

July 11, 2019

Laxmi Civil Engineering Services Pvt. Ltd.: [ICRA]A-(Stable)/[ICRA]A2+ assigned to enhanced amount

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund-based Limit (Cash Credit)	-	50.00	[ICRA]A- (Stable); assigned
Non-fund based Limits	-	525.00	[ICRA]A- (Stable) / [ICRA]A2+; assigned
Fund-based/ Non-fund based limits	25.00	-	[ICRA]A- (Stable) / [ICRA]A2+; outstanding
Total	25.00	575.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings assigned to Laxmi Civil Engineering Services Pvt. Ltd. (LCESPL) reflect the adequate medium-term revenue visibility by virtue of its healthy order-book position of over Rs. 3300 crore as on March 31, 2019, which translates to 4.0 times the operating income (OI) in FY2019. The ratings also factor in the comfortable financial risk profile, marked by low leverage (TOL/ TNW of 0.84 time as on March 31, 2019 as per provisional financials) and healthy coverage metrics (TD/OPBITDA of 0.2 time as on March 31, 2019 and interest coverage of 12.8 times in FY2019). The assigned ratings also factor in the established track record of the promoters, spanning over nearly four decades, in water management infrastructure development with various government agencies. LCESPL is registered as Class I civil contractor with various departments in nine states (Maharashtra, Karnataka, Goa, Chhattisgarh, Madhya Pradesh, Kerala, Uttar Pradesh, Bihar and Gujarat).

The ratings, however, are constrained by the moderately high execution risk as over 60% projects (adjusted for slow moving orders) in the current order book are in the nascent stage. Therefore, the company's ability to secure design and other approvals in a timely manner and execute the projects within the stipulated time will determine its revenue and profitability growth. The ratings are also constrained by the moderate-scale operations as well as the segment concentration risk, as over 95% orders in the current order-book pertain to water management infrastructure development projects. The risk is, however, partly mitigated by diversified geographic presence and clientele (the ongoing projects are spread across five Indian states, i.e, Madhya Pradesh, Karnataka, Maharashtra, Chhattisgarh and Goa with projects from different government agencies).

Outlook: Stable

The Stable outlook reflects ICRA's expectation that LCESPL will continue to benefit from the extensive experience of its promoters as well as its healthy order-book position. The outlook may be revised to Positive if higher-than-expected execution pace leads to substantial growth in revenue and profitability and reduces the execution risk. The outlook may be revised to Negative in case billing is lower than expected or the working capital cycle gets elongated.

Key rating drivers

Credit strengths

Healthy order book position provides medium-term revenue visibility– As on March 31, 2019, the OB/OI of LCESPL was over 4.0 times (based on FY2019 provisional financials), which supports the medium-term revenue visibility. The ongoing projects are spread across five Indian states, i.e, Madhya Pradesh, Karnataka, Maharashtra, Chhattisgarh and Goa and are from different government agencies.

Comfortable financial risk profile with low leverage and healthy coverage metrics – The company reported TOL/ TNW of 0.84 time as on March 31, 2019 and TD/OPBITDA of 0.2 time and interest coverage of 12.8 times in FY2019.

Established track record of promoters in executing water management infrastructure development projects for government and semi-government agencies– The promoters Mr. Vijay Kumar Shah and Mr. Rajendra Doshi have extensive experience of nearly four decades in water management infrastructure development projects. LCESPL is registered as Class I civil contractor with various departments in nine states (Maharashtra, Karnataka, Goa, Chhattisgarh, Madhya Pradesh, Kerala, Uttar Pradesh, Bihar and Gujarat).

Credit challenges

Moderately high execution risk - With over 60% of projects in the nascent stage of execution (less than 10% complete) as on March 31, 2019, LCESPL remains exposed to risk associated with any delays in these projects.

Moderate scale of operation and high dependence on water management projects – The company’s OI grew at a CAGR of 18% to Rs. 811.8 crore in FY2019 (as per provisional financials) from Rs. 494.8 crore in FY2016. Over the next three years, the company is expected to witness CAGR of around 10%, supported by the healthy outstanding order-book. The company’s current order-book has over 95% of orders pertaining to water management infrastructure development projects; however, the risk is partly mitigated by diversified geographic presence and clientele.

