B. R. Goyal Infrastructure Limited (Revised)

January 4, 2019

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Remarks
Long-term Bank Facilities*	33.00 (enhanced from Rs.31.80 crore)	**CARE BBB; Stable (Triple B; Outlook: Stable)**	Reaffirmed
Long-term/Short-term Bank Facilities	210.00 (enhanced from Rs.122 crore)	**CARE BBB; Stable/CARE A3 (Triple B; Outlook: Stable/ A Three)**	Reaffirmed
Short-term Bank Facilities	7.28 (enhanced from Rs.4.28 crore)	**CARE A3 (A Three)**	Reaffirmed
Total	**250.28 (Rupees Two Hundred and Fifty crore and Twenty Eight lakh only)**		

**Long-term rating assigned to the term loan (Rs.3.80 crore) has been withdrawn on the basis of No Due Certificate received from the banker*
Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to bank facilities of B. R. Goyal Infrastructure Limited (BRGL) continue to derive strength from its established presence of over three decades in the construction and development of road and buildings project, experienced promoter group, long term association with reputed government authorities, moderate profitability, improvement in its capital structure and debt coverage indicators and stable industry outlook on the back of various initiatives taken by Government of India (GoI) to improve the prospects of road construction sector.

The ratings also take cognizance of its healthy revenue visibility over the medium term on account of recent award of three sizeable EPC contracts, moderate order book with relatively low counter-party risk along with presence of price escalation clause in most of its contracts. The ratings also factor in momentum witnessed in the sale of plots in its industrial park during FY18 (FY refers to the period April 01 to March 31) and H1FY19.

The ratings, however, continue to remain constrained on account of BRGL's moderate scale of operations, high working capital intensity of its operations and geographical concentration of its revenue profile, which is envisaged to reduce going forward. The ratings also continue to remain constrained on account of construction risk associated with timely execution of projects in hand, susceptibility of its profitability to volatile raw material prices and its presence in a highly fragmented and competitive construction industry.

BRGL's ability to grow its order book through greater geographical diversification, scale up its operations through timely execution of orders on hand, along with improvement in its profitability and capital structure while efficiently managing its working capital requirements would be key rating sensitivities. Furthermore, timely receipt of envisaged sales proceeds of its balance plots in its industrial park would also remain a key rating monitorable.

Detailed description of the key rating drivers

Key Rating Strengths

Vast and rich experience of the promoters along with established track record in the construction industry: BRGL is promoted by Mr Rajendra Kumar Goyal, who has an extensive experience of more than three decades in the construction sector. The board of directors of BRGL consists of three other members namely Mr Gopal Goyal, Mr Brij Kishore Goyal and Mr Omprakash Goyal, who all have vast experience in the infrastructure industry. The management team is ably supported by a vast team of professionals for execution of complex projects. BRGL has an established track record in construction of various small to mid-sized projects in and around Indore, Madhya Pradesh (MP), mainly for government entities including Public Works Department (PWD), Indore Municipal Corporation (IMC), Ujjain Development Authority (UDA), Madhya Pradesh Road Development Corporation (MPRDC) and other local bodies.

Growth in order book reflecting healthy revenue visibility over medium term: As on September 30, 2018, BRGL had a moderate order book of Rs.464.73 crore (3.23x of TOI of FY18), reflecting good revenue visibility over the medium term. BRGL has been awarded three sizeable EPC contracts (two in Madhya Pradesh & one in Maharashtra) since the

[1] *Complete definitions of the ratings assigned are available at www.careratings.com and in other CARE publications.*

last review which is envisaged to increase the scale of operations in the medium term. BRGL also has a low counterparty credit risk as all the contracts in the order book are from government authorities. However, the execution of contracts in hand within envisaged cost and timelines would be crucial.

Moderate profitability, improvement in leverage and debt coverage indicators: BRGL's PBILDT margin declined by 178 bps y-o-y to 13.22% during FY18 on account of increase in site expenses and sub-contract expenses. Nevertheless, PAT margin improved by 113 bps to 4.76% in FY18 on account of profit on sales of plots in its industrial park.
The capital structure remained moderate marked by improvement in the overall gearing at 1.09x as on March 31, 2018 as compared to 1.36x as on March 31, 2017. The improvement in the overall gearing is on account of scheduled repayment of term loan, moderate utilisation of fund-based working capital limits and accretion to reserves. The debt coverage metrics marked by total debt to gross cash accruals improved to 4.94x in FY18 (6.03x in FY17) due to improvement in GCA. The interest coverage ratio remained stable at 2.76x in FY18 (2.96x in FY17) on account of stable finance cost.

Momentum witnessed in sale of plots in its industrial park: During FY18, BRGL sold 1.94 lsft (Lakh Square feet) area for Rs.9.15 crore and during H1FY19, BRGL sold additional 0.56 lsft area for total sales consideration of around Rs.2.98 crore. Lease rental income remained almost stable at Rs.0.98 crore (FY17: Rs.1.10 crore) and Rs.0.51 crore in FY18 and H1FY19 respectively.

