Ayyamar Infraprojects India Private Limited

January 25,2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	5.00	CARE BB; Stable	Assigned
Long Term / Short Term Bank Facilities	25.00	CARE BB; Stable / CARE A4	Assigned

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The rating assigned to the bank facilities of Ayyamar Infraprojects India Private Limited (AIIPL) is constrained by small scale of operation, low profitability margins, reliance on sub-contractors for execution of orders due to low asset base, sectorial and geographical concentration of work-in-hand along with fragmented and tender based nature of construction sector.
However, rating derives strength from experienced promoter with continues support from group company i.e. Lakshmi Infrastructure and Developers India Private Limited (LIDIPL), satisfactory orderbook position with lower counterparty risk, satisfactory operating cycle, comfortable capital structure and debt coverage ratio.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Achieving TOI of Rs. 100 crore on sustainable basis with operating margins above 8.50% on a sustained basis
- Execution of orders in hand within stipulated time frame and collection of receivables in a timely and regular basis

Negative factors

- Any sizeable de-growth in scale of operations from present level (Total operating income below Rs.50 crore) on a sustained basis
- Delays in execution of orders beyond stipulated time frame and delay in receipt of collection of receivables from customers on a sustained basis
- Any large debt funded capex impacting the liquidity

Analytical approach: Standalone, however, considering operational and financial linkages with the group company Lakshmi Infrastructure and Developers India Private Limited (LIDIPL; rated CARE BBB-; Stable/CARE A3) having common promoters.

Key weaknesses

Small scale of operation and low profitability: AIIPL commenced its operation on December 2019. Thus, FY21 was the first full year of operation. The total operating income of the company for last two years ended FY22 remained at similar level. In FY22, AIIPL reported TOI of Rs.47.90 crore which marginally declined by about 3% when compared to FY21. In FY22, with increase in reliance on subcontracting, profitability declined with PBILDT and PAT to Rs. 3.44 crore (FY21: Rs. 4.33) and Rs. 2.90 crore (FY21: Rs. 3.58 crore) respectively. Profitability margins i.e., PBILDT and PAT margins also declined by 157 bps to 7.18% (P.Y. 8.75%) and by 117 bps to 6.06% (P.Y. 7.23%) respectively. Despite reduction, margins continue to remain at moderate level. For 9MFY23, AIIPL reported total income of Rs.28.52 crore which is about 60% of revenue achieved in FY22. However, with huge portion of billing expected in Q4FY23, AIIPL is expecting revenue of about Rs.50 crore to be reported for full year FY23. Profitability levels in 9MFY23 witnessed improvement led by lower reliance on subcontracting expenses as confirmed by the management. We don't have the details break up expenses to confirm the same. Accordingly, margins also witnessed improvement for 9MFY23.

Reliance on sub-contractors for execution of orders due to low asset base: AIIPL is depended on sub-contractors for executing of the orders due low asset base, which can be envisaged from the increase in sub-contracting expenses to cost of sales from 2.37% in FY20 to 46.81% in FY22. However, as per the management, the company has purchased equipment worth of Rs. 16.85 crore funded through term loan. Hence, going forward dependence on sub-contractors will decrease.

Sectorial and geographical concentration of work-in-hand: AIIPL, outstanding orders are geographically concentration towards Andhra Pradesh (about 73%) and Tamil Nadu (about 27%). Further, the entire order book is concentrated towards roads and bridges segment. Hence, any decrease in infrastructure spending, slowdown in growth could adversely affect the company.

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

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.

Key strengths

Experienced promoter in the construction sector: The company was founded by Mr Ravi Kiran who has about two decades of experience in the infrastructure sector. The company started its commercia operation on December 2019,2022. AIIPL started as a general works contractor and now it is main contractor for NHAI projects and performs project management services to Highways & Flyovers.

Satisfactory orderbook position with lower counterparty risk: As on December 31, 2022, AIIPL has satisfactory orderbook of Rs. 201.06 crore which translates to 4.20x of gross billing of FY22, which indicates medium term revenue visibility. Outstanding orderbook has orders from two clients i.e., Lakshmi Infrastructure and Developers India Private Limited (LIDIPL) of Rs. 144.21 crore (about 72%) which is a group company and National Highway Authority of India (NHAI) of Rs. 56.85 crore (about 28%). The order book is concentrated with 72% of orders being from one client i.e., LIDIPL with moderate financial risk profile. However, the funding authority being NHAI for the said project having strong credit profile, mitigates counter party risk.

