

Brij Gopal Construction Company (P) Limited

April 08, 2019

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund Based Limits	50.00	50.00	[ICRA]BBB(Stable); reaffirmed
Non-fund Based Limits	150.00	150.00	[ICRA]BBB(Stable); reaffirmed
Total	200.00	200.00	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation of Brij Gopal Construction Company (P) Limited's (BGCC) rating considers improvement in its operating profitability (operating profit margins increased to 9.05% in H1 FY2019 (Provisional) from 3.79% in FY2018), and its sizeable order book which provides medium-term revenue visibility (order book of Rs. 5,090 crore as of December 31, 2018). The execution is expected to ramp-up in FY2020 supported by its two large hybrid annuity model (HAM) road projects which have recently received appointed dates. The rating also positively factors in the expected release of sizeable margin money blocked against bank guarantees, with the recent enhancement of its bank facilities. Earlier, in the absence of adequate sanctioned non-fund based limits, the company had availed bank guarantees against 100% margin money which had resulted in sizeable encumbered cash. The rating continues to take support from BGCC's experience in the construction industry and its healthy clientele comprising public-sector entities.

The rating, however, is constrained by the large equity commitments towards its HAM and build-operate-transfer (BOT) toll projects, concentration of its order book on a few large projects, early execution stage of most of the order book, and risks inherent in the construction industry. BGCC has a portfolio of four under implementation HAM/BOT projects (two HAM projects from NHAI, one HAM and one BOT toll road project from Rajasthan PWD), which would require sizeable equity investments (estimated at Rs. 350 crore) over the next two years, which is being planned to be met from the existing surplus liquidity and expected cash accruals from operations over this period. Timely equity infusion, debt disbursement and grant receipt in these SPVs will remain crucial for timely completion of these projects. The company is also exposed to the risk of any cost and time overruns in these projects that may impact its profitability. The rating also takes into account the increase in borrowings (including unsecured loans) to support the margin money requirement for bank guarantees, and sizeable capex incurred in the last two years, resulting in increased leverage (gearing increased from 0.24 times as on March 31, 2017 to 0.47 times as on March 31, 2018 and 0.51 times as on September 30, 2018) and limiting the improvement in its credit metrics despite an improvement in its operating profitability.

Going forward, any new HAM/BOT project undertaken by the company, or an increase in funding requirement for its ongoing HAM/BOT projects can adversely impact BGCC's liquidity and credit profile, and will be a key rating sensitivity. With sizeable equity commitment, the company's ability to generate healthy accruals will be crucial for maintaining its liquidity position and credit profile.

Outlook: Stable

ICRA believes that BGCC will continue to maintain its credit profile supported by its healthy order book and expected improvement in its profitability. The outlook may be revised to Positive if significant improvement in execution and profitability strengthens its credit metrics. The outlook may be revised to Negative if there is significant slowdown/delay

in the execution of its ongoing projects for reasons not attributable to clients, thereby increasing the risk of penalties/damages.

Key rating drivers

Credit strengths

Long track record and operating capabilities in construction industry – While BGCC was incorporated in April 2009, the operations were undertaken under a partnership firm (Brij Gopal Construction Company) since 1999. Hence, the promoters have close to two decades of experience in the construction sector. The company has executed projects in the construction of roads, storm water, sewage and water supply systems for Government departments. Successful execution of the projects has also helped it in repeat and large-sized orders from clients.

Sizeable order book position from healthy clientele – The company had order backlog of over ~Rs. 5,090 crore as on December 31, 2018 which translates into an Order Book/Operating Income ratio of ~4.1 times as of FY2018, indicating adequate revenue visibility for the medium term. Furthermore, the company's order inflows are expected to remain healthy given the pipeline of projects in the highways sector. ICRA notes that the average order size has increased for the company with addition of its own HAM/BOT toll projects apart from some large engineering, procurement and construction (EPC) road projects. BGCC's clients include Government bodies like NHAI, MoRTH, HSIIDC, HUDA, PWD, DDA, etc. Due to the healthy client profile, the company has low counterparty credit risk, though at times there can be delays in realisation of some bills.

Expected release of funds with enhancement of bank limits – Sizeable margin money is expected to release which is blocked against bank guarantees with the recent enhancement of its bank facilities. Earlier, in the absence of adequate sanctioned non-fund based limits, the company had availed bank guarantees against 100% margin money. This resulted in sizeable encumbered cash. Enhancement in non-fund based limits will release these blocked funds and will also enable it to get mobilisation advances from customers against bank guarantees.

Improvement in operating profitability – The operating margins of the company have increased significantly to 9% in H1 FY2019 (provisional) from 3.8% in FY2018 due to execution of more profitable projects, larger share of revenues from road projects and better management of resources.

Credit challenges

Higher execution risks with most orders in early stage – BGCC has received sizeable orders, including large HAM projects in the last two years, which has boosted its order book. Addition of HAM projects, though large, comes with its own benefits like minimum 80% upfront land acquisition, low-cost mobilisation advances from NHAI, inflation-linked price escalations and other lower risks compared with BOT projects. However, the fixed-price and fixed-time EPC contracts (excluding escalation provided by NHAI) for HAM projects increase the risk for BGCC. The execution remains high as most projects have been awarded in the recent past, the execution is yet to commence or is at an early stage in many of these projects.

