Ace Pipeline Contracts Pvt. Ltd.

December 05, 2018

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long-term Fund-based Cash Credit	15.00	15.00	Downgraded to [ICRA]C from [ICRA]BB (Stable) and simultaneously upgraded to [ICRA]BB- (Stable)
Long-term Non-fund-based Bank Guarantee	60.00	60.00	Downgraded to [ICRA]C from [ICRA]BB (Stable) and simultaneously upgraded to [ICRA]BB- (Stable)
Long-term Interchangeable	(8.00)	(5.00)	Downgraded to [ICRA]C from [ICRA]BB (Stable) and simultaneously upgraded to [ICRA]BB- (Stable)
Total	**75.00**	**75.00**	

*Instrument details are provided in Annexure-1

Rationale

The downgrade in the rating factors in the past instances of irregularities in debt servicing of the unrated project-specific facility availed by Ace Pipeline Contracts Pvt. Ltd. (APCPL or the company) from a non-banking financial company (NBFC), on account of delays in receipt of project receivables, leading to a stretched liquidity. The delays happened during the last financial year and the loan account was closed as on March 31, 2018 and there were no dues outstanding against this facility. The ratings have been simultaneously upgraded since the company has regularised its debt servicing and has a clean track record over the last six months.

The upgraded rating remains constrained by the high order-book concentration with a significance dependence on a few large projects, vulnerability of its operations to delays in project execution, and the risk of delayed payments from Government entities, which stretches the receivable cycle. The business continues to remain working capital intensive, with significant amount locked in retention money, leading to almost full utilisation of its fund-based limits. This, in turn, has led to rising borrowing costs since the last four fiscals, and kept the interest coverage under check, despite a rise in its absolute operating profits.

Nonetheless, the rating continues to take into account the extensive experience of the promoters and APCPL's operating track record for nearly three decades in the EPC of hydrocarbon pipeline business, sound recovery in operating income (OI) in FY2018 as reflected by 34% YoY growth, and healthy current order book of Rs. 443.00 crore as on October 31,2018.

Outlook: Stable

ICRA expects the company to continue to benefit from the extensive experience of its promoters and the limited competition in the EPC hydrocarbon pipeline business. The outlook may be revised to Positive if healthy growth in operating income (OI) while maintaining healthy profit margins and improvement in debt coverage indicators strengthen the financial risk profile. The outlook may be revised to Negative if lower-than-expected cash accruals, or stretch in the working capital cycle, weakens liquidity.

Key rating drivers

Credit strengths

Extensive experience of the promoters and operating track record in EPC hydrocarbon pipeline business – Incorporated in 1989 by Mr. Anoop Singh and Mr. Gurmreet Singh, APCPL undertakes engineering, procurement and construction contracts, project management, and testing and commissioning of pipelines for the oil and gas sector. The promoters are technically qualified professionals and have around three decades in oil and gas pipeline construction projects. The company has executed projects at a pan-India level for various reputed Government entities from the oil and gas sector.

Healthy recovery in OI and reduced debt levels in FY2018; healthy current order-book position – After witnessing a 43% decline in OI in FY2017, the company posted a healthy recovery in revenues in FY2018 on the back of higher orders and faster execution of projects. Its OI increased by 34% to Rs. 139.58 crore in FY2018 from Rs. 104.08 crore in FY2017. As on October 31, 2018, APCPL's unexecuted order book stood at ~Rs. 443.00 crore (~3.16 times of OI in FY2018), providing adequate revenue visibility in the near to medium term. The company's total debt reduced to Rs. 19.96 crore as on March 31, 2018 from Rs. 38.23 crore as on March 31, 2017, and comprised working capital borrowings of Rs. 12.46 crore, short-term loans from NBFC of Rs. 4.06 crore and unsecured loans of Rs. 3.44 crore.

Credit challenges

Past instances of irregularities in debt servicing of project-specific working capital facility (unrated) availed from NBFC – There has been irregularities in debt servicing of the working capital loan taken from NBFC by the company. These irregularities continued in FY2018. However, the delays were corrected by the end of FY2018 and the loan account was fully repaid in February 2018.

High order-book concentration with significant dependence on a few large orders – As on October 31, 2018, the company had an unexecuted order book of Rs. 443.00 crore (3.16 times of its OI in FY2018) of which 70% remained concentrated between the top three projects, exposing APCPL to high project concentration risk. Any delays in execution of these projects may adversely impact its revenues.

