B. R. Goyal Infrastructure Limited

March 16, 2020

Ratings

Facilities	Amount (Rs. crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	33.00	**CARE BBB; Stable (Triple B; Outlook: Stable)**	Reaffirmed
Long-term/Short-term Bank Facilities	210.00	**CARE BBB; Stable/CARE A3 (Triple B; Outlook: Stable/ A Three)**	Reaffirmed
Short-term Bank Facilities	7.28	**CARE A3 (A Three)**	Reaffirmed
Total	**250.28 (Rs. Two hundred and fifty crore and twenty eight lakh only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of B. R. Goyal Infrastructure Limited (BRGL) continue to derive strength from its experienced promoters with good succession planning, established track record of more than three decades in the construction industry, moderate capital structure & debt coverage indicators, adequate liquidity position and stable industry outlook on back of increased thrust of the government on infrastructure development.

The ratings also take cognizance of growth in BRGL's order book with low counterparty credit risk reflecting good revenue visibility and improvement in segmental diversification of its revenue profile, increase in its scale of operations during FY19 (refers to the period April 1 to March 31) albeit on moderate base and stable profitability.

The ratings, however, continue to remain constrained on account of geographically concentrated order book, working capital intensive nature of its operations, construction risk associated with timely execution of projects in hand, susceptibility of its profitability to volatile raw material prices and its presence in a tender driven business with high competitive intensity.

Rating Sensitivities

Positive Sensitivities

- Timely execution of its present orders along with growth in diversified order book which will result in growth in total operating income (TOI) over Rs.300 crore on a sustained basis and improved cash accruals.
- Reduction in overall gearing below 0.70x.

Negative Sensitivities

- Increase in working capital intensity which in turn deteriorates its liquidity position.
- Delay in execution of ongoing orders resulting in lower than envisaged TOI and profitability.

Detailed description of the key rating drivers

Key Rating Strengths

Moderate order book with segmental diversification reflecting good revenue visibility over medium term: BRGL bagged three new orders since last review aggregating to Rs.211 crore and consequently its order book increased to Rs.518 crore as on December 31, 2019. The said order book translates to 2.96x of TOI for FY19 reflecting good revenue visibility over the medium term. Further, BRGL has low counterparty credit risk as majority of the outstanding orders are from government authorities.

Furthermore, BRGL's outstanding order book is segmentally diversified with strong presence in the road segment (44%) followed by dam & pipeline projects (20%), building projects (18%), bus terminal project (12%) and balance (6%) by other projects. However, the execution of orders in hand within envisaged cost and timelines remains crucial from the credit perspective.

Experienced promoters group: BRGL is a family owned closely held company managed by Mr Rajendra Kumar Goyal, Mr Gopal Goyal, and Mr Brij Kishore Goyal. All the promoters have more than two decades of experience in the construction industry. The company has a good succession planning with third generation of the family, Mr Yash Goyal and Mr Uppal Goyal joining the business recently. The management is ably supported by vast team of experienced and qualified engineers & project managers in executing complex projects.

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

Established track record of operations along with long term association with reputed government authorities: BRGL has an established track record of more than three decades in the construction industry. Earlier, the company used to execute small to mid-sized road projects, however, during last three years, BRGL has scaled up its order book with more segmental diversification and bagged high value government contracts.
Further, BRGL has a long standing association with government authorities including Public Works Department (PWD), Indore Municipal Corporation (IMC), Ujjain Development Authority (UDA), Madhya Pradesh Road Development Corporation (MPRDC) and other local bodies.

Moderate capital structure and debt coverage indicators: BRGL's capital structure continued to remain moderate marked by overall gearing of 1.05x as on March 31, 2019 (1.09x as on March 31, 2018). Even though total debt increased to Rs.68.83 crore as on March 31, 2019, overall gearing improved marginally on account of accretion to reserves and scheduled repayment of vehicle loans.
The debt coverage metrics during FY19 remained stable marked by improvement in PBILDT interest coverage ratio to 2.91x (FY18: 2.76x) and stable total debt to gross cash accruals at 5.29x (FY18: 4.94x).

***Stable demand outlook due to thrust of government on infrastructure development*:** The Government of India has been undertaking several steps for boosting the infrastructure development and reviving the investment cycle in the segment, which was facing a slowdown since past couple of years. The same is expected to drive growth opportunities, subject to availability of adequate working capital.

Key Rating Weaknesses
Moderate scale of operations and stable profitability: During FY19, BRGL reported 21% y-o-y growth in it TOI to Rs.174.83 crore on account of steady execution of orders in hand by in-house team as well as through subcontracting. BRGL's PBILDT margin declined by 137 bps y-o-y to 11.85% during FY19 (FY18: 13.22%), primarily on account of increase in sub-contracting expenses by more than 50%. Nevertheless PAT margin remained stable in FY19 at 4.44% (FY18: 4.76%) on account of profit of sales of asset.
During 8MFY20 (Provisional), BRGL reported TOI of Rs.104 crore.