Liquidity position:

The company’s liquidity position is comfortable, as reflected by unencumbered cash and bank balance of Rs. 25.6 crore and liquid investments (in mutual funds) of Rs. 88.8 crore as on March 31, 2019. Additionally, the company had unutilised cash credit lines of Rs. 45 crore as on March 31, 2019. On a project-to-project basis, the company also avails mobilisation advance from its clients against bank guarantees to support its liquidity profile.

Analytical approach:

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Credit Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not Applicable
Consolidation / Standalone	For arriving at the ratings, ICRA has considered the standalone financials of LCESPL. As on March 31, 2019, the company had seven JVs and one subsidiary; hence, limited consolidation has been done for arriving at the ratings (refer Annexure-2).

About the company:

Founded in 1980 by Mr. Vijay Kumar Shah and his nephew, Mr. Rajendra Doshi, as a partnership firm, LCESPL was incorporated in 2000. LCESPL is a construction company based at Kolhapur, in Maharashtra, that undertakes developmental work in various areas such as process design, installation, civil constructions, commissioning and operation & maintenance services in lift irrigation schemes, water supply schemes, sewerage treatment and distribution among others.

Key financial indicators (audited)

	FY2017	FY2018	FY2019 [^]
Operating Income (Rs. crore)	460.9	639.5	811.8
PAT (Rs. crore)	68.5	56.5	67.2
OPBDIT/OI (%)	11.2%	11.4%	11.3%
RoCE (%)	34.3%	31.8%	29.7%
Total Debt/TNW (times)	0.1	0.0	0.1
Total Debt/OPBDIT (times)	0.2	0.2	0.2
Interest Coverage (times)	12.9	11.3	12.8

Source: LCESPL; [^]Provisional financials

Status of non-cooperation with previous CRA:

The company has an outstanding rating of BWR BBB (Issuer Not Cooperating)/ BWR A3 (Issuer Not Cooperating) for Rs. 600.0 crore bank lines since July 04, 2019.

Any other information: None

Rating history for last three years:

Instrument	Current Rating (FY2020)				Chronology of Rating History for the Past 3 Years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore)	Date & Rating July 2019	Date & Rating July, 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017
1 Fund-based Limit (Cash Credit)	Long Term	50.00	-	[ICRA]A-(Stable)	-	-	-	-
2 Non-fund based Limits	Long Term/ Short term	525.00	-	[ICRA]A-(Stable)/ [ICRA]A2+	-	-	-	-
3 Fund-based/ Non-Fund Based limits	Long Term/ Short term	-	-	-	[ICRA]A-(Stable)/ [ICRA]A2+	-	-	-

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
	Fund-based Limit (Cash Credit)	-	-	-	50.00	[ICRA]A- (Stable)
NA	Non-fund based Limits	-	-	-	525.00	[ICRA]A- (Stable)/ [ICRA]A2+

Source: LCESPL

Annexure-2: List of entities considered for consolidated analysis

Company Name	Ownership	Consolidation Approach
Laxmi Civil Engineering Infrastructure Pvt Ltd	100%	Limited Consolidation
Aquatech Laxmi JV	51%	Limited Consolidation
HCC-Laxmi JV	49%	Limited Consolidation
Laxmi Civil Engineering Services Pvt Ltd- P Das Infrastructure JV	75%	Limited Consolidation
Arihant Laxmi JV	100%	Limited Consolidation
Laxmi Civil Engi Services Pvt Ltd- PVRPL JV	51%	Limited Consolidation
JMC-Laxmi-Wilo Joint Venture (51%-40%-9%)	40%	Limited Consolidation
JMC-Laxmi-Wilo Joint Venture (51%-42%-7%)	42%	Limited Consolidation
Laxmi Civil Engineering Infrastructure Pvt Ltd	100%	Limited Consolidation

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