

Spica Projects And Infrastructures Pvt. Ltd.

November 20, 2018

Summary of rated instruments

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based - Cash Credit	4.87	[ICRA]BB (Stable); Assigned
Fund-based - Term Loan (Equipment Finance)	0.57	[ICRA]BB (Stable); Assigned
Non-fund Based- Bank Guarantee	28.85	[ICRA]BB (Stable)/ [ICRA]A4+; Assigned
Total	34.29	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long-term rating of [ICRA]BB (pronounced ICRA double B) to the Rs. 4.87-crore¹ cash credit and Rs. 0.57-crore term loan of Spica Projects And Infrastructures Pvt. Ltd. (SPIPL)². ICRA has also assigned a short-term rating of [ICRA]A4+ (pronounced ICRA A four plus) to the Rs. 28.85-crore non-fund based bank facility of SPIPL. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings favourably factor in the significant experience of the promoters spanning over 20 years in road construction business and the company's established track record as a Class-I contractor with the Public Works Department (PWD), Jharkhand. ICRA also notes the presence of price variation clause in all the contracts having execution period of more than 12 months, which mitigates the risk associated with fluctuation in input costs to an extent. The ratings also draw comfort from the company's conservative capital structure and comfortable debt coverage metrics as well as sizeable orders received by the company in the recent past, which provide revenue visibility in the near to medium term.

The ratings are, however, constrained by stiff competition in the road-construction business due to a large number of players and a tender-based order-awarding system, which exerts pressure on margins, as well as SPIPL's high client and geographical concentration risks as its revenue is contributed by a few government departments in Jharkhand. The company's scale of operations stands at a modest level at present. In ICRA's opinion, SPIPL's ability to scale up its operations by securing sizeable fresh orders and timely execution of the same would be the key rating sensitivities, going forward.

Outlook: Stable

The Stable outlook reflects ICRA's expectation that SPIPL will continue to benefit from the promoters' experience and the company's established position in the road construction business in Jharkhand. The outlook may be revised to Positive in case of a substantial increase in the company's scale of operations, backed by significant fresh order booking and timely execution of the same, improved profitability and cash accruals. The outlook may be revised to Negative if revenues and cash accruals are lower than expected, or if a stretch in working capital cycle exerts pressure on the company's liquidity.

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 and the company's established track record as Class-I contractor with PWD (Jharkhand)- SPIPL's promoters have over two decades of experience in road construction business. SPIPL is registered as a Class-I contractor with PWD, Jharkhand mainly for construction and maintenance of roads, which enable it to participate in tenders of relatively large-value contracts, subject to fulfillment of the pre-bid qualifications.

Presence of price variation clause in most of the contracts- Any significant increase in the input costs during the execution period may adversely impact SPIPL's profitability. However, such risks are mitigated to an extent by the presence of price-variation clauses in the contracts having execution period of more than 12 months. Such contracts account for a major part of the order book.

Conservative capital structure and comfortable debt coverage metrics- The company's limited borrowing led to a low gearing of 0.40 times as on March 31, 2018 despite a moderate level of net worth. Its debt coverage indicators also remained comfortable, as reflected by an interest coverage of 4.85 times (3.16 times in FY2017), net cash accrual relative to total debt of 58% (44% in FY2017) and total debt relative to OPBDITA of 1.24 times (1.80 times in FY2017) in FY2018.

Sizeable fresh orders received in recent past provide revenue visibility in the near to medium term- The company had an outstanding order book of around Rs. 121 crore as on June 30, 2018, which includes two fresh orders of around Rs. 92 crore secured in the current fiscal. This comfortable order book position of 2.1 times of FY2018 turnover provides revenue visibility in the near to medium term.

Credit Challenges

Competitive nature of the construction business and a tender-based order-awarding system- The contracts are awarded by the respective government departments to the lowest (L-1) bidder. SPIPL participates in government tenders, which require certain pre-bidding qualifications like operational track record, resource base, financial performance, net worth size among others. However, due to the fragmented nature of the industry and the presence of many players, the company faces stiff competition.

Exposure to client and geographical concentration risks- The scopes for the company's ongoing contracts mainly include widening and improvement of roads in Jharkhand. SPIPL's dependence on a few government departments in Jharkhand exposes it to client and geographical concentration risks. Nevertheless, its counterparty risk remains low.

Modest scale of operations - SPIPL's modest scale of operations restricts its competitive position to an extent, as the scale of operation is considered as one of the important pre-bid qualifications for road construction tenders floated by government departments.

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

Links to applicable criteria:

[Corporate Credit Rating Methodology](#)

[Construction Entities](#)

About the company:

In 1997, the company's promoters formed a partnership firm in the name of M/s Santosh Kumar Singh (SKS) for civil construction business. In 2012, SKS was converted into a private limited company and its name was changed to Spica Projects And Infrastructures Pvt. Ltd. (SPIPL). SPIPL is involved in road construction business in Jharkhand and is empanelled as a Class-I contractor with the Public Works Department (PWD) of the state.

In FY2018, the company reported a net profit of Rs. 3.18 crore on an operating income of Rs. 57.23 crore, compared to a net profit of Rs. 2.51 crore on an operating income of Rs. 55.43 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	55.43	57.23
PAT (Rs. crore)	2.51	3.18
OPBDIT/OI (%)	8.90%	10.79%
RoCE (%)	20.22%	22.92%
Total Debt/TNW (times)	0.56	0.40
Total Debt/OPBDITA (times)	1.80	1.24
Interest coverage (times)	3.16	4.85

Status of non-cooperation with previous CRA:

CRA	Status	Date of Release
India Rating	IND BB(ISSUER NOT COOPERATING)/IND A4+(ISSUER NOT COOPERATING)	September 13, 2018

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 November 2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Fund Based Limits- Term Loan	Long Term	0.57	0.34 (March 31, 2018)	[ICRA]BB (Stable)	-	-	-
2	Fund Based Limits-Cash Credit	Long Term	4.87	-	[ICRA]BB (Stable)	-	-	-
3	Non-Fund Based Limits-Bank Guarantee	Long Term / Short Term	28.85	-	[ICRA]BB (Stable)/ [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	Term Loan	01-Oct-2015	NA	30-Sep-2019	0.57	[ICRA]BB (Stable)
NA	Cash Credit	NA	NA	NA	4.87	[ICRA]BB (Stable)
NA	Bank Guarantee	NA	NA	-	28.85	[ICRA]BB (Stable)/ [ICRA]A4+

Source: Spica Projects And Infrastructures Pvt. Ltd.

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