

## Iron Triangle Limited

June 18, 2024

Facilities/Instruments	Amount (₹ crore)	Rating <sup>1</sup>	Rating Action
Long-term bank facilities	22.00	CARE A; Stable	Assigned
Long-term / Short-term bank facilities	668.00	CARE A; Stable / CARE A1	Assigned
Short-term bank facilities	10.00	CARE A1	Assigned

Details of instruments/facilities in Annexure-1.

### Rationale and key rating drivers

The ratings assigned to the bank facilities of Iron Triangle Limited (ITL) favourably factors in experienced promoters with established track record of operations in executing diverse infrastructure projects, geographically and segmentally diversified orderbook, providing moderate revenue visibility, reputed clientele base with low counterparty credit risk, robust financial risk profile and strong liquidity. The ratings also factor in ITL's ability to efficiently manage its working capital requirement with minimal dependence on external debt.

The above rating strengths are, however, partially offset by ITL's moderate scale of operations, high dependence on sub-contracting leading to moderate profitability, and its presence in a highly fragmented and competitive tender-driven construction industry.

### Rating sensitivities: Factors likely to lead to rating actions

#### Positive factors

- Significant growth in its total operating income (TOI) along with improvement in its profit before interest, lease rentals, depreciation and taxation (PBILDT) margin from engineering, procurement and construction (EPC) segment on a sustained basis.
- Improvement in gross cash accruals (GCA) days below 180 days on a sustained basis.

#### Negative factors

- Decline in its scale of operations below ₹900 crore or reduction in revenue visibility below 1.20x of its TOI.
- Dip in PBILDT margin from EPC segment below 5% on a sustained basis.
- Increase in working capital intensity marked by increase in current asset days (GCA) to over 225 days on a sustained basis or substantial decline in the available liquidity buffer (in the form of unencumbered cash and cash equivalents and undrawn working capital lines).

**Analytical approach:** Standalone

#### Outlook: Stable

Stable outlook reflects CARE Ratings Limited's (CARE Ratings') expectation that ITL will continue to benefit from long-standing experience of its promoters in the construction industry and will continue to sustain its strong financial risk profile and liquidity in the near term.

### Detailed description of key rating drivers:

#### Key strengths

##### Strong financial risk profile

ITL has a conservative external debt policy, marked by its low total debt and low utilisation of its fund-based working capital limits. The company's capital structure is comfortable, marked by overall gearing of 0.18x as on March 31, 2024. Majority of working capital requirement is funded through its strong net worth base of ₹541 crore as on March 31, 2024.

The debt coverage indicators marked by PBILDT interest coverage and TD/PBILDT improved to 8.02x (FY23: 4.13x) and 1.27x (FY23: 1.84x), respectively, in FY24 with pre-payment of majority of its term debt by the company. Total outside liabilities / tangible net worth (TOL/TNW) also remained healthy at 0.55x as on March 31, 2024 (FY23: 0.49x).

With ITL being focused to maintain its scale at nearly ₹1,000 - ₹1,200 crore going forward, the company's working capital requirement is expected to remain stable and hence its credit risk profile is expected to remain strong in the medium term.

#### Geographically and segmentally diversified orderbook with low counterparty credit risk

As on March 31, 2024, ITL had an orderbook of ₹1,406 crore, translating into moderate revenue visibility of 1.40x of FY24's EPC revenue. Apart from the above, ITL has been declared as a L-1 bidder for three new projects worth ₹722 crore, which will

<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

strengthen its orderbook position. ITL's entire order book consists of work orders from state government and urban development authorities with funding backed by Asian Development Bank, Japan International Cooperation Agency (JICA) or Central public sector undertakings, among others, translating into steady cashflows and low counterparty credit risk. Around 49% of ITL's existing orderbook consists of contracts which are at nascent stage of execution (less than 10% of the billing is done) and execution of some of the orders has been impacted due to varied reasons not attributable to ITL.

ITL's orderbook remained well diversified across five states with Odisha accounting for around 61% of the orderbook, followed by Gujarat (27%), West Bengal (6%), Karnataka (5%), and Rajasthan (1%). Furthermore, ITL has presence across diversified segments with building accounting for 38% of the orderbook, followed by water supply projects (26%), roads (20%), railway (9%), civil, and other works (7%).

#### **Working capital intensive nature of operations albeit efficient management of the same**

The construction sector remains inherently working capital intensive primarily due to funding requirement for security deposits, retention amount and margin money towards various contracts and against margin for non-fund-based facilities. Even though ITL's operations are working capital intensive, its reliance on working capital limits remains low and majority of the working capital requirement is met through its own funds and sub-contractor's deposits.

With focus on executing projects wherein the payment is received timely and with reduction in inventory days, the company's operating cycle improved to 91 days in FY24 (FY23: 113 days). While the company's gross current asset (GCA) days remained high at 184 days in FY24 (FY23: 209 days), excluding margin money (given as collateral and for NFB limits), GCA days remains comfortable at around 147 days in FY24 (FY23: 162 days).

#### **Experienced promoters with established track record of operations in executing diverse infrastructure projects**

ITL has an established track record of executing diverse infrastructure projects involving construction of roads, buildings, water and drainage systems, and irrigation, among others. The company's promoters, Mr. Kishor Viramgama and Mr. Bhovan Rangani, have more than three decades of experience in the construction industry.

ITL has a diversified revenue stream, wherein around 61% (PY: 28%) of the revenue was derived from building construction, 27% (PY: 46%) from railways, 5% (PY: 8%) from water supply projects, 4% (PY: 16%) from road construction, and balance 10% from other segments in FY24.

