Ananya Engineering Private Limited

September 19, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	11.58	CARE BB-; Stable (Double B Minus; Outlook: Stable)	Assigned
Long Term / Short Term Bank Facilities	4.00	CARE BB-; Stable / CARE A4 (Double B Minus; Outlook: Stable/ A Four)	Assigned
Short Term Bank Facilities	0.50	CARE A4 (A Four)	Assigned
Total Bank Facilities	**16.08 (₹ Sixteen Crore and Eight Lakhs Only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The ratings assigned to the bank facilities of Ananya Engineering Private Limited (AEPL) are constrained on account of AEPL's modest scale of operations with moderate profitability, highly leveraged capital structure, moderate debt coverage indicators and stretched liquidity. The ratings are also constrained by susceptibility of AEPL's profitability to raw material price volatility and its presence in highly competitive and fragmented construction industry with tender driven nature of business.

The ratings, however, derive strength from its experienced promoters with established track record of operations in civil construction business and moderate order book on hand with limited counterparty risk.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Timely execution of orders on hand leading to increase in scale of operations with Total Operating Income (TOI) exceeding Rs.100 crore while maintaining PBILDT margin above 10% on sustained basis
- Improvement in net worth base as well as capital structure with overall gearing below 2x on sustained basis

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Any delay in order execution resulting in decline in scale of operations with TOI below Rs.40 crore or moderation in PBILDT margin below 8% on sustained basis
- Any further deterioration in capital structure with overall gearing of more than 4 times
- Any increase in working capital intensity resulting in increase in gross current asset days above 300 days on sustained basis

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations with moderate profitability

AEPL's scale of operations stood modest over the last three years ended FY22 with TOI of Rs.49.31 crore in FY22. While TOI was marginally lower in FY21 over FY20 on account of Covid-19 pandemic but it registered healthy growth of ~53% y-o-y in FY22. Further, in Q1FY23, company has registered TOI of Rs.19.26 crore backed by healthy order book execution.

PBILDT margin of AEPL has largely remained moderate in the range of 10%-16% in last three years ended FY22, with some moderation in operating margins witnessed during FY22. During FY22, PBILDT margin stood moderate at 9.36% (P.Y:16.18%); the decline from FY21 level was mainly on account of increase in project running expenses during the year. However, due to lower interest cost & depreciation charges, PAT margin improved to 3.73% in last three years ended FY22. Going forward margin are expected to remain in range of 9%-12%.

Highly leveraged capital structure and moderate debt coverage indicators

The capital structure of AEPL remained leveraged though improved over the past 3 years marked by overall gearing of 3.57 times as on March 31, 2022 (5.18x as on March 31, 2020). Same was due to high reliance on debt for its funding requirement with modest networth base of Rs.6.02 crore as on March 31, 2022. TOL/TNW also remained high at 6.01x as on March 31, 2022 (P.Y: 7.51x).

Debt coverage indicators stood moderate in FY22 marked by total debt to GCA of 7.39 times and interest coverage of 2.52 times.

Susceptibility of profitability to input price volatility

Profitability of the company remains susceptible to volatility in prices of inputs such as key raw materials, fuel and labour to a large extent. However, majority of the contracts have in-built price escalation clause thus providing protection to the company from these risks to a certain extent.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Concentrated order book with limited diversity in revenue stream
The company being a regional player, majority of its projects are located in Madhya Pradesh and Rajasthan with the present order book mainly from various government authorities and some from reputed private parties on sub-contract basis, resulting in segmental and geographical concentration of revenue with dependence of execution pace on government's spending on related infrastructure. Further, company has remained focused on the Railway/Metro segment, which also reflects sectoral concentration risk and limited diversity in its revenue stream however provides required expertise in the sector.

Presence in an intensely competitive & fragmented construction sector with tender based nature of operations
AEPL operates in an intensely competitive construction industry with presence of large number of contractors. With low counterparty credit risk and a relatively stable payment track record of projects funded by government bodies, these projects are lucrative for all the contractors and hence are highly competitive. Thus, aggressive bidding by the players limits the 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.

