

## Contec Syndicate Private Limited

May 24, 2022

### Ratings

Facilities	Amount (Rs. crore)	Rating <sup>1</sup>	Rating Action
Long Term Bank Facilities	3.47	CARE BB-; Stable (Double B Minus; Outlook: Stable )	Assigned
Long Term / Short Term Bank Facilities	21.00	CARE BB- / CARE A4 (Double B Minus / A Four )	Assigned
<b>Total Bank Facilities</b>	<b>24.47</b> <b>(Rs. Twenty-Four Crore and Forty-Seven Lakhs Only)</b>		

Details of facilities in Annexure-1

### Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of Contec Syndicate Private Limited (CSPL) are tempered by geographical & sectoral concentration risk, susceptibility of profit margins due to volatile material prices, high reliance on working capital borrowing and fragmented nature of construction sector with tender-based nature of operations & execution challenges. However, rating derives its strength from experienced promoters and management, long & established track record of operations, long term revenue visibility from order book, moderate scale of operations with stable profitability margins, comfortable capital structure & debt coverage indicators and stable industry outlook.

### Rating Sensitivities

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

- Sustained increase in scale of operations beyond Rs. 70 crores along.
- Collection including retention money less than 120 days.

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

- Any large debt funded capex resulting in deterioration in liquidity
- Any further increase in outstanding retention money leading to cashflow mismatch

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

##### Geographical & Sectoral concentration risk:

Order book is concentrated with road & bridge works with 100%. Further, the order book comprises of AP (40.38%) & Karnataka (59.62%) contributing majority of the total order book, thereby exposing the company towards geographical concentration risk. Any decrease in infrastructure spending, slowdown in growth and any regulatory change in Andhra Pradesh and Karnataka state could adversely affect the company.

##### Susceptibility of profit margins due to volatile material prices

The construction material is the major cost driver. The prices of construction material are volatile in nature therefore cost base remains exposed to any adverse price fluctuations in the prices of material being major cost components. Accordingly, the profit margins of the company are susceptible to fluctuation in material prices. With limited ability to pass on the increase in material costs in a competitive operating spectrum and any substantial increase in raw material costs would affect the company's profitability. However, comfort can be drawn from the availability of price escalation clause in the work orders.

##### High reliance on working capital borrowing.

The company continues to have higher level of retention money for the completed projects, there by collection including retention stood at days for FY21. This apart, the company had inventory days of 63 days in FY21. Thereby, the company's fund-based fund working capital limits remained 100% during FY21 along with higher levels of creditors level leading to cash flow mismatch, which was partly mitigated by infusion of unsecured loans from promoters.

With improvement in collection and realization of retention money during FY22, the total collection including retention has reduced to 185 days. However, the working capital continues to remain at 100% for the trailing 12 months ending March 31,2022 due to continuous higher levels of retention money.

##### 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 the 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. The profitability margins come under pressure because of

<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

competitive nature of the industry. However, the promoter's long industry experience of nearly five decades mitigates this risk to some extent.

### **Key Rating Strengths**

#### **Experienced promoters and management:**

CSPL is promoted by Ms.Vemulapalli Vishnupriya, Managing Director, who has around 25+ years of experience in the construction industry, is technically qualified and takes care of finances, dealing with Government departments and other clientele. Ms. Vunnam Vishnupriya, Executive Director has 20+ years of experience in construction industry and is responsible for coordination and takes care of overall administration of the company. This apart, the company also has well qualified team of project managers and supervisors to support the operations.

#### **Long and established track record of operations:**

CSPL was incorporated in January 1996 and thus has more than two decades of operation in the construction industry. The company has been executing projects pertaining to construction of roads, bridges and other infrastructure works.

CSPL has successfully executed several orders across Andhra Pradesh (100% in AP only) amounting to Rs. 144.04 crore since 2007 out of which Rs.135.43 crore (94.02%) belongs to bridge work and remaining Rs. 8.61 crore (5.98%) to road works. The major projects executed were construction of Two-Lane Bridge across Budameru Rivulet amounting to Rs.43.39 crore (30.12%), Construction of Bridge across Upputeru of West Godavari District amounting to Rs.26.04 crore (18.08%), Six Lane Bridge across Ryves Canal on EPC turnkey system amounts to Rs. 22.04 crore (15.30%), Construction of Bridge across Pinneru drain amounting to Rs.12.06 crore (8.37%) and others (28.13%).

