

June 19, 2023

Kaveri Infraprojects Private Limited: [ICRA]BBB-(Stable)/[ICRA]A3 assigned

Summary of rating action

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

*Instrument details are provided in Annexure I

Rationale

The assigned ratings favourably factor in Kaveri Infraprojects Private Limited's (Kaveri) healthy increase in scale of operations in the past two years, to Rs. 123 crore in FY2023 from Rs. 47.9 crore in FY2021, which is likely to sustain over the medium term on the back of strong order book position. The company had an outstanding order book of Rs. 790.39 crore as on March 31, 2023, translating into 6.42 times of FY2023 OI, providing medium-term revenue visibility. Further, the ratings factor in the moderate financial risk profile with interest coverage of 5.1 times for FY2023 and TOL/TNW of 1.2 times as on March 31, 2023, which is expected to continue owing to low debt levels. ICRA takes note of Kaveri's established track record in executing rural water supply works.

The ratings are, however, constrained by sizeable share (~62%) of the order book in the nascent stages of development (<5% executed), which exposes it to the execution risk. ICRA notes that majority of these orders were awarded in FY2023 and, hence, the company's ability to significantly ramp up its operations, remain crucial for its revenues. The liquidity position has remained moderate, with high average utilisation of 86% in the past 12 months ending March 2023. Further, the company has high exposure to counterparty risk as the client profile primarily comprises various state government departments, and therefore, the company's ability to realise the funds and secure enhancement in working capital limits in a timely manner, will be crucial for managing its working capital requirements. The ratings are also constrained by high segment concentration risk, as water supply scheme projects constitute the entire order book. Further, the operating margins were moderate, at 8.5-8.7% in the past two years, owing to high competition and limited value addition. The ratings consider the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from Kaveri's execution track record and absence of invocation of guarantees in the past.

The Stable outlook reflects ICRA's opinion that Kaveri will be able to sustain the revenue growth, aided by its order book position and timely receipt of payments.

Key rating drivers and their description

Credit strengths

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

Healthy revenue growth and order book – Kaveri's revenues witnessed a healthy growth in the past two years, to Rs. 123 crore in FY2023 from Rs. 47.9 crore in FY2021, and the growth is expected to continue in the medium term on the back of a strong order book position. The company had an outstanding order of Rs. 790.39 crore as on March 31, 2023, translating into

6.42 times of FY2023 operating income, providing medium-term revenue visibility. The company has received two orders recently in June 2023, which cumulatively amounts to Rs. 88.3 crore in Uttar Pradesh and Maharashtra , further strengthening the orderbook position.

Moderate financial risk profile – The company’s leverage was moderate with TOL/TNW 1.2 times as on March 31, 2023, owing to sizeable payables to sub-contractors. The coverage indicators are satisfactory with interest coverage ratio of 5.1 times in FY2023 owing to low debt levels. The interest cover is expected to remain at similar level, going forward.

Credit challenges

Exposed to execution risk - Around 62% of the order book is in the initial stages of execution (<5% of progress) as on March 31, 2023, and therefore, the company’s ability to significantly ramp up its operations remain crucial to complete its projects in a timely manner.

Modest liquidity position – The liquidity position is modest, with high average utilisation of 86% in the past 12 months ending March 2023. Further, the company has high exposure to counterparty risk as the client profile primarily comprises various state government departments, and therefore, the company’s ability to realise the funds and secure enhancement in working capital limits in a timely manner, will be crucial for managing its working capital requirements.

High sectoral concentration – The company is exposed to high segmental concentration as water supply scheme projects accounted for the entire order book as on March 31, 2023. However, the order book is geographically diversified with orders from four states, which together account for more than 90% of the outstanding order book.

Competitive business environment to keep margins under check – The operating margins remained moderate at 8.5-8.7% in the past two years, as the segment is characterised by high competition and limited value addition. Further, the operating margins are exposed to volatility in raw material prices.

Liquidity position: Adequate

The company’s liquidity position is adequate, with average utilisation of working capital limits at around 86% in the past 12 months ending March 2023. Further, low capex plans and timely receipt of payments from its customers are expected to support its liquidity position in the near term.

Rating sensitivities

Positive factors – ICRA may upgrade the company’s ratings, if the company is able to increase its scale of operations along with improvement in operating margins, resulting in an improved liquidity and net worth position, on a sustained basis.

Negative factors – ICRA could downgrade the ratings, if there is any slowdown in order execution or delay in payments resulting in deterioration of profitability margins and its liquidity position, on a sustained basis, or any delay in the enhancement of the non-fund-based facilities that would affect the order execution. Specific triggers for a downgrade include interest coverage ratio decreasing to less than 3 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	Standalone

About the company

Kaveri Infraprojects Pvt. Ltd. (Kaveri) was founded as a partnership firm in 1998 at Warangal (Telangana) as manufacturers of High-Density Polyethylene (HDPE) pipes used in water supply systems in both the private and Government sectors. 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.

Key financial indicators

	FY2022	FY2023*
Operating income (Rs. crore)	82.3	123.0
PAT (Rs. crore)	3.7	8.1
OPBDIT/OI (%)	8.5%	8.7%
PAT/OI (%)	4.5%	6.6%
Total outside liabilities/Tangible net worth (times)	1.4	1.2
Total debt/OPBDIT (times)	0.7	1.2
Interest coverage (times)	4.2	5.1

PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation; *provisional

Source: Annual report

Status of non-cooperation with previous CRA: Not Applicable

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 May 31, 2023 (Rs. crore)	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021	Date & Rating in FY2020
					June 19, 2023			
1	Fund-based facilities	Long term	30.00	NA	[ICRA]BBB-(Stable)	-	-	-
2	Non-fund Based facilities	Long term/short term	120.00	NA	[ICRA]BBB-(Stable)/[ICRA]A3	-	-	-

Note: Amount in Rs. crore

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](https://www.icra.in)

Annexure I: Instrument details

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