Geographically concentrated order book: Out of total order book of Rs.518 crore, around 72% is in the state of Madhya Pradesh (MP) which exposes BRGL's growth prospects to the macro and socio-political upheavals in the region. However, BRGL is favorably placed for its contracts in MP as it has in-house managerial resources and better control on execution due to proximity of orders. Furthermore, BRGL has taken steps to expand its geographical presence and it has been awarded two orders in Maharashtra during FY19 and 9MFY20.

Working capital intensive nature of operations: Being an EPC contractor, BRGL has high working capital intensity as it receives payments based on progress of the project based on milestone achieved during the tenure after proper certification of work. Generally project execution time ranges from 12 months to 36 months. Apart from above, working capital intensity also remains high due to the requirement of margin money for non-fund based bank facilities and blockage of funds as security deposit & retention money. Consequently, BRGL's working capital cycle, albeit improved, remained elongated at 115 days during FY19 (122 days from FY18). Average collection period and gross current assets days also remained relatively high at 93 days and 200 days respectively in FY19.

Susceptibility of its profitability to volatile raw material prices: Since execution of BRGL's orders usually ranges from 12- 36 months, its profitability remains susceptible to volatile raw material prices in case of any significant adverse variation in raw material prices or delay in project execution. However, presence of an inflation index-linked price escalation clause in most of the orders on hand mitigates this risk to an extent.

Presence in intensely competitive and fragmented construction industry: BRGL is a mid-sized player operating in an intensely competitive construction industry wherein contracts are awarded on the basis of relevant experience of the bidder, financial capability and most attractive bid price. The high competitive intensity also results in aggressive bidding, which exerts pressure on the margins. Furthermore, interest rate risk, delay in achieving financial closure/ availability of working capital limits and delays in project due to environmental clearance are other external factors that affect the credit profile of the industry players.

Liquidity: Adequate
BRGL's liquidity position remained moderate with current and quick ratio remained stable in FY19 at 1.47x and 0.94x respectively (1.40x and 0.95x in FY18). During FY19, BRGL reported gross cash accruals and cash flow from operations of Rs.13.01 crore and Rs.16.84 crore respectively. However, working capital intensity has increased on account of increase in

blockage of BRGL's funds in long term assets as retention money and security deposits. Consequently, maximum utilisation of its fund based working capital limits remained almost full during trailing twelve months ending on February 2020. The maximum utilisation of the non-fund based limits also remained moderate at 71% during trailing twelve months ended December, 2019. However, BRGL has sanctioned (including in-principal sanction) working capital limits of around Rs.52 crore, which remained unutilized due to pending approval of consortium members, is envisaged to provide sufficient cushion to the liquidity going forward.
BRGL had cash and bank balance of Rs.1.91 crore as on March 31, 2019 (apart from lien marked balance of Rs.11.32 crore as on March 31, 2019). Further, during FY20-21, BRGL is envisaged to report cash accruals of around Rs.13-16 crore as against debt servicing obligations (principal installment) of around Rs.5-7 crore.

Analytical approach: Standalone

Applicable Criteria:
Criteria on assigning Outlook & Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
CARE's methodology for Short-term instruments
Rating Methodology – Construction Sector
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 closely held 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)	FY18 (12M,A)	FY19 (12M,A)
Total operating income	144.23	174.83
PBILDT	19.07	20.72
PAT	6.86	7.77
Overall gearing (times)	1.09	1.05
Interest coverage (times)	2.76	2.91

A: Audited
During 8MFY20 (Provisional), BRGL clocked TOI of Rs.104 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

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
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	-	-	-	7.00	CARE A3
Non-fund-based - ST-Forward Contract	-	-	-	0.28	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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	-	-	-	1)Withdrawn (04-Jan-19)	1)CARE BBB; Stable (05-Jan-18) 2)CARE BBB; Stable (12-Apr-17)	-
2.	Fund-based - LT-Cash Credit	LT	33.00	CARE BBB; Stable	-	1)CARE BBB; Stable (04-Jan-19)	1)CARE BBB; Stable (05-Jan-18) 2)CARE BBB; Stable (12-Apr-17)	-
3.	Non-fund-based - LT/ ST-Bank Guarantees	LT/ST	210.00	CARE BBB; Stable / CARE A3	-	1)CARE BBB; Stable / CARE A3 (04-Jan-19)	1)CARE BBB; Stable/ CARE A3 (05-Jan-18) 2)CARE BBB; Stable/ CARE A3 (12-Apr-17)	-
4.	Fund-based - ST-Standby Line of Credit	ST	7.00	CARE A3	-	1)CARE A3 (04-Jan-19)	1)CARE A3 (05-Jan-18) 2)CARE A3 (12-Apr-17)	-
5.	Non-fund-based - ST-Forward Contract	ST	0.28	CARE A3	-	1)CARE A3 (04-Jan-19)	1)CARE A3 (05-Jan-18) 2)CARE A3 (12-Apr-17)	-

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 clarifications.*

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