Improved prospectus due to thrust of government on road development: Infrastructure sector is one of the key drivers of economic development in developing countries like India. Thrust of the government for road construction through initiatives such as buildup of new rural roads and upgradation of existing rural roads under Pradhan Mantri Gram Sadak Yojna (PMGSY), broadening of national highways and providing connectivity to tribal areas, has offered various opportunities for construction companies. However, execution challenges including delays in land acquisition and forest clearances, regulatory clearances and elongated working capital cycle due to longer gestation period of the projects beleaguer the industry.

Key Rating Weaknesses
Moderate scale of operations: During FY18, BRGL reported marginal improvement in its total operating income (TOI) to Rs.144.23 crore (FY17: Rs.137.91 crore) on account of steady execution of contracts in hand. During H1FY19 (provisional), BRGL clocked TOI of Rs.53.11 crore and reported PBILDT margin of 16.59%.

Geographical concentration of BRGL's revenue profile: Majority of the orders awarded to BRGL are in the state of MP, which exposes the company to geographical concentration risk and closely ties the company's fortune to the incremental development of roads in the state. MP offers a relatively conducive and stable environment for construction companies and is one of the most urbanized and fastest growing state of India, over the past few years with significant development in the road segment. Also, renewed thrust of the government on infrastructure development is expected to augur well for the construction sector.
The company has taken steps to expand its operations in other states and has started bidding for EPC projects in neighbouring states. During H1FY19, BRGL is awarded a large size road project in Maharashtra.

Moderate liquidity position due to high working capital intensity: Being EPC contractor, BRGL has high working capital intensity due to funding requirement for security deposits, retention amount and margin money towards various contracts and non-fund-based bank facilities. Generally project execution time ranges from 12 months to 36 months and payment is released on milestone achieved basis. BRGL's liquidity position remained moderate with average utilisation of fund-based working capital facilities at 81% during the trailing twelve months ending on September 2018. However, BRGL's working capital cycle during FY18 elongated to 122 days (FY17: 102 days), mainly on account of higher collection period due to blockage of funds as retention money. As on March 31, 2018, BRGL had free cash and bank balance of Rs.1.63 crore (apart from lien marked balance of Rs.4.45 crore).

Susceptibility of profitability to volatility associated with raw material prices: Considering execution of a contract is spread over 12-36 months, profitability of BRGL remains susceptible to volatile raw material prices. However, the built-in price escalation clause in most of the orders on hand, mitigates the risk to an extent.

Presence in highly competitive and fragmented construction industry: BRGL is a mid-sized player operating in the intensely competitive construction industry wherein projects are awarded on the basis of relevant experience of the bidder, financial capability and lowest bid price. Furthermore, the construction industry is highly fragmented with the presence of large number of organized players as well as small local players. The high competitive intensity has resulted in aggressive bidding and moderate profitability for the players in the industry.

Analytical approach: Standalone
Applicable Criteria:
Criteria on assigning Outlook to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term instruments
Financial ratios – Non-financial sector

About the Company
Indore-based BRGL was initially constituted as a partnership firm in 1986 under the name of M/s. Bal Krishna Ramkaran Goyal. Subsequently, it was converted into a private limited company as B.R. Goyal Infrastructure Private Limited in April 2005. Afterwards, on May 9, 2018, it converted itself in public company.
BRGL is engaged in the construction of roads and buildings in MP. It has also set up a RMC manufacturing unit with an installed capacity of 2.8 million cubic meters per annum and a wind mill of 1.25 MW located at Jaisalmer, Rajasthan. BRGL enjoys A-5 class (Highest) status with PWD of MP and Indore Development Authority (IDA).

Brief Financials (Rs. crore)	FY17 (12M,A)	FY18 (12M,A)
Total operating income	137.91	144.23
PBILDT	20.69	19.07
PAT	5.01	6.86
Overall gearing (times)	1.36	1.09
Interest coverage (times)	2.96	2.76

A: Audited
During H1FY19 (Provisional), BRGL clocked TOI of Rs.53.11 crore.

Status of non-cooperation with previous CRA: Not Applicable
Any other information: Not Applicable
Rating History for last three years: Please refer Annexure-2

Note on complexity levels of the rated instrument: *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarification.*

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Annexure-1: Details of Instruments/Facilities

Name of the Instrument	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Term Loan-Long Term	-	-	-	0.00	Withdrawn
Fund-based - LT-Cash Credit	-	-	-	33.00	CARE BBB; Stable
Non-fund-based - LT/ ST-Bank Guarantees	-	-	-	210.00	CARE BBB; Stable / CARE A3
Fund-based - ST-Standby Line of Credit	-	-	-	7.28	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 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016
1.	Term Loan-Long Term	LT	-	-	-	1)CARE BBB; Stable (05-Jan-18) 2)CARE BBB; Stable (12-Apr-17)	-	1)CARE BBB (23-Feb-16)
2.	Fund-based - LT-Cash Credit	LT	33.00	CARE BBB; Stable	-	1)CARE BBB; Stable (05-Jan-18) 2)CARE BBB; Stable (12-Apr-17)	-	1)CARE BBB (23-Feb-16)
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	210.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (05-Jan-18) 2)CARE BBB; Stable / CARE A3 (12-Apr-17)	-	1)CARE BBB / CARE A3 (23-Feb-16)
4.	Fund-based - ST-Standby Line of Credit	ST	7.28	CARE A3	-	1)CARE A3 (05-Jan-18) 2)CARE A3 (12-Apr-17)	-	1)CARE A3 (23-Feb-16)

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