

January 07, 2020

Adroit Structural Engineers Pvt. Ltd.: Ratings reaffirmed; rated amount enhanced

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Term Loan	14.00	10.85	[ICRA]BB+(Stable); Reaffirmed
Fund-based Overdraft	11.00	11.00	[ICRA]BB+(Stable); Reaffirmed
Non-fund Based Bank Guarantee	15.00	20.00	[ICRA]A4+; Reaffirmed
Total	40.00	41.85	

*Instrument details are provided in Annexure-1

Rationale

The reaffirmation in the ratings continues to favourably factor in the extensive experience of the promoters in the civil construction industry and the repeat orders from reputed private entities, with whom the company has cemented a strong relationship. The ratings also factor in the satisfactory capital structure and the adequate coverage indicators.

The ratings, however, remain constrained by the moderate and concentrated order-book (Rs. 26.13 as on September 30, 2019) and the high execution risk as a single project constitutes ~53% of the unexecuted order book. Further, the ratings also factor in the geographical and sectoral concentration risk as a major share of ASEPL's executed orders are skewed towards civil construction of factory building for the automobile and engineering sector in Gujarat. The ratings are further constrained by the susceptibility of AECPL's profitability to volatility in raw material prices, given the fixed-price nature of its contracts, although the risk is partly mitigated by a short to medium tenor of contracts. ICRA also notes the liquidity risk as the company diversifies in an unrelated business of commercial real estate.

The Stable outlook on [ICRA]BB+ rating reflects ICRA's opinion that ASEPL will continue to benefit from its track record in the civil construction industry.

Key rating drivers and their description

Credit strengths

Established track record in civil construction industry – ASEPL has been operating in the civil construction space for around two decades and has clients across sectors such as automobile and engineering. The established track record of project execution along with the promoter's experience helps the company to establish strong relationship with clients and procure repeat orders.

Moderate capital structure and adequate coverage indicators – ASEPL's financial profile is characterised by comfortable capital structure reflected by gearing of 0.9 times as on FY2019-end. The debt coverage indicators have also remained adequate, with interest coverage of 5.1 times and DSCR of 3.0 times as on FY2019-end.

Credit challenges

Moderate and concentrated order book – ASEPL's order book is moderate; the unexecuted order book as on September 30, 2019 was Rs. 26.13 crore (0.3 times FY2019 OI), with expected orders in pipeline, which is expected to support the revenue growth. Further, the current order book is concentrated; a single order accounts for 53% of the unexecuted order book. Hence, satisfactory progress of this project remains critical. However, the established client profile of the customer will reduce the counterparty risk for the company.

Limited price escalation clause available – ASEPL has no price escalation clauses, mainly because of the short-to-medium tenure of its projects, which expose profitability to adverse movement in input costs.

Diversification in unrelated business – ASEPL has purchased four industrial plots at GIDC, in Vadodara, to lease out 'plug and play' industrial facilities to manufacturing companies. The company has undertaken substantial capex to purchase plots and construct civil infrastructure, which were partially funded through LRD loan. However, the lease income generated from the factory building is expected to be sufficient to meet scheduled debt obligations and interest payment on loan.

Geographical and sectoral concentration – Most of the present and past orders are concentrated in Gujarat, resulting in geographical concentration risk. Further, its portfolio has higher share of civil construction of factory buildings for clients mainly from the automobile and engineering sector. Hence, the company's revenues are exposed to geographical risk and cyclicity in the automobile and engineering sector. However, ASEPL has also executed projects in Karnataka and Haryana.

Liquidity position: Adequate

ASEPL's liquidity profile remain adequate as reflected by moderate working capital intensity and modest utilisation of overdraft facilities (64% during 16-month period of August 2018 to November 2019). Further, the company's is expected to incur capex of ~Rs. 15 crore over next three years. Hence, the adequate cash flow generation and the timely infusion of unsecured loans from promoters in case of any cash flow mismatch will remain critical.

Rating sensitivities

Positive triggers – ICRA could upgrade ASEPL's ratings if the company demonstrates substantial growth in revenue and profitability following healthy order execution and inflow of new orders on a sustained basis, which leads to higher-than-expected cash accruals. Additionally, prudent working capital management, which improves the debt coverage indicators and the liquidity on a sustained basis, is a credit positive.

Negative triggers – Negative pressure on the company's ratings could arise if lower-than-anticipated growth in scale due to cancellation/deferment of any key orders or lower-than-expected order inflow leads to inadequate cash accrual. Higher-than-expected debt-funded capex in commercial real estate or further stretch in the working capital cycle, leading to deterioration in capital structure and liquidity, could lead to rating downgrade.

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 the standalone financials of Adroit Structural Engineers Pvt. Ltd.

About the Firm

Incorporated in 2000, ASEPL is promoted by Mr. Jasminder Grewal and Mrs. Shamal Grewal. ASEPL provides turnkey services for civil, structural, mechanical and electrical. Further, it also provides pre-construction services such as conceptual designing of facilities, architectural drawings and 3D drawings of entire facilities. The company has also started the business of leasing commercial plots, which have ready civil infrastructure, to the manufacturing companies.

In FY2019, the firm reported a net profit of Rs. 7.1 crore on an operating income of Rs. 109.6 crore, as compared to a net profit of Rs. 6.2 crore on an operating income of Rs. 77.8 crore in FY2018.

Key financial indicators (audited)

	FY2018	FY2019
Operating Income (Rs. crore)	77.8	109.6
PAT (Rs. crore)	6.2	7.1
OPBDIT/OI (%)	14.3%	12.7%
RoCE (%)	30.9%	26.5%
Total Outside Liabilities/Tangible Net Worth (times)	1.5	1.6
Total Debt/OPBDIT (times)	1.9	1.8
Interest Coverage (times)	6.8	5.1
DSCR	3.6	3.0

Status of non-cooperation with previous CRA: Not Applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2020)				Rating History for the Past 3 Years		
		Type	Amount Rated	Amount Outstanding	Rating	FY2019	FY2018	FY2017
					07-Jan-2020	17-Oct-2018	-	-
1	Term Loan	Long Term	10.85	10.85	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
2	Overdraft	Long Term	11.00	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	-	-
3	Bank Guarantee	Short Term	20.00	-	[ICRA]A4+	[ICRA]A4+	-	-

Amount in Rs. crore;

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	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Term Loan	FY2017	NA	FY2017	10.85	[ICRA]BB+ (Stable)
NA	Overdraft	NA	NA	NA	11.00	[ICRA]BB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	20.00	[ICRA]A4+

Source: Adroit Structural Engineers Pvt. Ltd.;

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