Increased borrowing to support order book – To support its increased order book, BGCC had incurred large debt-funded capex in the last two years for purchase of equipment, machinery and vehicles for the large pending orderbook. Further, the bank guarantee requirement increased significantly which, in the absence of adequate sanctioned limits, was met through BGs backed by 100% margin money. As a result, BGCC's leverage has increased (gearing increased from 0.24 times as on March 31, 2017 to 0.47 times as on March 31, 2018 and 0.51 times as on September 30, 2018). However, healthy accruals with improvement in profitability kept the credit metrics comfortable.

Exposure to BOT/HAM projects – BGCC has recently entered into a public private partnership (PPP) model, which has relatively higher capital requirement compared to the EPC business. The company has procured two HAM projects from NHAI (Badrak Baleshwar and Aligarh Kanpur), one HAM from PWD Rajasthan and one BOT toll project. The total cost of these four projects is estimated at Rs. 2,555 crore and would require sizeable equity (estimated at ~Rs. 353 crore) over the construction of the same. Timely infusion of equity, debt disbursement and grant receipt in the SPVs will be critical for timely completion of these projects. The company expects to meet equity requirement from the cash flow generated from its construction business as well as support from promoters, if required. The company's ability to fund these projects through internal accruals, manage its working capital requirements and maintain its liquidity position would remain a key rating sensitivity. While HAM-based road projects have lower risk than toll road projects, the execution risks remain and timely completion of these projects within the budgeted cost will be crucial to maintain returns from these investments.

Order book concentration – BGCC's order book is concentrated on few projects which makes its performance dependent on the progress in these projects. The top three projects in the order book comprise about half of the total pending order book (as of December 31, 2018) with the addition of large-sized HAM projects. However, the company has diversified geographically over the years from Haryana and Delhi NCR to other states such as Uttar Pradesh, Orissa, Rajasthan, Madhya Pradesh, etc.

Liquidity position

The liquidity position of the company had moderated with sizeable funds blocked against 100% margin for bank guarantees in the absence of sufficient sanctioned BG limits. The recent enhancement in its fund-based and non-fund based limits will improve its liquidity with availability of unutilised fund-based limits and release of margin money respectively, which is planned to be utilised to partly fund the equity requirements of its HAM/BOT projects.

As of February 28, 2019, the company had not utilized its fund-based working capital limits, which provides liquidity cushion. This apart, with the enhancement in BG limits, the company can avail mobilisation advances and can get retention money released after submission of BGs, which is expected to support its liquidity position.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not applicable
Consolidation / Standalone	The rating is based on standalone financial of the issuer and limited consolidation of the subsidiaries/SPVs (refer Annexure-2) which includes financial support in the form of equity infusion and cashflow mismatches in these subsidiaries

About the company

Brij Gopal Construction Company (P) Limited (BGCC) was incorporated in April 2009 and is involved in construction of roads, water supply and sewerage systems, civil construction, etc., mainly for public bodies. The operations were earlier carried out in a partnership firm namely Brij Gopal Construction Company, which was formed in 1999. The company is promoted by Mr. Ram Gopal Goyal and his three sons, Mr. Vikram Goyal, Mr. Rajan Goyal and Mr. Raman Goyal.

In FY2018, the company reported a net profit of Rs. 24.27 crore on an operating income (OI) of Rs. 1,256.4 crore compared with a net profit of Rs. 6.07 crore on an OI of Rs. 1,047.9 crore in FY2017. On provisional basis, the company has reported PAT of Rs. 25.57 crore on an OI of Rs. 529.07 crore in H1 FY2019.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	1047.9	1256.4
PAT (Rs. crore)	6.1	24.27
OPBDIT/OI (%)	1.5%	3.8%
RoCE (%)	5.0%	12.7%
Total Debt/TNW (times)	0.24	0.47
Total Debt/OPBDIT (times)	3.88	2.63
Interest coverage (times)	3.08	6.78

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years

Current Rating (FY2020)					Chronology of Rating History for the past 3 years		
Instrument	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating April 2019	Date & Rating in FY2018 March 2018	Date & Rating in FY2017 September-2016	Date & Rating in FY2016 July-2015
1 Fund Based Limits	Long Term	50.00	NA	[ICRA]BBB (stable)	[ICRA]BBB (stable)	[ICRA]BBB (stable)	[ICRA]BBB (stable)
2 Non-Fund Based Limits	Long Term	150.00	NA	[ICRA]BBB (stable)	[ICRA]BBB (stable)	[ICRA]BBB (stable)	[ICRA]BBB (stable)

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	Fund Based Limits	NA	NA	NA	50.00	[ICRA]BBB (stable)
NA	Non-Fund Based Limits	NA	NA	NA	150.00	[ICRA]BBB (stable)

Source: BGCC

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
BG Bhadrak Baleshwar Highway Private Limited	100%	Limited consolidation
BG Aligarh Kanpur Highways Private Limited	100%	Limited consolidation
BG (Rajasthan) Highway Pvt. Ltd.	100%	Limited consolidation
BG Neemrana Rewari Linkway Pvt. Ltd.	100%	Limited consolidation

ANALYST CONTACTS

Shubham Jain

+91 124 4545306

shubhamj@icraindia.com

Abhishek Gupta

+91 124 4545863

abhishek.gupta@icraindia.com

Shiffali Garg

+91 124 4545868

shiffali.garg@icraindia.com

RELATIONSHIP CONTACT

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87
Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,
Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,
Bangalore + (91 80) 2559 7401/4049
Ahmedabad+ (91 79) 2658 4924/5049/2008
Hyderabad + (91 40) 2373 5061/7251
Pune + (91 20) 2556 0194/ 6606 9999

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