (interest coverage of 14.1 times in FY2022) and strong liquidity position (free cash and investments of Rs. 362 crore as on December 31, 2022).

The ratings are, however, constrained by moderately high execution risk, with ~65% projects (by value) in the nascent stages (0-10% executed). The ratings also factor in the customer concentration risk, with the largest customer accounting for 36% of the order book of which 28% is from a single project, though the counterparty is the Narmada Valley Development Authority. The ratings are also constrained by the geographic concentration (top-three states accounting for over 80% share) and segment concentration risks (~96% orders pertain to water management projects) of the order book as on November 30, 2022. Any delay in receipt of requisite approvals for these projects could affect the billing. The company 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 has defect liability period, generally in the range of three to five years, wherein O&M obligations are also the responsibility of the EPC entity i.e., LCESPL. In case of any inadequate provisions with respect to these obligations, there could be impact on the future operating margins. However, the company has adequate liquidity to take care of such contingencies. 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.

The Stable outlook reflects ICRA's expectations that LCESPL will continue to witness healthy billings and collections, while maintaining a strong liquidity profile. The leverage level of the company is expected to remain comfortable, going forward.

Key rating drivers and their description

Credit Strengths

Healthy order book provides revenue visibility – The company was awarded new projects, aggregating Rs. 3,987 crore in 8M FY2023, and as a result it had an outstanding order book of Rs. 6,328.9 crore as on November 30, 2022 (up from Rs. 2,958 crore in June 2021). This translates into OB/OI of FY2022 of 5.4 times, up from 3.3 times FY2021 OI in June 2021. The order

book is executable over an average period of 24 to 36 months, providing healthy revenue visibility in the medium term. The ongoing projects are spread across eight Indian states, viz., Madhya Pradesh, Maharashtra, Karnataka, Gujarat, Chhattisgarh, Odisha, Uttar Pradesh, and Goa and are from different state government agencies.

Comfortable financial risk profile with low leverage and healthy coverage metrics – The financial risk profile of LCESPL remains comfortable. With the policy of ploughing back profits, the company's reliance on outside fund is very low and coverage indicators remain at healthy levels, evident from TD/OBITDA and interest cover at 0.3 times and 14.1 times, respectively, as on March 31, 2022. It is further supported by a strong liquidity position.

Established track record of promoters in executing water management projects for Government and semi-Government agencies - 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 in nine states (Maharashtra, Karnataka, Goa, Chhattisgarh, Madhya Pradesh, Kerala, Uttar Pradesh, Bihar, and Gujarat).

Credit Challenges

High customer, geographic and segment 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 book addition in the water and waste-water segments (viz. irrigation, sewerage, water supply), this segment formed ~96% of the unexecuted order book as on November 30, 2022. With addition of Odisha and Uttar Pradesh, LCESPL now operates in around eight states, increasing its geographical diversification. However, the top-three states continue to contribute over 80% of the order book. However, the management has indicated that the concentration is primarily attributable to the fact that the company bids for projects only in states where the funding tie-up is available from various authorities. With few large orders from the Narmada Valley Development Authority and Rural Water Supply and Sanitation, the client concentration risk remains high as 60% of the unexecuted order book is from top-three customers.

Moderately high execution risk - With major orders being awarded in the last six months, 65% of the order book is in the nascent stage where execution is less than 10%, exposing the company to moderately high execution risk. LCESPL remains exposed to risks associated with delays in these projects. Any delay in receipt of requisite approvals for these projects could affect the billing and revenue.

Liquidity Position: Strong

The company's liquidity profile is expected to remain strong, with steady cash accruals and supported by free cash balances of around Rs. 46 crore as on December 31, 2022 and undrawn FB working capital limits of Rs. 31 crore (average utilisation was 31% of the drawing power for the 12-month ended November 2022). Moreover, LCESPL had investments of ~Rs. 300 crore deployed across equity and hybrid mutual funds. ICRA takes note of the management guidance of deploying surplus cash and liquid investment towards debt mutual fund, going forward. Given its marginal capex funding requirements and minimal long-term debt repayment obligations, the liquidity position is expected to remain strong.

