Asian Fab Tec Limited

October 10, 2018

Summary of rated instruments

Instrument*	Current Rated Amount(Rs. crore)	Rating Action
Fund-based - Working Capital Facilities	65.00	[ICRA]BBB (Stable); Assigned
Long-term/Short-term Non-fund Based-Working Capital Facilities	195.00	[ICRA]BBB (Stable)/[ICRA]A3+; Assigned
Total	**260.00**	

*Instrument details are provided in Annexure-1

Rating action

ICRA has assigned a long -term rating of [ICRA]BBB (pronounced ICRA triple B) to the Rs. 65.00-crore fund-based facilities of Asian Fab Tec Limited (AFTL). ICRA has also assigned a long-term rating of [ICRA]BBB and a short-term rating of [ICRA]A3+ (pronounced ICRA A three plus) to the Rs. 195.00-crore long-term/short-term Non-fund-based facilities of AFTL. The outlook on the long-term rating is Stable.

Rationale

The assigned ratings favourably factor in the established presence of AFTL in the Engineering, Procurement and Construction (EPC) segment in terms of executing electrical and civil works contracts for Karnataka state power distribution utilities(discoms) and the strong client relationships forged by the company as evidenced from receipt of repeat orders over the years. The ratings further take into consideration the strong revenue growth reported by the company over the last five-year period aided by a healthy order in-flow; and the revenue visibility for the company going forward owing to presence of unexecuted order book of Rs. 2039 crore (2.8x operating income of FY2018) as of June 2018. In addition, the ratings take into consideration the low off-take risks pertaining to the 78 MW of solar power projects operationalised by the company during the period FY2017-FY2018 owing to presence of long-term power purchase agreements (PPAs) with Karnataka discoms namely Bangalore Electricity Supply Company Limited (BESCOM) and Chamundeshwari Electricity Supply Corporation Limited (CESCOM). ICRA further takes note of the company's healthy margin profile coupled with low gearing and comfortable debt protection metrics.

The ratings, however, remain constrained by the relatively high working capital intensity of AFTL given the stretched receivable cycle and its inventory holding requirements. Thus, timely enhancement of working capital facilities remains crucial for the company given the expected increase in the scale of operations going forward. The ratings further remain constrained by the high geographical concentration risk with operations restricted to the state of Karnataka and the relatively high customer concentration risk with top-5 customers contributing to 84% of the revenues in FY2018 and ~100% of the total unexecuted order book as of June 2018. In addition, the ratings remain constrained by the vulnerability of the company's profitability to volatility in key raw material prices, mitigated to a certain extent by the healthy tender premiums received by the company for execution of contracts. The ratings are further tempered by the exposure of the company's cashflows from solar operations to module performance and weather conditions given that revenue generated is dependent on the energy generation levels. ICRA further takes note of the large capital expansion plan of the company to setup solar power projects with a cumulative capacity of 95 MW in Karnataka (won as part of the auction conducted by KREDL in February 2018) which would result in an additional debt in-flow over the next 18 months and keep the debt levels moderately elevated.

Outlook: Stable

ICRA believes Asian Fab Tec Limited will continue to benefit from the established presence in the turnkey electrical contracts segment in Karnataka and its strong relationships with key customers. The outlook may be revised to Positive in case of timely enhancement of working capital facilities coupled with sustained improvement in the overall working capital position. The outlook may be revised to 'Negative' in case of a stretch in the working capital cycle or lower-than-optimum performance of the solar power projects which would mandate diversion of cashflows from the EPC business to cater to debt-servicing.

Key rating drivers

Credit strengths

Established presence in the turnkey electrical works segment - AFTL specializes in various activities in the electrical and civil works segments where-in it undertakes turnkey contracts majorly for Government of Karnataka – state power distribution utilities. The company has forged strong relationships with various state utilities of Karnataka such as BESCOM, MESCOM, HESCOM, KPTCL etc., and has received repeat orders from these clients over the years.

Strong unexecuted order book position provides revenue visibility in the near-to-medium term – As of June 2018, AFTL had an outstanding order book of Rs. 2039 crore (2.8x the operating income of FY2018). This is expected to drive revenue growth for the company in the near to medium term.

Low off-take risks for operational solar power projects- During FY2017-FY2018, the company operationalised 78 MW of solar power projects. The off-take risks pertaining to the generations from these projects remains low owing to presence of long-term PPAs with Karnataka state power distribution utilities for a period of 25 years.

Financial risk profile characterised by robust margins and comfortable debt protection metrics – AFTL has reported a healthy revenue growth over the past five-year period aided by healthy order in-flows over the years. Furthermore, the margin profile of the company has remained healthy and has resulted in healthy cash accruals. Despite the debt-funded capital expansion undertaken by the company in the last two years, the gearing level has remained <1x and the debt protection metrics are remain comfortable with interest coverage of 9.3 times and NCA/Total Debt of 55% for FY2018.

Credit challenges

High working capital intensity resulting from high debtor and inventory levels – Given the preponderance of Government entities in its client base and the design of the payment structure which mandates receipt of client approvals at various stages, the receivable cycle of AFTL remains largely stretched. Furthermore, the supply portion of contracts mandates inventory holding for the company, thus resulting in a relatively high working capital intensity. Given the high working capital requirements and expected increase in scale of operations going forward, adequacy of sanctioned working capital facilities and hence, timely enhancement of the same remains crucial given that there is no existing cushion in the sanctioned limits.

