

July 19, 2019

A. K. Das Associates Limited: [ICRA]BB-(Stable)/[ICRA]A4; assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Fund-based – Cash Credit	25.00	[ICRA]BB- (Stable); Assigned
Non-Fund based – Letter of Credit	10.00	[ICRA]A4; Assigned
Non-Fund based – Bank Guarantee	42.00	[ICRA]A4; Assigned
Total	77.00	

*Instrument details are provided in Annexure-1

Rationale

The assigned ratings take into consideration the established track record of A. K. Das Associates Limited (AKDAL) in the construction sector and its long relationship with Odisha Power Transmission Corporation Limited (OPTCL), leading to repeat orders, which reflect its satisfactory project execution capability. The ratings also factor in AKDAL's conservative capital structure and moderate level of debt protection metrics. However, the same are likely to deteriorate, going forward, in view of the predominantly debt-funded capital expenditure programme to set up a hotel in Bhubaneswar, Odisha. The ratings favourably factor in the comfortable order book position of AKDAL, providing revenue visibility over the medium term at least. However, delay in execution of contracts remains a concern.

The ratings are constrained by AKDAL's modest scale and high working capital intensive nature of operations. The ratings are also impacted by the risk of execution of the hotel project within the budgeted cost and scheduled time. The ratings further consider AKDAL's high geographical and customer concentration risks with most of the contracts executed in Odisha, and OPTCL accounting for more than 50% of its revenue. The ratings continue to factor in the intensely competitive and fragmented nature of the construction business, which, coupled with the tender-based contract awarding system, limits pricing flexibility. Moreover, AKDAL remains exposed to volatility in raw material prices, though presence of price-variation clause in most of the contracts mitigates such risk to an extent.

Outlook: Stable

ICRA believes that AKDAL will continue to benefit from the company's established track record of operations in the construction sector. The outlook may be revised to Positive if the company is able to increase its scale of operations, profitability and maintain its capital structure and coverage indicators. The outlook may be revised to Negative if there is a stretch in the working capital cycle and/or if there is any significant cost/ time overrun in commissioning of the hotel project, which could adversely impact the liquidity position of the company.

Key rating drivers

Credit strengths

Established track record of operations – The company has been operating in the construction sector since 1996 and has an established track record in building power transmission lines and substations. The company has a long relationship with OPTCL, and repeat orders from the same reflect satisfactory project execution capability.

Comfortable order book position – Recent addition of work orders supported AKDAL's order book, which stood at ~Rs. 300.00 crore as on March 31, 2019. These orders are scheduled to be executed over the next three to four years,

providing revenue visibility over the medium term at least. Despite a sizeable order book, ICRA notes that a slow pace of order execution acts as a hindrance to its top line growth.

Conservative capital structure and moderate level of debt protection metrics – The company's capital structure has remained at a conservative level, as depicted by a gearing of 0.30 times as on March 31, 2019 (provisional). However, total outside liabilities relative to tangible net worth remained at 1.08 times as on March 31, 2019 (provisional). Low gearing and moderate cash accruals have kept the coverage indicators at a moderate level. However, the capital structure as well as the debt protection metrics are likely to deteriorate, going forward, in view of the predominantly debt-funded capital expenditure programme to set up a hotel in Bhubaneswar.

Credit challenges

Modest scale of current operations – AKDAL's scale of operations continued to remain modest, notwithstanding an increase witnessed in the top line at Rs. 60.68 crore in FY2019 (provisional) against Rs. 50.23 crore in FY2018, depicting a growth of ~20%.

Intense competition, coupled with a tender-based contract awarding system, limits pricing flexibility – The construction business is highly fragmented in nature and is characterised by intense competition among a large number of players. This coupled with a tender-based contract awarding system, limits AKDAL's pricing flexibility.