Comfortable capital structure and debt coverage ratio: The debt profile of AIIPL consist of fixed long-term deposits and loans from promoters. Comfortable overall gearing ratio which stands at 0.44x as on March 31, 2022 (PYE.0.76x). However, TOL/TNW stands at 2.64x as on March 31, 2022 (P.Y.E 4.00x). Comfortable debt coverage ratio for FY22 with Total Debt/GCA ratio at 1.06x (0.90x in FY21) and interest coverage ratio stands at 202.57x (80.59x in FY21) primarily due to lower financing costs as the company has not availed for any working capital limits and managed its working capital requirements from internal accruals. However, with additional debt availed during FY23, the leverage position marked by overall gearing deteriorated to 1.58x as of December 31, 2022.

Satisfactory working capital cycle: Working capital cycle of AIIPL remained satisfactory marked by negative operating cycle during last two years ended FY22. This has been achieved primarily due to higher collection efficiency of more than 97% leading to 16 days of collection in FY22 as against 37 days in FY21. Going forward, timely realization of debtors is critical from credit perspective.

Industry Outlook: Stable

Infrastructure sector being a key driver for the Indian economy is highly responsible for propelling India's overall development and enjoys intense focus from Government for initiating policies that would ensure time-bound creation of world class infrastructure in the country. Infrastructure sector includes power, bridges, dams, roads, and urban infrastructure development. The infrastructure sector has become the biggest focus area for the Government of India. India plans to spend US$ 1.4 trillion on infrastructure during 2019-23 to have a sustainable development of the country. The Government has suggested investment of Rs. 5,000,000 crore (US$ 750 billion) for railways infrastructure from 2018-30. India is expected to become the world's third largest construction market by 2022. India will require investment worth Rs.50 trillion (US$ 777.73 billion) across investment by 2022 for a sustainable development in the country.India and Japan have joined hands for infrastructure development in India's Northeast states and are also setting up an India-Japan Coordination Forum for Development of Northeast to undertake strategic infrastructure projects for the region.

Liquidity: Stretched

Stretched liquidity of the company is stretched characterized by generation of cash accrual of Rs 2.95 crore against the repayment obligation of Rs4.44 core for FY23. Management has confirmed that in case of any shortfall in debt repayment than they will infuse funds in form of unsecured loan. Company has availed equipment loan in month of June 2023 and the monthly repayment starts from the same month. However, the company is effectively able to collect is receivables on time leading to collection efficiency of more than 97%. AIIPL does not have any fund based working capital limits, it is managing its working capital requirements through internal accruals and loans from LIDIPL. This apart, the company has free cash and bank balance of Rs

2.97 crore as on March 31, 2022. Due to stipulation of high cash margin (weighted average of 50%) for availing BG; to fund the growth in scale of operations and margin money, the company deferred the payment of creditors, which has led to asset liability mismatch leading to current ratio less than unity. The reduced cash margin requirement for BG's coupled with availing of FB limits are critical for growth in scale of operations. In FY23, as per the management the BG margin has reduced to 25%.

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

Ayyamar Infrastructure India Private Limited (AIIPL) was incorporated in December 2016. The company was founded by Mr Ravi Kiran who has about two decades of experience in the civil construction sector. Mr Ravi Kiran, Mr. V Ramprasad, Mr. V Maheedhar and Mr V Suresh are the directors of the company, who are also the promoters. Promoters have two decades of experience in the civil construction sector. AIIPL started as a general works contractor and now it is main contractor for NHAI projects and performs project management services to Highways & Flyovers. CARE has rated the group entity of AIIPL i.e., Lakshmi Infrastructure and Developers India Private Limited (LIDIPL) in June 2022.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	9MFY23 (UA)
Total operating income	49.49	47.90	28.52
PBILDT	4.33	3.44	2.28
PAT	3.58	2.90	1.89
Overall gearing (times)	0.76	0.44	1.58
Interest coverage (times)	81.02	205.38	7.35

A: Audited

Status of non-cooperation with previous CRA: Nil
Any other information: Nil
Rating history for the last three years: Please refer Annexure-2

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

Complexity level of the 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		-	-	-	5.00	CARE BB; Stable
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	13.45	CARE BB; Stable / CARE A4
Non-fund-based - LT/ ST-Bank Guarantee		-	-	-	11.55	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	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	13.45	CARE BB; Stable / CARE A4				
2	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	11.55	CARE BB; Stable / CARE A4				
3	Fund-based - LT-Working Capital Limits	LT	5.00	CARE BB; Stable				

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Working Capital Limits	Simple
2	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 the 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: Y Tejeshwar Reddy
Phone: 9849573699
E-mail: Tejeshwar.Reddy@careedge.in

Relationship contact
Name: Ramesh Bob Asineparthi
Phone: +91 90520 00521
E-mail: ramesh.bob@careedge.in

About us:

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