December 08, 2017

Liya Infratech Pvt. Ltd.

Summary of rated instruments

Instruments*	Amount Rated (Rs. crore)	Rating Action
Long-term – Cash Credit	20.00	[ICRA]BB (Stable); reaffirmed
Long-term – Term Loans	1.00	[ICRA]BB (Stable); reaffirmed
Short-term – Bank Guarantee	5.00	[ICRA]A4; reaffirmed
Total	**26.00**	

**Instrument details are provided in Annexure-1*

Rating action

ICRA has reaffirmed the long-term rating at [ICRA]BB (pronounced as ICRA double B)[1] assigned to the Rs. 20.00-crore[2] cash credit facilities and the Rs. 1.00-crore term loans of Liya Infratech Pvt Ltd (LIPL). ICRA has also reaffirmed the short-term rating at [ICRA]A4 (pronounced as ICRA A four) assigned to the Rs. 5.0-crore non-fund based bank guarantee facility of LIPL. The outlook on the long-term rating is Stable.

Rationale

The reaffirmation in the ratings take into account of the long presence of the promoters in the road construction and other civil construction business, timely completion of the projects in the past and healthy relationship that the promoters have built over the years with the government agencies that support the growth prospects. The ratings also factor in the "Class 1 Contractor" status of the company for public works department (PWD), Karnataka, which enables it to bid for large government contractors in the state of Karnataka. The ratings are, however, constrained by the moderate financial profile of the company marked moderate gearing and coverage indicators and the high working capital intensive nature of business owing to delayed verification and clearance from the government agencies, in turn, adversely impacting the liquidity position of the company and resulting in high utilisation of the working capital limits. Further, the ratings accounts for the moderate outstanding order book position of Rs. 30.93 crore as on October 31, 2017 which is 0.66 times the operating income of FY2017 resulting in limited revenue visibility in near term. The ratings are also constrained by the small scale of operations that limit operational and financial flexibility to an extent. The ratings also factor the high sector concentration and high geographic concentration risks with orders primarily consisting of irrigation and road work in Karnataka. The ratings also consider the major dependency of order flow on tender based contract award system, which exposes the company to intense competition and consequently keeps the margins under check. Going forward, the ability of the company to secure further orders, and improve its scale of operations and margins while effectively managing its working capital requirements would be the key rating sensitivities.

[1] *100 lakh = 1 crore = 10 million*

[2] *For complete rating scale and definitions, please refer to ICRA's website www.icra.in or other ICRA Rating Publications*

Key rating drivers

Credit strengths

- **Long experience of the promoters in the civil-construction business –** LIPL was established by Mr S Abdul Khader and his family members in 2010 to execute civil work. The promoters have more than two decades of experience in executing work such as irrigation canals, roads, buildings, etc.
- **Established relationship with major customers –** Timely execution of projects and established relationship with Government agencies like Karnataka Industrial Areas Development Board (KIADB), Karnataka State Small Industries Development Corporation (KSSIDC) and Bangalore Development Authority (BDA) among others, support growth prospects.

Credit weaknesses

- **Modest scale of operations resulting in limited economies of scale -** The company has modest scale of operations restricting operational and financial flexibility to an extent. Further the revenues have declined by 12% from Rs. 52.5 crore in FY2016 to Rs. 46.4 crore in FY2017.
- **Moderate financial risk profile –** LIPL's financial profile is characterised by moderate leverage and coverage metrics with gearing of 1.4 times as on March 31, 2017, interest coverage ratio of 1.8 times and NCA/Debt of 13.4% for FY2017. The working capital intensive nature of business impact the liquidity position of the company and result in high utilisation of the working capital limits, and high debt levels.
- **Moderate order-book position –** The company's order-book position of Rs. 30.93 crore (0.66 times of FY2017 revenues) as on October 31, 2017, provides limited revenue visibility in the near term. However, the company is expected to secure new projects in the near future that would enhance revenue visibility going forward.
- **High geographic concentration risk –** LIPL's operations are restricted to Karnataka with no plans to diversify in the immediate future. Orders are executed mainly in the irrigation and road segments of civil contracts, which coupled with geographic concentration, exposes the company to revenue volatility and margin pressure in case of slowdown in budgetary allocations or tenders floated by the clients in these segments.
- **High degree of competition from other players** –The company faces tough competition in the construction space with tender-based contract award system, resulting in pressure on margins.

Analytical approach: For arriving at the ratings, ICRA has applied its rating methodologies as indicated below.

Links to applicable criteria

Corporate Credit Rating Methodology
Rating Methodology for Construction Entities

About the company:

LIPL was incorporated in the year 2010 by Mr S Abdul Khader and Mrs Hafeeza Khathijamma for executing civil construction works such as roads and earth works under sub-contract and direct contract basis. On August 02, 2011, LIPL acquired proprietorship concern M/s. S. Abdul Khader (SAK) which was into civil works business from 1994. The company is presently executing road construction and other civil construction projects in Karnataka. The company undertakes projects for government departments such as Karnataka Industrial Areas Development Board (KIADB), Karnataka State Small Industries Development Corporation (KSSIDC) and Bangalore Development Authority (BDA) among others.

The company reported a net profit of Rs. 1.5 crore on an operating income of Rs. 46.4 crore in FY2017 compared to a net profit of Rs. 1.8 crore on an operating income of Rs. 52.5 crore in the previous year.

Key financial indicators

	FY2016	FY2017
Operating Income (Rs. crore)	52.5	46.4
PAT (Rs. crore)	1.8	1.5
OPBDIT/ OI (%)	14.1%	14.2%
RoCE (%)	17.4%	15.6%
Total Debt/ TNW (times)	1.7	1.4
Total Debt/ OPBDIT (times)	3.2	3.5
Interest Coverage (times)	2.2	1.8
NWC/ OI (%)	41.6%	50.1%

OI: Operating Income; PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation; ROCE: PBIT/Avg (Total Debt + Tangible Net-Worth + Deferred Tax Liability - Capital Work - in Progress);
NWC: Net Working Capital,

Status of non-cooperation with previous CRA: Not applicable.

Any other information: Not applicable**.**

Rating history for the last three years:
Table:

S. No.	Instrument	Current Rating			Chronology of Rating History for the past 3 years		
		Type	Rated amount (Rs. Crore)	Month - year & rating	Month - year & Rating in FY2017	Month - year & Rating in FY2016	Month - year & Rating in FY2015
1	Cash Credit	December, 2017			February 2017	October 2015	March 2015
		Long Term	20.00	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-
2	Term Loan	Long Term	1.00	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	-
3	Bank Guarantee	Short Term	5.00	[ICRA]A4	[ICRA]A4	[ICRA]A4	-

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

Annexure-1

Instrument Details

Instrument	Date of issuance	Coupon rate	Maturity Date	Amount Rated (Rs. Cr)	Current Rating and Outlook
Cash Credit	-	-	-	20.00	[ICRA]BB (Stable)
Term Loan	-	-	FY2021	1.00	[ICRA]BB (Stable)
Bank Guarantee	-	-	-	5.00	[ICRA]A4

Source: LIPL

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