

April 07, 2022

Adroit Structural Engineers Pvt. Ltd.: Ratings reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based-Term Loan	19.00	19.00	[ICRA] BB+ (Stable); Reaffirmed
Fund based- Overdraft facilities	11.00	11.00	[ICRA] BB+ (Stable); Reaffirmed
Non-fund based-Bank Guarantee	20.00	20.00	[ICRA] A4+; Reaffirmed
Total	50.00	50.00	

*Instrument details are provided in Annexure-1

Rationale

The ratings reaffirmation continues to favourably factor in the extensive experience of the promoters in the civil construction industry and the comfortable order book of Rs. 220.1 crore as of November 2021 (~3.5 times of FY2021 revenue), providing near to medium-term revenue visibility.

The ratings, however, remain constrained by Adroit Structural Engineers Pvt Ltd.'s (ASEPL) moderate financial risk profile characterised by declining profit margins, its leveraged capital structure, modest coverage indicators and high working capital intensity. Further, the ratings also factor in the geographical and sectoral concentration risk as a major share of ASEPL's executed orders are skewed towards civil construction of factory building, primarily for the automobile and engineering sectors in Gujarat. The ratings are further constrained by the susceptibility of ASEPL's profitability to volatility in raw material prices, given the fixed-price nature of its contracts.

The Stable outlook on [ICRA]BB+ rating reflects ICRA's opinion that ASEPL will continue to benefit from its track record in the civil construction industry.

Key rating drivers and their description

Credit strengths

Established track record in the civil construction industry – ASEPL has been operating in the civil construction space for around two decades and has clients across sectors such as automobile and engineering. The established track record of project execution along with the promoter's experience helps the company to establish strong relationships with clients and procure repeat orders.

Comfortable order book position - ASEPL has a healthy order book, with unexecuted orders worth Rs. 220.1 crore (3.4 times FY2021 operating income) as on March 15, 2022, thereby providing near to medium term revenue visibility. The overall execution risk remains moderate with 46% of the order book having an execution progress of less than 20% of the project value.

Credit challenges

Moderate financial risk profile – ASEPL's operating profit has moderated over the years from 14.5% in FY2020 to 7.8% in FY2021, due to increase in input cost and inability to fully pass due to limitations on pass through. Further, due to increased debt-funded capex in the real estate business, the overall debt increased from Rs.27.1 crore in FY2020 to Rs.39.7 crore in

FY2021, resulting in a leveraged capital structure with gearing of 1.2 time. Low profitability and high debt levels have resulted in modest coverage indicators, as indicated by interest coverage of 1.9 times, TD/OPBIDTA of 8 times NCA/TD of 6.7% and DSCR of 1.2 as on FY2021-end. ASEPL's working capital intensity also increased in FY2021, as reflected in its NWC/OI of ~20.7% in FY2021 (FY2020 14.8%), due to high receivables and inventories (~79 and 74 days respectively in FY2021).

Presence of limited price escalation clause – A majority of ASEPL contracts have no price escalation clauses, mainly because of the short-to-medium tenure of its projects, which expose profitability to adverse movements in input costs.

Geographical and sectoral concentration – Most of the present and past orders are concentrated in Gujarat, resulting in geographical concentration risk. Further, its portfolio has a higher share of factory building construction for clients from the automobile and engineering sector. Hence, the company's revenues are exposed to geographical risk and to the cyclicality in the automobile and engineering sector, though, ASEPL has also executed projects in Karnataka and Haryana.

Liquidity position: Stretched

The overall liquidity position of the company is stretched because of high debt repayments, which are tightly matched with the accruals. Hence, timely support from the promoters through equity infusion/ unsecured loans remains crucial in case of any cash flow mismatch.

Rating sensitivities

Positive factors - ICRA may upgrade ASEPL's rating if the company demonstrates a sustained improvement in the scale and profitability margins along with improvement in working capital management, leading to improvement in debt coverage indicators and liquidity position.

Negative factors – Pressure on the ratings may arise due to sustained pressure on operation through cancellation / deferment of key orders, or lower-than-expected order inflow leading to pressure on revenues and margins and consequently cash accruals. The rating could also be downgraded if higher-than-expected debt-funded capex in commercial real estate or a further stretch in the working capital cycle deteriorates the capital structure and liquidity.

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 financials of Adroit Structural Engineers Pvt. Ltd.

About the company

Incorporated in the year 2000, ASEPL is promoted by Mr. Jasinder Grewal and Mrs. Shamal Grewal. ASEPL provides turnkey services for civil, structural, mechanical and electrical constructions. Further, it also provides pre-construction services such as conceptual designing of facilities, architectural drawings and 3D drawings of entire facilities.

ASEPL also leases out commercial plots, with ready civil infrastructure, to the manufacturing companies. As on date the company has rented total five plots with a yearly rental income of Rs.7.40 crore in FY2022e.

Key financial indicators (audited)

LTHL Consolidated	FY2020	FY2021
Operating Income (Rs. crore)	75.7	63.6
PAT (Rs. crore)	5.1	0.5
OPBDIT/OI (%)	14.5%	7.8%
PAT/OI (%)	6.8%	0.8%
Total Outside Liabilities/Tangible Net Worth (times)	1.3	1.9
Total Debt/OPBDIT (times)	2.5	8.0
Interest Coverage (times)	4.0	1.9

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 (FY2023)				Chronology of Rating History for the past 3 years			
	Type	Amount Rated (Rs. crore)	Amount Outstanding (Rs. crore) *	Date & Rating in	Date & Rating in FY2022	Date & Rating in FY2021		Date & Rating in FY2020
				April 07, 2022	-	Jan 19, 2021	Jan 07, 2021	Jan 07, 2020
1 Term Loan	Long-term	19.0	19.0	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
2 Overdraft	Long-term	11.0	--	[ICRA]BB+ (Stable)	-	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)	[ICRA]BB+ (Stable)
3 Bank Guarantee	Short-term	20.0	-	[ICRA]A4+	-	[ICRA]A4+	[ICRA]A4+	[ICRA]A4+

Amount in Rs. crore; * As of January 2021

Complexity level of the rated instrument

Instrument	Complexity Indicator
Term Loan	Simple
Overdraft	Simple
Bank Guarantee	Very Simple

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, are 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	FY2017	NA	FY2027	19.00	[ICRA]BB+ (Stable)
NA	Overdraft	NA	NA	NA	11.00	[ICRA]BB+ (Stable)
NA	Bank Guarantee	NA	NA	NA	20.00	[ICRA]A4+

Source: Company

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

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