

May 25, 2017

## T.K. Engineering Consortium Pvt. Ltd.

### Summary of rated instruments

Instrument	Amount rated	Rating Action
Fund Based Limits – Cash Credit	Rs. 28.00 crore (revised from Rs. 30.00 crore)	[ICRA]BBB+ (Positive) reaffirmed
Non-Fund Based Facilities – Bank Guarantee	Rs. 232.00 crore (revised from Rs. 250.00 crore)	[ICRA]BBB+ (Positive) / [ICRA] A2 reaffirmed
Unallocated Limits	Rs. 20.00 crore (earlier nil)	[ICRA]BBB+ (Positive) / [ICRA] A2 reaffirmed

### Rating action

ICRA has reaffirmed the long-term rating of [ICRA]BBB+ (pronounced ICRA triple B plus) assigned to the Rs. 28.00 crore<sup>1</sup> (reduced from Rs. 30 crore) cash-credit limits and Rs. 232.00 crore (reduced from Rs. 250 crore) bank-guarantee limits of T.K. Engineering Consortium Private Limited (TKECPL). The long-term rating of [ICRA]BBB+ has also been reaffirmed to the unallocated limits of Rs. 20 crore. The outlook on the long-term rating has been revised to ‘Positive’ from ‘Stable’. The Rs. 232.00 crore bank guarantee limits and the Rs. 20.00 crore unallocated limits have also been rated on the short-term scale, for which ICRA has reaffirmed/assigned the rating at [ICRA]A2 (pronounced ICRA A two).

### Rationale

The rating action takes into account the increased scale of operations of the company and its transition from being mainly a sub-contractor to taking direct orders in its own name. Given the company’s healthy outstanding order book position at present, the revenue visibility remains high over the medium term as well. The ratings continue to factor in TKECPL’s comfortable financial profile with a favourable capital structure and healthy debt-coverage indicators. The established track record of the company and experience of promoters in the infrastructure and construction businesses, particularly in Arunachal Pradesh, also has a favourable impact on the ratings. ICRA also notes the favourable prospects for new project awards, given the Government’s thrust on infrastructure spending. The ratings, however, continue to be constrained by TKECPL’s exposure to project-concentration risks, with two orders comprising around 50% of the outstanding order book. One of these large orders is on hold at present, which further enhances the risks. With most projects pertaining to highway construction in Arunachal Pradesh, high sectoral and geographical concentration risks also exist. The company operates in a highly competitive business environment, which, coupled with a tender-based contract-awarding system, tends to keep operating margins under check. Moreover, ICRA notes that the considerable cash margin/collateral required against issuance of bank guarantees led to high utilisation of working-capital limits. Going forward, the company’s ability to execute its existing order book, including the large order that is on hold at present, in a timely manner and obtain new moving orders while maintaining adequate liquidity would remain key rating sensitivities.

<sup>1</sup> 100 lakh = 1 crore = 10 million

## Key rating drivers

### Credit strengths

- Increased scale of operations
- Comfortable financial profile
- Experience of the promoters in the infrastructure and construction businesses
- Favourable prospects for new project awards

### Credit weaknesses

- Significant project concentration; one of these large orders is on hold at present
- Considerable margin requirement for bank guarantees and high utilisation of working capital limits
- High sectoral and geographical concentration risks
- Highly competitive business environment keeps margins under check

### Description of key rating drivers highlighted above:

T.K. Engineering Consortium Pvt. Ltd. (TKECPL) was established in February, 2008 and is promoted by the Techhi family based in Arunachal Pradesh. The Techhi family has been involved in the road-construction sector for over two decades through a group entity, T.K. Engineering Enterprises Private Limited. TKECPL itself has also developed expertise in road-construction projects, with a track record of successful completion of jobs. Till FY2015, TKECPL was executing contracts solely under sub-contract/joint venture basis. Post FY2015, the company has been focusing on securing direct contracts, which resulted in a considerable increase in its scale of operations. The current outstanding order book indicates a trailing book-to-bill ratio of around 5.5 times of FY2016 revenues. With the orders having an average tenure of 2-3 years, revenue visibility over the medium term remains high. However, ICRA notes that significant project concentration risks exist, with two large orders comprising over 50% of the outstanding order book. One of these orders is on hold at present due to issues related to land acquisition, which further enhances the risks. Moreover, with most projects pertaining to highway construction in Arunachal Pradesh, high sectoral and geographical concentration risks also exist. Nonetheless, ICRA notes that the outlook for the road infrastructure segment remains favourable at present, given the healthy planned Government outlay for infrastructure projects in the North-East, which mitigates the sectoral and geographical concentration risks to some extent.

While TKECPL's overall financial profile remains comfortable with a favourable capital structure and healthy debt-coverage indicators, aggressive bidding by a large number of players for the tender-based government contracts keeps profit margins of all the players in this line of business under check. Moreover, utilisation of working capital limits remains high, primarily due to significant level of cash margin and cash collateral required by TKECPL's bankers against issuance of BGs. Going forward, the ability of the company to execute its existing order book, including the large order that is on hold at present, in a timely manner and obtain new moving orders while maintaining adequate liquidity would remain key rating sensitivities.

### Links to applicable criteria

Rating Methodology for Construction Entities

### About the company:

T.K. Engineering Consortium Pvt. Ltd. (TKECPL) was established in February, 2008 and is promoted by the Techhi family, based in Arunachal Pradesh. The company started commercial operations in June, 2012 and has been primarily involved in the construction of roads and highways in Arunachal Pradesh and Assam. The company is registered as a Class – 1A contractor with the Public Works Department (PWD), Assam. TKECPL operates through its registered office in Nahar Lagun, Arunachal Pradesh.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating history for last three years:**

**Table: Rating history**

S.No.	Name of Instrument	Current Rating			Chronology of Rating History for the past 3 years			
		Type	Rated amount (Rs. Crores)	Month-year & Rating	Month- year & Rating in FY2016		Month- year & Rating in FY2014	Month- year & Rating in FY2013
				May 2017	March 2016	June 2015	March 2014	NA
1	Fund Based Limit – Term Loan (Proposed)	Long Term	NA	NA	NA	NA	[ICRA]BBB-(Stable)	NA
2	Fund Based Limit – Cash Credit	Long Term	28.00	[ICRA]BBB+ (Positive)	[ICRA]BBB+ (Stable)	[ICRA]BBB+ (Stable)	[ICRA]BBB-(Stable)	NA
3	Non-Fund Based Limit – Bank Guarantee	Long Term/Short Term	232.00	[ICRA]BBB+ (Positive) / [ICRA] A2	[ICRA]BBB+ (Stable) / [ICRA] A2	[ICRA]BBB+ (Stable) / [ICRA] A2	[ICRA] A3	NA
4	Unallocated	Long Term/Short Term	20.00	[ICRA]BBB+ (Positive) / [ICRA] A2	NA	NA	NA	NA

**Complexity level of the rated instrument:**

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [www.icra.in](http://www.icra.in)

**Annexure-1**  
**Details of Instrument**

<b>Name of the instrument</b>	<b>Date of issuance</b>	<b>Coupon rate</b>	<b>Maturity Date</b>	<b>Size of the issue (Rs. Cr)</b>	<b>Current Rating and Outlook</b>
Fund Based Limit – Cash Credit	-	-	-	28.00	[ICRA]BBB+ (Positive)
Non-Fund Based Limit – Bank Guarantee	-	-	-	232.00	[ICRA]BBB+ (Positive) / [ICRA] A2
Unallocated	-	-	-	20.00	[ICRA]BBB+ (Positive) / [ICRA] A2

Source: TKECPL



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