Liya Infratech Private Limited

November 13, 2018

Summary of rated instruments

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash credit	20.00	20.00	[ICRA]BB(Stable) reaffirmed
Term loan	1.00	1.00	[ICRA]BB(Stable) reaffirmed
Non fund based	5.00	5.00	[ICRA]A4 reaffirmed
Total	**26.00**	**26.00**	

Rating action

ICRA has reaffirmed the long-term rating assigned to the Rs 20.00 crore cash credit limits and Rs. 1.00 crore term loan of Liya Infratech Private Limited (LIPL) at [ICRA]BB (pronounced as ICRA double B) and reaffirmed the short term rating assigned to the Rs. 5.00 crore bank guarantee limits of LIPL at [ICRA]A4 (pronounced as ICRA A four). The outlook on the long-term rating is 'Stable'.

Rationale

The ratings reaffirmation is constrained by tight liquidity position of the company as reflected by high average utilisation of working capital limits at 96% in the past 12 months owing to high inventory and debtor days; small scale of operations of the company with revenues of Rs. 55.72 crore for FY2018; and decline in operating margins to 12.34% in FY2018 from 15.37% in FY2017 on account of increase in raw material prices. The ratings are also constrained by high sector and geographic concentration risks with orders primarily consisting of industrial development projects and road works in Karnataka respectively; and order flow dependent on tender based contract award system, which exposes the margins to intense competition. The ratings however favourably factor in increase in revenues by 18% in FY2018 to Rs 55.72 crore from Rs. 47.07 crore in FY2017 on account of improved order execution for Karnataka State Small Industries Development Corporation (KSSIDC) in Shimoga and Harihara; and strong order book of Rs 119.13 crore (2.13 times the FY2018 revenue) as on November 5, 2018 providing revenue visibility. The ratings also consider longpresence of the promoters in the civil construction business; and "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.

Outlook: Stable

The stable outlook reflects ICRA belief that LIPL will continue to benefit from the extensive experience of its promoters in the civil construction business. The outlook may be revised to 'Positive' if substantial growth in revenues along with improvement in profitability and liquidity position of the company. The outlook may be revised to 'Negative' if order execution slows down or a higher than expected capital expenditure is incurred, or the liquidity weakens.

Key rating drivers

Credit strengths

Experienced promoters in the civil construction business: LIPL was established by Mr S Abdul Khader and his family members in 2010 to execute civil works. The promoters have more than two decades of experience in executing work such as irrigation canals, roads, buildings, etc. On August 02, 2011, LIPL acquired proprietorship concern M/s. S. Abdul Khader (SAK) which was into civil works business from 1994.

Increased operating income in FY2018 due to improved order execution: The operating income of the company increased by 18% in FY2018 to Rs 55.72 crore from Rs. 47.07 crore in FY2017 on account of improved order execution for KSSIDC in Shimoga and Harihara.

Strong orderbook of Rs 119.13 crore as on November 5, 2018: The company has orderbook of Rs. 119.13 crore as on November 5, 2018. The pending order book size is 2.13 times FY2018 revenue leading to medium term revenue visibility. The largest order is from Karnataka PWD department at Rs. 62.83 crore for construction of six lane road in Surathkal - Kabaka in Mangalore Taluk, Dakshina Surathkal followed by orders from Krishna Bhagya Jala Nigam Ltd (KBJNL) and Karnataka State Small Industries Development Corporation (KSSIDC).

Credit challenges

Stretched liquidity position of the company: The average working capital limit utilisation remained high at 96% during September 2017 to September 2018 owing to high inventory days. The inventory days are high at 143 days in FY2018 owing to milestone-based billing in projects. Also, debtor days are higher in FY2018 on account of Rs. 5.47 crore receivable from KSSIDC for the Shimoga project which was billed in Q4 of FY2018. Further, the company has invested Rs. 2.10 crore in its group company Mangalore Sea Products deteriorating the liquidity position of LIPL.

Modest scale of operations with revenues at Rs. 55.72 crore in FY2018: The company has modest scale of operations restricting operational and financial flexibility to an extent. The major customers in FY2018 are KIADB and KSSIDC. KIADB projects are for laying roads and KSSIDC projects are for development of industrial estates. Development of industrial estate involves construction of industrial sheds of various dimensions and providing them with essential amenities such as roads, water supply, sewerage line and electricity.

Drop in operating margin in FY2018: The operating margin of the company decreased to 12.34% in FY2018 from 15.37% in FY2017 on account of increase in raw material costs. The major raw materials used by the company are steel and cement which together account for around 65% of operating costs. However, net profits are higher on account of increase in non-operating income from sale of office building in FY2018.

High sectoral and geographic concentration: LIPL operations are restricted to Karnataka and orders are executed mainly in the irrigation and road segments resulting in high geographic concentration risk and sectoral concentration risk respectively. Further, the revenues and margins are exposed to slowdown in budgetary allocations or tenders floated by the clients.

Risks associated with tender based businesses in terms of margins, order addition and project completion: Tender based contract awarding system for government contracts coupled with the industry being highly fragmented and competitive, keep the margins under check for players like LIPL.

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 2010 by Mr S Abdul Khader and Mrs Hafeeza Khathijamma for executing civil construction works such as roads and earth works. 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 Class -1A PWD contractor for Karnataka. 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 and Karnataka State Small Industries Development Corporation among others.

Key financial indicators

	FY2016	FY2017	FY2018(Provisional)
Operating Income (Rs. crore)	52.54	47.07	55.72
PAT (Rs. crore)	1.79	1.45	2.04
OPBDIT/ OI (%)	14.13%	15.37%	12.34%
RoCE (%)	17.44%	15.69%	16.07%
Total Debt/ TNW (times)	1.63	1.41	1.18
Total Debt/ OPBDIT (times)	3.20	3.17	3.16
Interest coverage (times)	2.18	1.98	2.06

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

		Current Rating (FY2019)				Chronology of Rating History for the past 3 years		
	Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs Crore)	Date & Rating Nov 2018	Date & Rating in FY2018 Dec 2017	Date & Rating in FY2017 Feb 2017	Date & Rating in FY2016 Oct 2015
1	Cash credit	Long Term	20.00	-	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
2	Term loan	Long Term	1.00	1.00	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable)
3	Bank Guarantee	Short Term	5.00	-	[ICRA]A4	[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

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash credit	-	-	-	20.00	[ICRA]BB (Stable)
NA	Bank Guarantee	-	-	-	5.00	[ICRA]A4
NA	Term loan	Oct 2018	-	March 2020	1.00	[ICRA]BB (Stable)

Source: LIPL

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About ICRA Limited:

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