Avexa Corporation Private Limited

January 07, 2022

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	30.00 (Reduced from 80.00)	CARE BBB-; Stable (Triple B Minus; Outlook: Stable)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE BB+; Stable; (Double B Plus; Outlook: Stable)
Long Term / Short Term Bank Facilities	120.00 (Reduced from 220.00)	CARE BBB-; Stable / CARE A3 (Triple B Minus ; Outlook: Stable / A Three)	Rating removed from ISSUER NOT COOPERATING category and Revised from CARE BB+; Stable / CARE A4+; (Double B Plus ; Outlook: Stable / A Four Plus)
Total Facilities	150.00 (Rs. One Hundred Fifty Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in rating(s) assigned to the bank facilities of Avexa Corporation Private Limited (ACPL) factors infusion of unsecured loans by promoters to support operations and reduction in working capital limits during 7MFY22, Significant improvement in composition of order book with majority of the orders funded by central government institutions; post fore-closure of orders cancelled by A.P government without any financial loss to the company, Improvement in scale of operations for 7MFY22 (April 2021 to October 2021) coupled with collection efficiency of receivables, satisfactory capital structure and stable outlook on industry.

The rating is, however, constrained by volatile input costs, working capital intensive nature of operations leading to elongated operating cycle led by impact of covid-19 pandemic and tender-based nature of business amid highly competitive construction industry.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:
- The company reports top line of more than Rs.200 crore on a sustainable basis.
- Improvement in collection period under 90 to 120 days

Negative Factors- Factors that could lead to negative rating action/downgrade:
- Decline in order book position to below 2x of gross billings.
- Deterioration in debtor’s position from current levels leading to stress on liquidity.

Detailed description of the key rating drivers

Key Rating Strengths

Experienced promoters/management with demonstrated track record of operations: ACPL started operations in 1998 as a small sized construction company at Hyderabad in the state of erstwhile United Andhra Pradesh with major focus on construction of tunnels for dams in Uttaranchal. The company later diversified into public health projects, works related to mining, construction of roads and rail over bridge. Furthermore, the company has also diversified geographically over the years. Mr. Jogeswara Rao, (Director) is a graduate in Automobile Engineering, has almost a decade of experience in execution of various infrastructure projects. He is ably supported by experienced professionals from the construction sector.

Satisfactory order book position with low counter party credit risk: Satisfactory active order book of Rs 525.03 crore including non-moving orders of Rs 266.69 crore, which stands at Rs.791.72 crore as on Dec 1, 2021, thereby providing medium term revenue visibility. Company has added about Rs.103 crore of work orders during 7MFY22 and all are funded by central government institutions. About 93% of the total active order book of Rs 525.03 crore are funded by central government institutions and multilateral agencies and balance 7% is from state government (Govt. of AP and Govt. of TN).

Clean-up of order book and realization of struck advances: Post change in government in the state of Andhra Pradesh during May 2019, government of AP has cancelled/reviewed the projects awarded by the earlier government. In view of the above, about Rs 1010 crore of orders pertaining to AP government of the company were cancelled, which had severely affected the financial performance during FY20 & FY21. Company was able to amicably settle the cancelled orders without any financial losses including return of BG submitted to the projects.

Further, the company is in the process of renegotiating/closing the existing non-moving orders of Rs 266.69 crore. As on Oct 31, 2021, the company has BG/Mob. Adv liability of Rs 18.60 crore and security deposit of Rs 3.01, will be settled without any financial losses to the company. All the resources including men and machineries were moved to other working sites.

[1]Complete definitions of the ratings assigned are available at HYPERLINK "http://www.careedge.in" www.careedge.in and in other CARE Ratings Ltd.’s publications.

This apart, the company had given advances to suppliers & sub-contractors towards works-in-hand during the period FY17-FY19 that continues to remain struck, which stand at Rs.50.62 crore as on March 31, 2021. During 7MFY22, the company had realized Rs 10 crore and it is expected to realize further Rs 8 core to Rs 10 crore during Q4FY22.

Escalation clause for input prices in contracts: Steel, cement, concrete, diesel etc., are the major inputs for any construction entity, the prices of which are volatile. However, ACPL has price escalation clause in all civil construction projects wherein the burden of price increase is marked up in the billing to the Government.

Improvement in scale of operations post decline in revenue for FY20 & FY21: During FY21 (UA), ACPL witnessed gross revenue of Rs.102.18 crore which is 21% lower from revenue of FY20. Also, during FY20, ACPL has reported total operating income (TOI) Rs.129.56 crore that is 61% lower than TOI of Rs.333.66 crore for FY19. The reduction in turnover was mainly due to cancellation of majority of orders post change in government of Andhra Pradesh during May 2019. Company has achieved revenue of Rs 71.36 crore for 7MFY22 with PBILDT margin of 8.6% and GCA of Rs 2.79 crore, which is 44% of the estimated revenue of Rs 161 crore for FY22 (P.Y. Rs 102.19 crore) at the back of improvement in composition of the order book. Promoters have infused interest free unsecured loans of Rs 22 crore during 7MFY22 towards reduction in fund based working capital limit, which is expected to result in interest savings for balance period of 5MFY22 resulting in improvement in operating profit margins.