Vulnerability of profitability to any adverse fluctuation in raw material prices protected to an extent by healthy tender premiums - The margins of the company remain vulnerable to raw material price fluctuation and any adverse movement in the price of raw materials could have an adverse impact on the company's profitability. However, AFTL is protected from the said risk to a certain extent by the healthy tender premiums it receives (for the contracts executed), which, in turn, factor in the volatility in raw material prices.

Large debt-funded capital expansion plans to keep debt levels moderately elevated: In February 2018, AFTL won the bids for setting up solar power projects with a cumulative capacity of 95 MW. While the projects remain in a very nascent stage with land acquisition yet to be done, the capex is likely to entail a substantial debt in-flow for the company in the next 18-month period. Furthermore, the company is yet to draw-down ~Rs.110 crore debt for the 45 MW solar power projects operationalised in FY2018.

Cashflows from solar power projects remain exposed to module performance and weather conditions – The cashflows from the 78 MW solar power plants operationalised by AFTL remain exposed to variation in irradiance levels as well as overall module performance. While the 33 MW solar power projects in SIRA are receiving a tariff of Rs. 6.51-Rs. 6.94/Kwh, the 45 MW solar power projects commenced in Q4 FY2018 are currently receiving a normative tariff of Rs. 4.36/Kwh as compared to PPA tariff of Rs. 5.19/Kwh-Rs. 5.28/Kwh. While the company has filed a petition claiming PPA tariff, final order from the Karnataka Electricity Regulatory Commission is awaited.

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

Links to applicable criteria:

Rating Methodology for Construction Entities

Rating Methodology for Solar Power Producers

About the company:

Incorporated in the year 2000, AFTL is an Engineering, Procurement and Construction (EPC) contractor which undertakes electrical and civil works for Karnataka state power distribution utilities. The scope of work includes activities such as action plan works, preventive maintenance works, UG cable works, DTC metering works, A.B.cable works, high voltage distribution system works etc. In FY2017-18, the company diversified into setting up solar power plants with a cumulative capacity of 78 MW in Karnataka. These power plants have long term PPAs signed with state power distribution utilities in Karnataka.

In FY2018, on a provisional basis, the company reported a net profit of Rs. 142.7 crore on an operating income of Rs. 722.3 crore, as compared to a net profit of Rs. 125.8 crore on an operating income of Rs. 604.3 crore in the previous year.

Key financial indicators

	FY2017	FY2018(provisional)
Operating Income (Rs. crore)	604.3	722.3
PAT (Rs. crore)	125.8	142.7
OPBDIT/OI (%)	31.1%	29.5%
RoCE (%)	44.0%	31.4%
Total Debt/TNW (times)	0.4	0.5
Total Debt/OPBDIT (times)	0.8	1.3
Interest coverage (times)	16.2	9.3

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019)				Chronology of Rating History for the Past 3 Years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating October2018	Date & Rating in FY2018 -	Date & Rating in FY2017 -	Date & Rating in FY2016 -
1	Cash Credit	Long Term	65.00		**[ICRA]BBB(Stable)**			
2	Bank Guarantee	Long Term/Short Term	195.00		**[ICRA]BBB(Stable)/ [ICRA]A3+**	-	-	-

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	NA	NA	-	65.00	[ICRA]BBB(Stable)
NA	Bank Guarantee	NA	NA	-	195.00	[ICRA]BBB(Stable)/[ICRA]A3+

Source: Asian Fab Tec Limited

ANALYST CONTACTS

Sabyasachi Majumdar
+91 124 4545 304
sabysachi@icraindia.com

Girishkumar Kadam
+91 22 6114 3441
girishkumar@icraindia.com

Manasa Gopidi
+91 40 4067 6526
manasa.g@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:

+91-124-2866928 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

About ICRA Limited:

ICRA Limited was set up in 1991 by leading financial/investment institutions, commercial banks and financial services companies as an independent and professional investment Information and Credit Rating Agency.

Today, ICRA and its subsidiaries together form the ICRA Group of Companies (Group ICRA). ICRA is a Public Limited Company, with its shares listed on the Bombay Stock Exchange and the National Stock Exchange. The international Credit Rating Agency Moody's Investors Service is ICRA's largest shareholder.

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) 6606 9999

ICRA ratings should not be treated as recommendation to buy, sell or hold the rated debt instruments. ICRA ratings are subject to a process of surveillance, which may lead to revision in ratings. An ICRA rating is a symbolic indicator of ICRA's current opinion on the relative capability of the issuer concerned to timely service debts and obligations, with reference to the instrument rated. Please visit our website www.icra.in or contact any ICRA office for the latest information on ICRA ratings outstanding. All information contained herein has been obtained by ICRA from sources believed by it to be accurate and reliable, including the rated issuer. ICRA however has not conducted any audit of the rated issuer or of the information provided by it. While reasonable care has been taken to ensure that the information herein is true, such information is provided 'as is' without any warranty of any kind, and ICRA in particular, makes no representation or warranty, express or implied, as to the accuracy, timeliness or completeness of any such information. Also, ICRA or any of its group companies may have provided services other than rating to the issuer rated. All information contained herein must be construed solely as statements of opinion, and ICRA shall not be liable for any losses incurred by users from any use of this publication or its contents