January 25, 2022

Iron Triangle Limited: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Long Term - Fund based – CC/Others	112.00	112.00	[ICRA]A(Stable) reaffirmed
Long Term - Fund based – Term Loan	68.69	54.79	[ICRA]A(Stable) reaffirmed
Short Term -Non-Fund Based – BG/LC	622.50	530.00	[ICRA]A1 reaffirmed
Short Term Unallocated limits	-	106.40	[ICRA]A1 reaffirmed
Total	**803.19**	**803.19**	

**Instrument details are provided in Annexure-1*

Rationale

The reaffirmation of ratings continues to favourably factor in Iron Triangle Limited's (ITL's) diversified geographical presence across various states; reputed clientele with low counterparty risks; and healthy leverage and debt coverage indicators with interest cover likely to remain over 6 times in FY2023e. ICRA notes that while the company has a moderate order book of Rs. 2138.45 crore (2.5 times FY2021 OI) providing revenue visibility in the near to medium term, its pace of execution has remained slow owing to delays witnessed in its key projects due to delay in receipt of design approvals, securing right of way etc. New order addition has remained muted in the past two years with ITL receiving ~Rs. 900-1000 crore of orders in Apr-20 to Nov-21 period. Over the last four years, ITL's revenue has remained in the range of Rs 780-900 crore, and because of slow movement of some of its key orders, it is likely to witness about 10-15% decline in revenue during FY2022. In absence of major capex & investment plans, ICRA expects company's coverage indicators and liquidity position to remain comfortable over the medium term. The project concentration risk is high with the top five projects accounting for 52% of the outstanding order book as on November 30, 2021. The ratings however continue to favourably factor in the established track record of promoters spanning about three decades in the civil construction business.

The ratings consider the vulnerability of the company's profitability to fluctuations in input prices of raw materials and the criticality of timely completion as well as delivery as per contract terms in order to avoid liquidated damages (LD) claims. The heightened competition along with steep increase in input costs (steel, cement etc.) exerted pressure on ITL's profitability with operating profitability margins in FY2022 expected to remain at 9%-9.5% from 11.4% in FY2020 and 9.5% in FY2021. Given the increased competitive intensity, ITL's ability to secure new orders, while improving the profitability margins remains a key rating monitorable. The company is exposed to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past. Further, the reliance on security deposits from subcontractors supports the working capital requirements, any adverse change in such arrangement may lead to incremental reliance on bank borrowings, though such amount has lowered in the past two years. ITL also owns and operates two solar plants with a total power generation capacity of 15 MW and it has also extended advances of Rs. 31.1 crore to other corporates including group entities. The company is exploring options to monetise these investments/recover the advances, proceeds from which will be deployed towards debt reduction and improvement in liquidity position.

The Stable outlook indicates ICRA's opinion that ITL will continue to benefit from steady execution of its order book supported by timely receipt of payments from its key customers.

Key rating drivers and their description

Credit strengths

Reputed and diversified customer profile: The company's client base includes Government entities such as National Highways Authority of India, MORTH, Rail Vikas Nigam Limited, Ircon International Limited, Gandhinagar Smart City Development Limited etc. It also includes roads and bridges divisions, PWD departments, state road project divisions, health and family welfare departments of various states. Hence, the counterparty credit risk for ITL is low.

Comfortable capital structure and coverage indicators: Over the last four years, company's revenue has remained rangebound around Rs 780-900 crore. The company has a moderate order book of Rs. 2138.45 crore (2.5 times FY2021 Operating Income) providing revenue visibility in the near to medium term. The leverage of the company remained comfortable with TOL/TNW at 0.65 time as on March 31, 2021, given strong new worth of Rs. 413.45 crore as on March 31, 2021 along with the reduction in debt levels to Rs. 128.34 crore as on March 31, 2021. The TOL/TNW is expected to continue to remain comfortable at 0.44 times for FY2022. The interest coverage, though expected to witness some moderation in FY2022 due to lower scale and profits, would continue to remain healthy with OPBDITA/I&F estimated at 4.7 times as on March 31, 2022 as compared to 4.9 times as on March 31, 2021.

Adequate track record of company and promoters in civil construction: ITL's promoters have an established experience in the civil construction segment spanning more than three decades. ITL's long track record along with AA class registration and Special Category-I certification, ensure that it meets the financial and technical criteria for most of the tenders floated.

Credit challenges

Moderate execution risk and high project concentration: ITL's pace of execution has remained slow owing to delays witnessed in its key projects due to delay in receipt of design approvals, securing right of way etc. New order addition has remained muted in the past two years with ITL receiving ~Rs. 900-1000 crore of orders in Apr-20 to Nov-21 period. Over the last four years, ITL's revenue has remained in the range of Rs 780-900 crore, and because of slow movement of some of its key orders, it is likely to witness about 10-15% decline in revenue during FY2022. The project concentration risk also remains high with the top five projects accounting for 52% of the outstanding order book as on November 30, 2021.