#### **Long term revenue visibility from order book**

CSPL had outstanding order book position of Rs.178.73 crore as on March 15,2022, which translates to order book to Total Operating Income (TOI) ratio of 4.90x for FY21 reflecting medium to long term revenue visibility. About 40% of the orders are direct orders and balance 60% are received on sub-contract basis. Entire projects in the order book are funded by state governments of Andhra Pradesh and Karnataka. The company has outstanding order of 106.57 crore, which has been received from Karnataka Road Development Corporation Ltd through BSR Infratech India Limited on a back-to-back subcontract basis.

#### **Moderate scale of operations with stable profitability margins**

CSPL has witnessed significant growth in total operating income (TOI) from Rs. 19.56 crore in FY2020 to Rs. 36.44 crore in FY2021 with growth of 86.3% mainly due to revival from impact of covid and execution of orders-in-hand. Also, the company has achieved top line of Rs. 37.19 crore in FY22 with a PAT of Rs.1.99 crore. On absolute level PBILDT has remained stable at Rs. 6.16 crore (16.56%) in FY2022 as compared to Rs. 5.75 crore (15.78%) in FY2021.

PAT margin has increased to 5.34% in FY2022 from 4.66% in FY21(FY2020 4.66%) inline increase in improvement in PBILDT level.

#### **Comfortable capital structure and debt coverage indicators:**

The capital structure of CSPL attributes to term loan, working capital borrowings, and unsecured loans from promoters. Overall gearing improved and remained comfortable at 0.63x as on March 31,2021 (P.Y: FY20-0.68x) and further improved to 0.41x as on March 31,2022(P) due to scheduled repayments of term loans and accretion of profits. The debt coverage indicators remained comfortable with PBILDT interest coverage ratio at 3.67x in FY22(P) (P.Y. FY21: 3.88x). The other debt coverage indicator, Total Debt to GCA is comfortable at 2.11x as on March 31,2022(P) from 2.95x as on March 31,2021 due to increase in GCA levels and decrease in total debt at the back of scheduled repayments of term loans.

#### **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.

#### **Liquidity analysis- Stretched**

Stretched liquidity is characterized by higher average utilization of cash credit at 100% for the last 12 months ended March 2022 due to higher levels of debtors including retention money leading to cashflow mismatch, despite generating healthy GCA of Rs.3.71 crore against the repayment obligation of Rs.2.70 crore for FY22. The comfort is derived from infusion of unsecured loans as and when required.

**Analytical approach:** Standalone financials of Contec Syndicate Private Limited are considered for analysis of the rating.

**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**

M/s. Contec Syndicate Private Limited (CSPL) was established on 30<sup>th</sup> January 1996. The company is managed by Mrs Vemulapalli Vishnupriya, Managing Director, a graduate in civil engineering assisted by Mrs Vunnam Vishnupriya, Executive director. Both the directors are experienced in civil construction. Since inception, CONTEC has been actively engaged in civil construction and Infrastructure development activities

Over the last few years, CONTEC has undergone rapid expansion and is at present working in various parts of India in different public sector projects. The Company is under the category of "Special Class Civil Contractors" with Government of Andhra Pradesh, Telangana, Karnataka & Chhattisgarh States. The Company has gained experience mainly in construction of roads, bridges and other infrastructure works.

(In Crore)

Brief Financials (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	31-03-2022 (P)
Total operating income	19.56	36.44	37.19
PBILDT	5.18	5.75	6.16
PAT	0.91	1.70	1.99
Overall gearing (times)	0.68	0.63	0.41
Interest coverage (times)	2.78	3.88	3.67

A: Audited, P: Provisional

**Status of non-cooperation with previous CRA:** India Rating has conducted the review on the basis of the best available information and placed rating under "Issuer Not cooperating" vide its press releases dated on February 10, 2022.

**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-Term Loan		-	-	June 2024	0.47	CARE BB-; Stable
Fund-based - LT-Bank Overdraft		-	-	-	3.00	CARE BB-; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	21.00	CARE BB- / CARE A4

**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-Term Loan	LT	0.47	CARE BB-; Stable				
2	Fund-based - LT-Bank Overdraft	LT	3.00	CARE BB-; Stable				
3	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	21.00	CARE BB- / CARE A4				

\* 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-Bank Overdraft	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - LT/ 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 for any clarifications.

## Contact us

### Media Contact

Name: Mr. Mradul Mishra  
Contact no.: +91-22-6754 3573  
Email ID: mradul.mishra@careedge.in

### Analyst Contact

Name: Mr. Prasanna Krishnan  
Contact no.: 040-67937421  
Email ID: prasanna.krishnan@careedge.in

### Relationship Contact

Name: Mr. Ramesh Bob Asineparthi  
Contact no.: +91 90520 00521  
Email ID: ramesh.bob@careedge.in

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