Comfortable capital structure: The debt profile of the company attributes to unsecured loan, covid-19 relief loan, mobilization advance & working capital limits. Overall gearing continues to remain below unity for the last 3 years with 0.75x as on March 31, 2021. The debt coverage indicators, PBILDT-interest coverage remains comfortable at 1.5x in FY21. However, total debt to GCA has deteriorated to 17.90x in FY21 due to lower cash accruals led by decline in scale of operations. With improvement in turnover for 7MFY22, the total debt/GCA is improved to 11.04x (annualized basis).

Stable Industry outlook: The construction industry contributes around 8% to India's Gross domestic product (GDP). Growth in infrastructure is critical for the development of the economy and hence, the construction sector assumes an important role. Enforcement of nationwide lockdown against the spread of Covid-19 pandemic has adversely impacted the financial and liquidity profile of players in the industry. Government of India has undertaken several steps for boosting the infrastructure development and revives the investment cycle. The same is expected to gradually result in increased order inflow and movement of passive orders in existing order book. The focus of the government on infrastructure development is expected to translate into huge business potential for the construction industry in the long run.

Key Rating Weaknesses

Volatility input costs: To execute the orders within the envisaged timelines and costs, the company sub-contracts 50% of the works and balance 50% using its own resources. Due to change in order book and reduced level of revenue for FY20 and FY21, the dependence of subcontracting is skewed, however, going forward, this will stabilize at 50% thereby company will be able to achieve operating profit margins in the range bound 12%-13%.

Impact of COVID-19: In the wake of the global pandemic COVID-19, the Central Government announced country wide lockdown, with effect from last week in March 2020 till May 2020. The operations of ACPL were initially impacted, particularly during H1FY21 and subsequently the works have started in phased manner from June 2020 onwards with reduced resources (labour & raw materials) due to limited availability of same. Further, the company faced delay of debtors' realization and had to stretch payments to suppliers at no extra costs due to their long-standing relationship. The cashflow mismatch due to impact of covid pandemic was addressed by availing interest moratorium relief given lenders for the period March 2020 to August 2020.

Fragmented nature of construction sector with tender-based nature of operations and execution challenges: The infrastructure sector in India is highly fragmented and competitive with many small and mid-sized players. This coupled with tendering process in order procurement results in intense competition within the industry, fluctuating revenues and restrictions in profitability. Additionally, continued increase in execution challenges including delays in land acquisition, regulatory clearances, aggressive bidding, interest rate risk and delays in project due to environmental clearance are other external factors that affect the credit profile of industry players. All these are tender- based and the revenues are dependent on the ability of the company to bid successfully for these tenders. Profitability margins come under pressure because of competitive nature of the industry. However, the promoter's long industry experience of nearly five decades mitigates this risk to some extent.

Liquidity: Adequate

Adequate liquidity was marked by infusion of interest free unsecured loans of Rs 22 crore during 7MFY22 to support reduction in working capital limits coupled with overall gearing continues to remain less than unity. Though, fund based working capital utilization has remained 82% and non-fund-based limits at 89% for the 12 months ending October 2021, the Company has generated GCA of Rs 2.79 crore for 7MFY22 against the total repayment obligation of Rs 0.70 crore for FY22. The free cash balance as on October 31,2021 stands at Rs 0.06 core.

Analytical approach: Standalone
Applicable Criteria
Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Short Term Instruments
Construction

About the Company
Avexa Corporation Private Limited (ACPL, erstwhile Siva Swathi Constructions Private Limited) was started in 1998 as partnership concern. Later in 2005, the firm was converted into a private limited company. The company's name was changed to the current nomenclature in June 2017.
ACPL gradually expanded its scope of activities to irrigation works which includes construction of barrages on rivers, building up of canals, water and sewage treatment plants, coal and manganese ore mining, roads, and construction of Road over Bridges (ROB) etc. ACPL executes projects as a principal contractor as well as a sub-contractor and in joint venture. ACPL has prequalification criteria to bid work orders of Rs.200 crore in railways, Rs.100 crore in roads and Rs.300 crore through Joint Ventures.

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	H1FY22 (UA)
Total operating income	129.56	102.19	57.00
PBILDT	24.87	20.75	NA
PAT	5.33	2.89	NA
Overall gearing (times)	0.74	0.75	NA
Interest coverage (times)	1.80	1.50	NA

A: Audited; NA: Not Available

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	-	-	-	-	30.00	CARE BBB-; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	-	120.00	CARE BBB-; Stable / CARE A3

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 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	30.00	CARE BBB-; Stable	-	1)CARE BB+; Stable; ISSUER NOT COOPERATING* (26-Mar-21) 2)CARE BBB+; Negative (02-Apr-20)	-	1)CARE BBB+; Stable (13-Mar-19)
2	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST*	120.00	CARE BBB-; Stable / CARE A3	-	1)CARE BB+; Stable / CARE A4+; ISSUER NOT COOPERATING* (26-Mar-21) 2)CARE BBB+; Negative / CARE A3+ (02-Apr-20)	-	1)CARE BBB+; Stable / CARE A3+ (13-Mar-19)

* 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	Non-fund-based - LT/ ST-Bank Guarantees	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 for any clarifications.

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With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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