

September 10, 2019

Yogi Construction Co.: Ratings reaffirmed; outlook revised to stable

Summary of rating action

Instrument	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Cash Credit	4.00	4.00	[ICRA]BB reaffirmed; outlook revised to Stable from Negative
Bank Guarantee	30.00	30.00	[ICRA]A4 reaffirmed
Total	34.00	34.00	

*Instrument details are provided in Annexure-1

Rationale

The revision in outlook to Stable from Negative on the long-term rating of Yogi Construction Co. (YCC) factors in improvement in revenue in FY2018 after a significant decline in revenue during FY2017 owing to demonetisation and the cancellation of two large orders. The revision in outlook also takes note of stability in revenue during FY2019 and strengthening of capital structure and coverage indicators over FY2018-19. Further, the ratings also draw comfort from the adequate order book position of Rs. 119.96 crore as on May 31, 2019 (~1.93 times of FY2019 revenue) and L1 declared contracts, rendering revenue visibility in the medium term. The ratings continue to favourably factor in the long track record of the promoters in the civil construction industry and reputed clientele comprising of government and semi-government bodies, which limits counterparty credit risk to a greater extent.

The ratings, however, continue to remain constrained by YCC's moderate scale of operations and high geographical concentration risk with the most orders in the order book in the state of Gujarat and Madhya Pradesh. The ratings also take note of intense competition in the civil construction industry, resulting in pressure on margins. Further, being a partnership firm, any substantial withdrawal by partners can have an adverse impact on the firm's capital structure.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters in construction Industry – YCC's established track record, adequate infrastructure (skilled manpower) along with "AA" and special category I (civil) class certification from Gujarat have enabled it to meet the financial and technical criteria of the most tender floated. This coupled with more than two-decade industry experience of the promoters helps the firm to secure new orders and scale up of its operations.

Reputed client base reflecting low counter-party credit risks - YCC's client profile includes various Government and semi-Government agencies/local authorities across Gujarat and Government departments in Madhya Pradesh. The projects undertaken are funded by the government/semi-government bodies. Hence, the counter party credit risk remains low for YCC.

Adequate order book position provides revenue visibility in medium term – The firm has an adequate order book of Rs. 119.96 crore (~1.93 times of FY2019 revenues) as on May 31, 2019. These orders mainly include the construction of civil infrastructure, sewerage and drainage work in the state of Gujarat and Madhya Pradesh. Most of the orders in the current order book are expected to be executed over 12-18 months, thereby landing medium-term revenue visibility.

The firm is also declared as an L1 bidder for projects worth Rs. 119 crore, which will further support its revenue in the medium term.

Above-average financial risk profile – The return indicators improved, as evident from ROCE of ~24.76% in FY2019 (provisional figure) against 18.31% in FY2017 on the back of improvement in profitability. The sustained improvement in net worth base and lower debt level, resulted in improvement in gearing ratio to 0.15 times as on March 31, 2019 compared to 0.26 times as on March 31, 2017. The debt protection metrics continued to remain healthy, with an interest coverage ratio of 6.94 times and Total Debt/OPBDITA of 0.56 times for FY2019.

Credit challenges

Modest scale of operations amid intense competition – The firm’s operating income stood ~Rs. 62-66 crore in FY2018 and FY2019, which increased from Rs. 36.13 crore in FY2017 due to increase in order inflows and healthy execution of projects. Although, overall the firm’s scale continued to remain at modest levels in a highly competitive construction industry. Intense competition from several small unorganised players in the civil construction industry and tender-based operations restrict scalability and profit margins.

High client and geographical concentration – The top-three projects accounted for ~60% of the unexecuted order book as on May 2019. Any delay in execution or payments can affect the firm’s revenues and liquidity position. Additionally, Gujarat and Madhya Pradesh contribute to YCC’s entire pending order book, exposing it to adverse event risk in the region.

Vulnerability of profitability to fluctuations in raw material prices – Profitability remains vulnerable to fluctuations in input prices, although the presence of the price-escalation clause along with contracts with suppliers in for cement and steel mitigates the above risks to a large extent.

Liquidity position: Adequate

YCC’s liquidity position stands adequate, driven by estimated cash accrual of ~Rs. 4.00 crore against debt obligation of Rs. 0.02 crore to be repaid in FY2020. The liquidity is further supported by the cushion in fund-based (Rs. 1.91 crore as on March 31, 2019) and non-fund based facility (Rs. 10 crore as on March 31, 2019) and free cash and cash equivalents of Rs. 3.30 crore as on March 31, 2019. The average working capital utilisation remained moderate at 50% during the 15-month period from January 2018 to May 2019.

Rating sensitivities

Positive triggers- ICRA could upgrade YCC’s ratings if the firm demonstrates substantial growth in revenue while maintaining debt coverage indicators at current levels along with efficient working capital management.

Negative triggers- Negative pressure on the YCC’s ratings could arise if, there is a substantial decline in the scale of operations and profitability, results in weakening of interest coverage ratio of less than 2 times. Any delay in execution of projects, which adversely impact working capital cycle will also put pressure on the rating. Weakening of capital structure and coverage indicators on the back of major debt-funded capex, could also exert pressure on the ratings.

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 assigned ratings are based on the issuer's standalone financial statements.

About the company:

Ahmedabad (Gujarat)-based Yogi Construction Co. (YCC) is a civil constructor with major focus on drainage pipelines, canals, sewerage pumping stations and housing projects for the Government and semi-Government bodies of Gujarat, Madhya Pradesh and Rajasthan. YCC is a registered “AA” contractor and an approved contractor in the ‘Special Category I Contractor’ class with the Government of Gujarat. The company was established in 1996 as a partnership firm in Ahmedabad by the Patel family.

YCC reported a profit after tax (PAT) of Rs. 3.86 crore on an operating income (OI) of Rs. 62.25 crore in FY2019 (provisional figure), compared to a PAT of Rs. 3.64 crore on an OI of Rs. 66.35 crore in FY2018.

Key financial indicators (audited):

	FY2017	FY2018
Operating Income (Rs. crore)	36.13	66.35
PAT (Rs. crore)	2.36	3.64
OPBDITA/OI (%)	7.90%	5.78%
ROCE (%)	22.56%	24.76%
Total Debt/TNW (times)	0.26	0.15
Total Debt/OPBDITA (times)	1.32	0.58
Interest Coverage (times)	4.23	9.84

Source: YCC financials and ICRA research

Status of non-cooperation with previous CRA: Not Applicable

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 10-September 2019	Date & Rating in FY2018	Date & Rating in FY2018	Date & Rating in FY2017	Date & Rating in FY2016
1	Cash Credit	Long Term	4.00	2.09*	[ICRA]BB (Stable)	[ICRA]BB (Negative)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2	Bank Guarantee	Short Term	30.00	NA	[ICRA]A4	[ICRA]A4	[ICRA]A4+ ISSUER NOT CO-OPERATING	[ICRA]A4+
Total			34.00					

*Outstanding as on March 31, 2019; Source: YCC data and ICRA research

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
N.A.	Cash Credit	NA	10.95%	NA	4.00	[ICRA]BB (Stable)
N.A.	Bank Guarantee	NA	NA	NA	30.00	[ICRA]A4

Source: Yogi Construction Co.

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