Risk of delayed payments from Government clients – APCPL derives almost its entire revenues from the Government clients pertaining to the oil and gas sector. Though the counterparty credit risk remain limited in such clients, the company remains exposed to the risk of delayed payments, which could create cash flow mismatches and result into stretched working capital metrics.

Vulnerability of operations to delays in project execution – Most of the company's projects have an execution period of 12 months or higher and remain vulnerable to execution risks with possibilities of delays due to external factors. Any liquidated damages (LD) charges levied onto the company can also impact its profitability. While there have been LD charges levied onto the company in the past, many of them have been recovered back by APCPL given that delays in execution were due to external reasons. It also remains exposed to volatility in input prices or other external factors during the execution period in case of absence of price escalation clause in the contracts. In order to mitigate this risk, the company has shifted its focus from EPC projects to purely construction projects, not involving procurement of raw materials, in the last couple of years.

High TOL/TNW on account of moderate net-worth base and rising borrowing costs limits interest coverage – The company reported a TOL/TNW of 2.39 times as of FY2018, which although moderated from FY2017 levels, continues to remain high, given its high outside liabilities and moderate net-worth base. Given the rising interest costs on account of high fund-based utilisation levels, the interest coverage has remained range bound between 2.0-2.7 times in the last four years.

Liquidity position

The company's funds flow from operations (FFO) remained positive in FY2018 due to increased OI, while maintaining healthy profitability and reduced incremental working capital requirements. As on March 31, 2018, it had a total unencumbered cash and bank balance of Rs. 9.00 crore in the form of fixed deposits. However, the cushion available in terms of undrawn working capital borrowings remains limited as reflected by 99% utilisation of its fund-based working capital limits and 92% utilisation of its non-fund-based limits during the 12-months period ended September 30, 2018.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not applicable
Consolidation / Standalone	Not applicable

About the company

Incorporated in 1989 by Mr. Anoop Singh and Mr. Gurmreet Singh, APCPL undertakes engineering, procurement and construction contracts, project management, and testing and commissioning of pipelines for the oil and gas sector. The company has executed contracts at a pan-India level for various reputed Government entities from the oil and gas sector.

In FY2018, the company reported a net profit of Rs. 5.07 crore on an operating income of Rs. 139.59 crore, as compared to a net profit of Rs. 2.56 crore on an operating income of Rs. 104.08 crore in the previous year.

Key financial indicators (audited)

	FY2017	FY2018
Operating Income (Rs. crore)	104.08	139.58
PAT (Rs. crore)	2.56	5.07
OPBDIT/OI (%)	10.50%	10.71%
RoCE (%)	16.94%	26.19%
Total Debt/TNW (times)	1.59	0.70
Total Debt/OPBDIT (times)	3.50	1.33
Interest Coverage (times)	1.96	2.20

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for last three years:

	Instrument	Current Rating (FY2019) Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating December 2018	Chronology of Rating History for the Past 3 Years: Date & Rating in FY2018 November 2017	Date & Rating in FY2018 September 2017	Date & Rating in FY2017 -	Date & Rating in FY2016 March 2016
1	Fund-based Cash Credit	Long Term	15.00		Downgraded to [ICRA]C from [ICRA]BB (Stable) and simultaneously upgraded to [ICRA]BB- (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable); ISSUER NOT COOPERATING	-	[ICRA]BB + (Stable)
2	Non-fund-based Bank Guarantee	Long Term	60.00		Downgraded to [ICRA]C from [ICRA]BB (Stable) and simultaneously upgraded to [ICRA]BB- (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable); ISSUER NOT COOPERATING	-	[ICRA]BB + (Stable)
3	Unallocated	Short Term	(5.00)		Downgraded to [ICRA]C from [ICRA]BB (Stable) and simultaneously upgraded to [ICRA]BB- (Stable)	[ICRA]BB (Stable)	[ICRA]BB (Stable); ISSUER NOT COOPERATING	-	[ICRA]BB + (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 Cash Credit	NA	NA	NA	15.00	[ICRA]BB- (Stable)
NA	Non-fund-based Bank Guarantee	NA	NA	NA	60.00	[ICRA]BB- (Stable)
NA	Unallocated	NA	NA	NA	(5.00)	[ICRA]BB- (Stable)

Source: APCPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Not applicable		

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