#### **Liquidity: Strong**

ITL has strong liquidity characterised by sufficient cushion in cash accruals against repayment obligations, healthy cash flow from operations, free cash and liquid investments, and unutilised bank lines. ITL does not have any major term debt and its scheduled repayment for FY25 remains low at around ₹2.97 crore as against envisaged GCA of ₹55-57 crore.

Average month-end utilisation of its fund-based limits have remained low at 19%, while non-fund-based limits remained moderately utilised at 72% in the trailing 12 months ended March 2024.

As on March 31, 2024, ITL had free cash and bank balance of ₹166.89 crore, besides lien marked bank FDs of ₹107.94 crore, which further underscores ITL's strong liquidity. Liquidity is also supported by receipt of annuity of ₹15 crore from debt-free BOT-annuity project in special purpose vehicle (SPV).

Cash flow from operations remained at ₹72.22 crore in FY24 (FY23: ₹33.95 crore). RBL's current ratio and quick ratio as on March 31, 2024, remained comfortable at 2.36x (FY23: 2.69x) and 1.86x (FY19: 1.79x), respectively.

#### **Key weaknesses**

##### **Moderate scale of operations and profitability**

ITL's TOI remained rangebound at around ₹700 – ₹1,000 crore in the trailing five years ended FY24. In FY24, ITL reported TOI of around ₹1,048.11 crore, depicting a y-o-y growth of 27% over FY23. EPC segment continued to be the highest contributor to TOI and the company derived majority of revenue from execution of buildings construction contracts (61%) followed by railway segment, followed by income from solar power generation and sale of land parcel. The company's EPC revenue grew by around 27.27% in FY24 to ₹1,007 crore (FY23: ₹791 crore).

ITL's PBILDT margin has depicted a declining trend over last five years ended FY24 owing to higher adoption of subcontracting model for execution of projects. In FY24, ITL reported PBILDT margin of 7.44% (FY23: 8.30%) driven by revenue from solar power plant and sales of land parcel in FY24. The PBILDT margin from EPC segment remained low below 5%. CARE Ratings believes ITL will continue to generate EPC revenue in the range of ₹900 – ₹1,100 crore with PBILDT margin at around 6% following its plan to reduce its dependence on sub-contracting.

### Presence in a highly fragmented and competitive construction industry

ITL is a mid-sized player operating in an intensely competitive construction industry with presence of many mid and large-sized players. With low counterparty credit risk, these projects are lucrative for all the contractors and hence are highly competitive. Nevertheless, aggressive bidding or delay in project progress due to unavailability of regulatory clearances may affect the credit profile of the contractor and exert pressure on the margins of the entities in the industry.

### Applicable criteria

[Definition of Default](#)

[Liquidity Analysis of Non-financial sector entities](#)

[Rating Outlook and Rating Watch](#)

[Financial Ratios – Non financial Sector](#)

[Construction](#)

[Short Term Instruments](#)

### About the company and industry

#### Industry classification

Macro-economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil construction

Promoted by Mr Kishor Viramgama, Mr. Bhovanbhai Rangani and Late Mr. Bhupendra Pachani, ITL (previously known as Backbone Enterprises Ltd) took over the partnership firm (Backbone Enterprise) in July 2002, established in 1991.

The company has presence in diverse areas of infrastructure construction, including roads, buildings, water and drainage systems, and irrigation, among others, in Bihar, Rajasthan, Chhattisgarh, Odisha, Karnataka, and Gujarat. ITL also hold AA Class registration and Special Category – I Registration with the State Government. The company also operates one 10-MW and one 5-MW solar power plant in Gujarat, of which power plant of 10 MW has been sold by the company in May 2024.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (Prov.)
Total operating income	822.39	1,048.11
PBILDT	68.26	78.03
PAT	41.06	51.19
Overall gearing (times)	0.26	0.18
Interest coverage (times)	4.13	8.02

A: Audited; Prov: Provisional; Note: 'the above results are latest financial results available'

**Status of non-cooperation with previous CRA:** ICRA has put the rating assigned to bank facilities of ITL under issuer non-cooperation category considering ICRA's inability to carry out a rating exercise in the absence of the requisite information from the company per the press release dated October 13, 2023.

**Any other information:** None

**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:** Annexure-4

**Lender details:** Annexure-5

**Annexure-1: Details of instruments/facilities**

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate (%)	Maturity Date	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Working capital limits		-	-	-	22.00	CARE A; Stable
Fund-based - LT/ ST-Working capital limits		-	-	-	155.00	CARE A; Stable / CARE A1
Fund-based - ST-Working capital demand loan		-	-	-	10.00	CARE A1
Non-fund-based - LT/ ST-Bank guarantee		-	-	-	513.00	CARE A; Stable / CARE A1

**Annexure-2: Rating history for 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 2024-2025	Date(s) and Rating(s) assigned in 2023-2024	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022
1	Non-fund-based - LT/ ST-Bank guarantee	LT/ST	513.00	CARE A; Stable / CARE A1				
2	Fund-based - LT/ ST-Working capital limits	LT/ST	155.00	CARE A; Stable / CARE A1				
3	Fund-based - LT-Working capital limits	LT	22.00	CARE A; Stable				
4	Fund-based - ST-Working capital demand loan	ST	10.00	CARE A1				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

**Annexure-3: Detailed explanation of covenants of rated instruments/facilities:** Not applicable**Annexure-4: Complexity level of various instruments rated**

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Working capital limits	Simple
2	Fund-based - LT/ ST-Working capital limits	Simple
3	Fund-based - ST-Working capital demand loan	Simple
4	Non-fund-based - LT/ ST-Bank guarantee	Simple

**Annexure-5: Lender details**

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

**Note on complexity levels of 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

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### About us:

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### Disclaimer:

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