Rating sensitivities

Positive factors – The ratings may be upgraded, if there is any substantial increase in scale of operations and profitability, coupled with improved geographical and project diversification.

Negative factors – The ratings may be downgraded, if there is any slowdown in order execution or if liquidity is significantly impacted by any change in the cash conversion cycle. A specific credit metric for a downgrade is if TOL/TNW is above 1.5 times, on a sustained basis.

Analytical approach

| Analytical Approach | Comments |
|---------------------------------|---|
| Applicable Rating Methodologies | Corporate Credit Rating Methodology Rating Methodology for 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 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 2. |

About the company

Founded in 1980 by Mr. Vijay kumar Shah and his nephew, Mr. Rajendra Doshi, as a partnership firm, LCESPL was incorporated in 2000. LCESPL is a construction company based in Kolhapur, Maharashtra. It undertakes developmental work in various areas such as process design, installation, civil constructions, commissioning and operations and maintenance (O&M) services in lift irrigation schemes, water supply schemes, sewerage treatment and distribution, among others.

Key financial indicators (audited)

| | FY2021 | FY2022 |
|--|--------|--------|
| Operating income (Rs. crore) | 901.9 | 1176.3 |
| PAT (Rs. crore) | 96.2 | 106.8 |
| OPBDIT/OI (%) | 10.1% | 9.5% |
| PAT/OI (%) | 10.7% | 9.1% |
| Total outside liabilities/Tangible net worth (times) | 1.2 | 1.0 |
| Total debt/OPBDIT (times) | 0.3 | 0.3 |
| Interest coverage (times) | 11.7 | 14.1 |

Source: ICRA Research; 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 Rating (FY2023) | | | Chronology of Rating History for the Past 3 Years | | | |
|------------|--------------------------|-------|-------------------------|-----------------------------|--|---|-----------------------------|-----------------------------|-------------------------------|
| | | | Type | Amount Rated (Rs. crore) | Amount Outstanding as on Dec 31, 2022 (Rs. crore) | Date & Rating on | Date & Rating in FY2022 | Date & Rating in FY2021 | Date & Rating in FY2020 |
| | | | | | | Feb 7, 2023 | Dec 24, 2021 | Oct 29, 2020 | Jul 11, 2019 |
| 1 | Fund-based (Cash Credit) | Limit | Long-term | 50.0 | 18.21 | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A (Stable) | [ICRA]A-(Stable) |
| 2 | Non-fund-based Limits | | Long-term/short term | 700.0 | 472.84 | [ICRA]A (Stable) / [ICRA]A1 | [ICRA]A (Stable) / [ICRA]A1 | [ICRA]A (Stable) / [ICRA]A1 | [ICRA]A- (Stable) / [ICRA]A2+ |
| 3 | Unallocated | | Long-term/short term | 0.0 | - | - | - | [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 / Sanction | Coupon Rate | Maturity Date | Amount Rated (Rs. crore) | Current Outlook | Rating and |
|------|-------------------------|--------------------------------|----------------|------------------|--------------------------------|----------------------------|---------------|
| NA | Fund based- cash credit | NA | NA | NA | 50.0 | [ICRA]A (Stable) | |
| NA | Non-fund-based Limits | NA | NA | NA | 700.0 | [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: LCEPL annual report FY2022

ANALYST CONTACTS

Rajeshwar Burla

+91 40 4067 6527

rajeshwar.burla@icraindia.com

Ashish Modani

+91 20 6606 9912

ashish.modani@icraindia.com

Ritu Goswami

+91 124 4545826

ritu.goswami@icraindia.com

Ritik Sundarka

+91 124 6606 9911

Ritik.sundarka@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@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



© Copyright, 2023 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents.