

## Galacon Infrastructure and Projects Private Limited

April 06, 2022

### Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	10.67 (Enhanced from 10.00)	CARE BB; Stable (Double B; Outlook: Stable)	Revised from CARE BB+; Stable (Double B Plus; Outlook: Stable)
Short Term Bank Facilities	17.33 (Reduced from 18.00)	CARE A4 (A Four)	Revised from CARE A4+ (A Four Plus)
<b>Total Bank Facilities</b>	<b>28.00</b> <b>(Rs. Twenty-Eight Crore Only)</b>		

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The revision in the ratings assigned to the bank facilities of Galacon Infrastructure and Projects Private Limited continues to be tempered by small scale of operations with fluctuating total operating income, working capital intensive nature of operations, profitability margins are susceptible to fluctuation in raw material prices, tender based nature of operations and fragmented & competitive nature of industry. The rating also factors in satisfactory profitability margins. The rating however derives established track record and experienced & resourceful promoters for more than a decade in the construction industry, medium term revenue visibility, comfortable capital structure and debt coverage indicators during review period.

### Rating Sensitivities

#### Positive rating sensitivities

- Increase in scale of operations by 30%.
- Improvement in collection days to 30.
- Ability of the company to consistently bag with new orders

#### Negative rating sensitivities

- Decline in PBILDT margins by 200 bps.
- Any envisaged debt resulting in weakening of overall gearing ratio to 2.0x or above.

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Small scale of operations with fluctuating total operating income

During FY2021, the total operating income of the company declined by 60% from Rs.45.51 crore during FY20 to Rs.18.25 crore during FY21 due to slower pick up of business and with lack of availability of labors because of impact of Covid19 which impacted the execution and revenue of the company. Company took measures to optimize the cost in terms of cost of material consumed, administration expenses and employee expenses, due to which company has made profits of Rs. Rs.0.16 crore during FY21 against Rs. 1.35 crore in FY20.

The company has achieved topline of Rs. 17.43 crore with a PAT of Rs.0.07 crore during 9MFY2022. With this company would achieve topline of Rs. 25 crore during FY2022.

##### Working capital intensive nature of operations

The operations of the company are working capital intensive since the company is engaged in civil construction works. The Operating cycle of the company has also declined and stood at 260 days in FY21 (PY 80 days) due to increase in collection and inventories days. The average inventory days declined from 89 days in FY20 to 234 days in FY21. The average working capital utilization stood at 80-85% for the last twelve months ended February 28, 2022.

##### Profitability margins are susceptible to fluctuation in raw material prices

GIPPL is engaged in the business of construction industry, wherein the raw material inputs like cement, sand and steel among others prices are highly volatile in nature. This apart, increase in labour cost also may impact the profitability margins of the company. However, GIPPL have inbuilt price variation clause for the 80% of orders received which resulted in mitigation of prices to some extent.

##### Tender based nature of operations

The company receives few of its work orders from government organizations which are tender- based. The revenues of the company are dependent on the ability of the promoters to bid successfully for the tenders and execute the same effectively. However, the promoter's long experience in the industry for more than two decades mitigates the risk to an extent. Nevertheless, there are numerous fragmented & unorganized players operating in the segment which makes the industry highly competitive. Furthermore, the profitability margins also come under pressure because of competitive nature of the tender based contract works of the company.

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

### Highly fragmented industry with intense competition from large number of players

The company is engaged in civil construction which is highly fragmented industry due to presence of large number of organized and unorganized players in the industry resulting in huge competition.

### Key Rating Strengths

#### Established track record and experienced & resourceful promoters for more than two decades in the construction industry

GIPPL was established in the year 2006, hence, it has established track record. The promoters of the company have considerable experience in the line of construction industry. The Company is promoted by Mr. Dharma Teja Bobba (Managing Director), is a civil engineer from NIT Jaipur and holds a postgraduate diploma from NICMAR Delhi, specializing in international construction contracts. He has also done his MBA from a prestigious B-School, Indian School of Business (ISB), Hyderabad. Prior to GIPPL, he worked with Lanco Infratech Limited, as Director (operations). He has a vast experience of around 2 decades complimented with strong expertise in construction and infrastructure industry.

The directors are supported by a qualified professional management team. Ms. S. Sindhu (CFO), has also done her MBA from a reputed B-School, Asian Institute of Management, Philippines and is currently the head of Finance and Accounts, Human Resource and Administration departments with a vast experience of over 10 years. The company has established good relationship with suppliers and customers due to established track record and presence in the business for a long period of time

#### Satisfactory profitability margins

Despite, low and decline in total operating income the profitability margin of the company i.e PBILDT margin increased from 10.15% in FY20 to 14.60% due to reduction in PBILDT absolute numbers.

The company reported decline in PAT margin of 0.88% during FY21 against 2.96% during FY20 due to decline in topline during FY21.

#### Comfortable capital structure and debt coverage indicators albeit decline

The capital structure of the company declined marked by overall gearing of 0.97x as on March 31, 2021 as compared to 0.58x as on March 31, 2019 due to increase in debt and high utilisation of fund-based limits during FY2021. The Interest coverage ratio of the company deteriorated to 1.82x during FY21 from 3.11x during FY20 due to decline in the decline in PBILDT. Also, the Total Debt/ GCA declined from 2.92x in FY20 to 11.24x due to increase in debt levels and decrease in operating income subsequently impacted GCA of the company.

#### Medium term revenue visibility

GIPPL has a strong unexecuted order book position of Rs.138.2 crore (PY Rs.122.13 crore) as on February 2022 which is 7.57x its total operating income for FY21 which comfortably provides revenue visibility for around next two-three years. During FY2022, the company would complete order of Rs. 1.69 crore which would add to the topline of the company

#### Liquidity analysis- Adequate

The current ratio of the company stood comfortable at 1.86x with improvement in realization of debtors from Rs. 5.39 crore as on March 31, 2020 to 4.61 crores as on March 31, 2021. The company has low cash and bank balances of RS. 0.29 crore as on 31<sup>st</sup> March 2021 but has increased to Rs. 0.43 crore in December 2021. The company has sufficient GCA of Rs. 1.02 crore as on December 2021 against repayment obligations of Rs. 0.27 crore outstanding for FY2022. The average utilization of CC facility stood at 80-85% for the last twelve months ended February 28, 2022.

**Analytical approach:** CARE has analysed standalone financials of Galacon Infrastructure and Projects Private Limited are considered for analysis of the rating.

#### Applicable criteria

[CARE's Policy on Default Recognition](#)

[Criteria on assigning 'outlook' and 'credit watch' to Credit Ratings](#)

[Financial ratios –Non-Financial Sector](#)

[Rating Methodology –Construction Sector](#)

[Liquidity Analysis of Non-Financial Sector Entities](#)

[Criteria for Short Term Instruments](#)

#### About the company

Andhra Pradesh based, Galacon Infrastructure and Projects Private Limited (GIPPL), was incorporated in the year 2006 with its registered office at Madhapur, Hyderabad. The promoters of the company are Mr. Dharma Teja (Managing Director) and Ms. Yashodhava (Director). They have experience of more than a decade in construction industry. The company is primarily engaged in civil construction works relating to bridges, power plants, roads, buildings, water networks and pipelines. The company procures its work orders from government as well as private authorities. The company procures tenders from state government of Andhra Pradesh, Telangana, Tamil Nadu, Assam and Haryana. GIPPL has ISO 9001:2015, HYM, ASCB © certifications for construction of buildings, bridges and other engineering works and assessed for proper management of quality management system. The company undertakes majority of projects from Central PSUs with some projects from State PSUs which are backed by the Central Government. The clientele of the company is strong and counterparty risk is not envisaged.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY2022 (P)
Total operating income	45.61	18.37	17.43
PBILDT	4.63	2.68	2.42
PAT	1.35	0.16	0.07
Overall gearing (times)	0.58	0.97	0.86
Interest coverage (times)	3.11	1.82	1.80

A: Audited; P: Provisional.

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not applicable.

**Rating History for last three years:** Please refer Annexure-2.

**Covenants of rated instrument / facility:** Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3.

**Complexity level of various instruments rated for this company:** Annexure 4.

#### Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	9.50	CARE BB; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	10.50	CARE A4
Non-fund-based - ST-Bank Guarantee		-	-	-	6.83	CARE A4
Fund-based - LT-Term Loan		-	-	September 2024	1.17	CARE BB; Stable

#### Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-2023	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	9.50	CARE BB; Stable	-	-	1)CARE BB+; Stable (26-Mar-21)	1)CARE BB+; Stable (05-Mar-20)
2	Non-fund-based - ST-Bank Guarantee	ST	10.50	CARE A4	-	-	1)CARE A4+ (26-Mar-21)	1)CARE A4+ (05-Mar-20)
3	Non-fund-based - ST-Bank Guarantee	ST	6.83	CARE A4	-	-	1)CARE A4+ (26-Mar-21)	1)CARE A4+ (05-Mar-20)
4	Fund-based - LT-Term Loan	LT	1.17	CARE BB; Stable	-	-	1)CARE BB+; Stable (26-Mar-21)	-

\* Long Term / Short Term

**Annexure-3: Detailed explanation of covenants of the rated instrument / facilities:** Not Applicable

#### Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	Simple

#### Annexure 5: Bank Lender Details for this Company

To view the lender wise details of bank facilities please [click here](#)

**Note on complexity levels of the rated instrument:** CARE Ratings Ltd. has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to [care@careedge.in](mailto:care@careedge.in) for any clarifications.

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