Sizeable investment in non-core assets, advances to corporates: The company is exposed to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and security deposits. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past. Further, the reliance on security deposits from subcontractors supports the working capital requirements, any adverse change in such arrangement may lead to incremental reliance on bank borrowings, though such amount has lowered in the past two years. ITL also owns and operates two solar plants with a total power generation capacity of 15 MW and it has also extended advances of Rs. 31.1 crore to other corporates including group entities. The company is exploring options to monetise these investments/recover the advances, proceeds from which will be deployed towards debt reduction and improvement in liquidity position.

Intense competition and vulnerability to adverse price fluctuations: The heightened competition along with steep increase in input costs (steel, cement etc.) exerted pressure on ITL's profitability with operating profitability margins in FY2022 expected to remain at 9%-9.5% from 11.4% in FY2020 and 9.5% in FY2021. Going forward, the ability of the company to secure new orders, improve the operating margins remains to be seen, although presence of a price escalation clauses in its contracts mitigates the risk to an extent.

Liquidity position: Adequate

The company's cash flows are anticipated to remain adequate to meet its repayments of ~Rs. 10-11 crore in FY2022 and FY2023. Its liquidity is supported by limited capex requirements and has cushion available in form of unutilized cash credit of Rs. 58.91 crore as on September 30, 2021. The average utilisation over the past 15 months of fund-based working capital facility and non-fund based bank guarantee limits remained moderate at 36% and 57% respectively.

Rating sensitivities

Positive factors – ICRA could upgrade the rating if there is a ramp up in order execution leading to significant increase in the scale of operations, coupled with sustained improvement in operating margin.

Negative factors – Negative pressure on the ratings can arise if there is any significant delay in execution of the current orders or inability to secure new orders resulting in material decline in scale of operations or profitability, or incremental investment in non-core assets or advances which impacts the credit profile. Specific credit metrics leading to a rating downgrade would be interest coverage below 5 times on a sustained basis.

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 rating is based on the standalone financial profile of the company.

About the company

Iron Triangle Limited (ITL) was established as Backbone Enterprise Limited (BEL) in 1991 as a partnership firm named Backbone Enterprise by Mr. Kishore Viramgama, Mr. Bhupendrakumar Panchani, and Mr. Bhovan Rangani in Rajkot (Gujarat). It was reconstituted as a public limited company in July 2002. Backbone Enterprise Limited was renamed as Iron Triangle Limited in January 2017. Iron Triangle Limited is primarily engaged as an EPC contractor with presence in roads, railways, building, sewerage treatment, dams and water distribution. Its major clients include National Highways Authority of India (NHAI), MORTH, Rail Vikas Nigam Limited, Ircon International Limited, Gandhinagar Smart City Development Limited etc. The company has its registered office at Rajkot (Gujarat) with its corporate office at Ahmedabad.

Key financial indicators (audited)

	FY2019	FY2020	FY2021
Operating Income (Rs. crore)	889.3	780.2	842.9
PAT (Rs. crore)	43.6	45.5	43.1
OPBDIT/OI (%)	10.9%	11.4%	9.5%
PAT/OI (%)	4.9%	5.8%	5.1%
Total Outside Liabilities/Tangible Net Worth (times)	1.2	0.8	0.6
Total Debt/OPBDIT (times)	1.8	1.4	1.6
Interest Coverage (times)	4.0	4.9	4.9

PAT: Profit after Tax; OPBDIT: Operating Profit before Depreciation, Interest, Taxes and Amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

	Instrument	Current Rating (FY2022)				Chronology of Rating History for the past 3 years		
		Type	Amount Rated (Rs. crore)	Amount Outstanding as on September 30, 2021 (Rs. crore)	Date & Rating on	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019
					25-Jan-2022	23-Oct 2020	29-Aug 2019	06-Jul-2018
1	Fund based – CC/Others	Long-term	112.00	-	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
2	Fund based – Term Loan	Long-term	54.79	54.79	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)	[ICRA]A (Stable)
3	Non-Fund Based – BG/LC	Short-term	530.00	-	[ICRA]A1	[ICRA]A1	[ICRA]A1	[ICRA]A1
4	Unallocated limits	Short-term	106.40	-	[ICRA]A1	-	-	-

Complexity level of the rated instrument

Instrument	Complexity Indicator
Long Term - Fund based – CC/Others	Simple
Long Term - Fund based – Term Loan	Simple
Short Term -Non-Fund Based – BG/LC	Very Simple
Unallocated Limits	Not Applicable

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional, or legal aspects. Details on the complexity levels of the instruments, is available on ICRA's 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	Term Loan-1	Mar-2016	-	Apr-2029	10.49	[ICRA]A(Stable)
NA	Term Loan-2	Mar-2019	-	Sep-2024	16.28	[ICRA]A(Stable)
NA	Term Loan-3	Sep-2014	-	Jun-2029	28.02	[ICRA]A(Stable)
NA	Fund-based - Working Capital Facilities	NA	NA	NA	112.00	[ICRA]A(Stable)
NA	Non-fund Based - Bank Guarantee	NA	NA	NA	530.00	[ICRA]A1
NA	Unallocated	NA	NA	NA	106.40	[ICRA]A1

Source: *Company*

Annexure-2: List of entities considered for consolidated analysis

Not Applicable

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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

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