Key Rating Strengths
Experienced promoters with long track record of operations
AEPL specialises in civil construction with main focus on construction and maintenance of railway tracks, bridges, platforms, buildings, roads, piling, tunnels, ports, runways etc. AEPL is promoted by Mr. Gagan Gupta, who has more than two decades of experience in this industry along with his son Mr. Aabhas Gupta and his son in law Mr. Raj Gupta, who manage day to day operations of the company.

Moderate order book position along with limited counter party risk
As on July 11, 2022, AEPL had order book of ~Rs.293 crore which formed ~5.95 times of TOI of FY22, reflecting moderate order book position. Being present in the industry since 2009, AEPL has a proven and established track record of operations in the civil construction industry and is an approved contractor of RVNL and is eligible to participate in civil contracts pertaining railways. This long-standing association with the reputed clientele base translates into a low counter-party credit risk for the company.

Liquidity: Stretched
AEPL's liquidity remains stretched marked by tightly matched cash accruals vis-à-vis debt repayment obligations, with elongated operating cycle at 147 days in FY22 (P.Y.: 183 days). AEPL's operations are working capital intensive in nature primarily due to its funding requirement towards the security deposits, retention amount and margin money for the non-fund-based facilities. Average utilization of its fund-based limits remained almost full during the trailing twelve months ended July 2022. Going forward, sanction of additional working capital limits to fulfil the present order book requirements is crucial for liquidity of the company.
As on March 31, 2022, AEPL has free cash and bank balance of only Rs.0.82 crore. Also, scheduled repayment of Rs.3.55 crore in FY23 is expected to remain tightly matched to its cash accrual generation.

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
Incorporated in 2009, Ananya Engineering Pvt Ltd (AEPL; CIN: U45200MP2009PTC022454) is promoted by Mr. Gagan Gupta, who has more than two decades of experience in the construction industry. He is assisted by his son, Mr. Aabhas Gupta and his son in law, Mr. Raj Gupta, in managing day to day operations of the company. AEPL undertakes construction and maintenance of railway tracks, bridges, platforms, buildings, roads, piling, tunnels, ports, runways etc.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (P)	Q1FY23 (P)
Total operating income	32.31	49.31	19.26
PBILDT	5.23	4.62	NA
PAT	1.00	1.84	NA
Overall gearing (times)	5.18	3.57	NA
Interest coverage (times)	1.83	2.52	NA

A: Audited; P: Provisional; NA: Not Available

Status of non-cooperation with previous CRA: Brickwork has conducted the review on the basis of best available information under "Issuer Not cooperating" category vide its press release dated January 12, 2022.

Any other information: Not Applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: 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 (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Cash Credit		-	-	-	10.50	CARE BB-; Stable
Fund-based - LT-Working capital Term Loan		-	-	June 2024	1.08	CARE BB-; Stable
Non-fund-based - ST-Letter of credit		-	-	-	0.50	CARE A4
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	4.00	CARE BB-; Stable / CARE A4

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Cash Credit	LT	10.50	CARE BB-; Stable	-	-	-	-
2	Fund-based - LT-Working capital Term Loan	LT	1.08	CARE BB-; Stable	-	-	-	-
3	Non-fund-based - ST-Letter of credit	ST	0.50	CARE A4	-	-	-	-
4	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	4.00	CARE BB-; Stable / CARE A4	-	-	-	-

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/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-Working capital Term Loan	Simple
3	Non-fund-based - LT/ ST-Bank Guarantee	Simple
4	Non-fund-based - ST-Letter of credit	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 instruments: CARE Ratings 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.

Contact us

Media contact
Name: Mradul Mishra
Phone: +91-22-6754 3596
E-mail: mradul.mishra@careedge.in

Analyst contact
Name: Akhil Goyal
Phone: +91-79-4026 5621
E-mail: akhil.goyal@careedge.in

Relationship contact
Name: Deepak Purshottambhai Prajapati
Phone: +91-79-4026 5656
E-mail: deepak.prajapati@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

For the detailed Rationale Report and subscription information, please visit www.careedge.in