Highly working capital intensive nature of operations – The company has an unexecuted order book of Rs. 300 crore as on March 31, 2019, and there have been delays in receipt of various clearances/approvals from the clients in the past. This in turn keeps the company's revenue and operations exposed to project execution risk and results in stretched receivables position. As a result, the working capital intensity of operations is high and impacts the liquidity position of the company.

Exposed to hotel project execution and stabilisation risks - The company is in the process of setting up a four-star hotel, which is scheduled to be operational in FY2022. ICRA notes that the company would face significant project related risks, including the risk of stabilising the hotel and achieving desired operational parameters, post commencement of operations. Going forward, timely commissioning of the project within the budgeted cost would be a key rating sensitivity. The proposed project is planned to be funded through a mix of debt and equity. However, ICRA notes that the debt required for the project has not been tied up yet, which exposes the company to significant funding risk.

High geographical and customer concentration risks – AKDAL is primarily an Odisha-based player with the entire order book derived from this state. Though the company has executed a few orders in Jharkhand as well in the past, the proportion of the same remained low, exposing the company to high geographical concentration risk. AKDAL derives more than 50% of its revenue from OPTCL, exposing the company to high client concentration risk.

Liquidity position

The company's liquidity profile continues to remain under pressure on account of high working capital requirements of the business, driven by high receivables position. The average fund-based working capital utilisation has remained high at around 90% in the last 15 months. The servicing of debt obligations for the additional proposed debt due to the hotel project would also exert pressure on the liquidity position of the company, going forward.

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 ratings are based on standalone financial statements of the entity

About the company

AKDAL was initially incorporated in 1996 as a private limited company in the name of A K Das Associates Pvt Ltd and was reconstituted as a public limited company in 1999. The company is involved in construction of power transmission lines and sub-stations and undertakes related electrical and civil work, primarily in Odisha. The company is also in the process of setting up a four-star category hotel in Bhubaneswar, Odisha.

Key financial indicators

	FY2018	FY2019 (provisional)
Operating Income (Rs. crore)	50.23	60.68
PAT (Rs. crore)	4.64	5.55
OPBDITA/OI (%)	21.77%	18.54%
RoCE (%)	19.20%	20.16%
Total Debt/TNW (times)	0.57	0.30
Total Debt/OPBDITA (times)	2.71	1.55
Interest coverage (times)	1.91	2.39

Status of non-cooperation with previous CRA

CRA	Status of non-cooperation	Date of Press Release
India Ratings	India Ratings Migrates A.K. Das Associates to Non-Cooperating Category	July 3, 2019
CRISIL	Issuer not cooperating, based on best available information; Ratings continue to be 'CRISIL BB-/Stable/CRISIL A4+ Issuer not cooperating'	November 12, 2018

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 July 2019	Date & Rating in FY2019	Date & Rating in FY2018	Date & Rating in FY2017	
1	Cash Credit	25.00	NA	[ICRA]BB- (Stable)	-	-	-	
2	Letter of Credit	10.00	NA	[ICRA]A4	-	-	-	
3	Bank Guarantee	42.00	NA	[ICRA]A4	-	-	-	

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	NA	25.00	[ICRA]BB- (Stable)
NA	Letter of Credit	NA	NA	NA	10.00	[ICRA]A4
NA	Bank Guarantee	NA	NA	NA	42.00	[ICRA]A4

Source: A. K. Das Associates Limited

Annexure-2: List of entities considered for consolidated analysis: Not applicable

ANALYST CONTACTS

K Ravichandran

+91 44 4596 4301

Ravichandran@icraindia.com

Sujoy Saha

+91 33 7150 1184

Sujoy.saha@icraindia.com

Sandipan Kumar Das

+91 33 7150 1190

Sandipan.das@icraindia.com

Akash Gupta

+91 33 7150 1127

akash.gupta@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

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) 2556 0194/ 6606 9999

© Copyright, 2019 ICRA Limited. All Rights Reserved.

Contents may be used freely with due acknowledgement to ICRA.

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