IRP Infra Tech Private Limited

December 24, 2019

Rating

Facilities	Amount (Rs. Crore)	Ratings[1]	Rating Action
Long-term Bank Facilities	4.00	**CARE BB-;Stable (Double B minus;Outlook: Stable)**	**Assigned**
Short-term Bank Facilities	18.00	**CARE A4 (A Four)**	**Assigned**
Total	**22.00 (Rs. Twenty two Crore only)**		

Details of facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The ratings assigned to the bank facilities of IRP Infra Tech Private Limited are tempered by modest scale of operations marked by fluctuating total operating income during FY17-FY19 , profitability margins are susceptible to fluctuations in raw material prices, highly fragmented industry with tender based nature of operations. However, the rating derive strength by experience of the promoter for more than a decade in construction industry, satisfactory profitability margins although fluctuating during the review period, financial risk profile marked by comfortable capital structure and debt coverage indicators, comfortable working capital and stable outlook of Construction Industry.

Rating Sensitivities

Positive Factors

- Revenue growth of 15-20% per annum with stability in PBILDT margin at 8%-10% leads to substantial increase in GCA.

Negative Factors

- Stretched operating cycle days more than 50 days leads to higher utilization of working capital facility and may further weaken the financial risk profile of the company

Detailed description of the key rating drivers

Key Rating Weaknesses

Modest scale of operations with increasing total operating income

The company has modest scale of operations marked by total operating income of Rs. 56.51 crore in FY19 along with low net worth base at Rs. 4.48 crore as on March 31, 2019. However, The total operating income of the company grew by 178.24% from Rs. 20.31 crore in FY18 to Rs. 56.51 crore in FY19 on back of healthy order book position and execution of the same along with realization of bills from contracts executed in the previous year.

Profitability margins are susceptible to fluctuation in raw material prices

The basic input materials for execution of contracts are steel, bitumen and cement, the prices of which are highly volatile. Hence, the operating margin of the company is exposed to any sudden spurt in the input material prices along with increase in labor prices being in labor intensive industry.

Highly fragmented industry with tender based nature of operations

The company receives 100% work orders from government organizations. All these are tender-based and the revenues are dependent on the company's ability to bid successfully for these tenders. Profitability margins come under pressure because of competitive nature of the industry. However, the partner's long industry experience around two decade mitigates this risk to some extent. Nevertheless, there are numerous fragmented & unorganized players operating in the segment which makes the civil construction space highly competitive.

Key Rating Strengths

Experience promoter with more than a decade in construction industry

IITPL was established in the year 2009 and has a long track record of operations for about 10 years in the construction segment. IITPL was promoted by Mr.Raghu Kranthi Vemuri, Managing Director along with Mr. Raghu Sheetal Kanchi with an experience of more than 10 years in construction segment. Due to long term presence in the market, company has established good relationships with customers and suppliers.

Satisfactory profitability margins although fluctuating during the review period

The PBILDT margin of the company decreased by -78 bps to 7.78% in FY19 over FY18 due to receipt of bulk order from Central Railway for Earthwork in embankment and cutting including construction of Minor bridges which resulted in increase

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

in cost of construction material consumed. The PAT margin of the company also decreased by -51 bps to 4.46% in FY19 over FY18 due to decline in PBILDT in absolute terms.

Financial risk profile marked by comfortable capital structure and debt coverage indicators
The capital structure of the company stood comfortable during the review period. The debt equity ratio deteriorated to 0.31x as on March 31 2019 from 0.19x as on March 31 2018 due to availing term loans for the purpose of purchase of vehicle. However, the overall gearing ratio improved to 1.10x as on March 31 2019 from 2.61x as on March 31 2018 at the back of increase in net worth due to accretion of profits and decrease in utilization of working capital utilization.
The interest coverage ratio improved from 2.95x in FY18 to 6.28x in FY19 due to increase in PBILDT at the back of increase in scale of operations. TD/GCA of the company improved and stood at 1.88x in FY19 on back of increase in cash profit.

Stable outlook of construction Industry
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. The Government of India has undertaken several steps for boosting the infrastructure development and revives the investment cycle. The same has gradually resulted 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. In the short to medium term (1-3 years), projects from transportation and urban development sector are expected to dominate the overall business for construction companies.

Liquidity - Adequate
The current ratio of the company is above unity during the review period and stood at 1.53x in FY 19 and improved from 1.28x as on March 31, 2017 due to relatively high current assets as compared to current liabilities mainly on account of inventory as on closing balance sheet date. The cash and cash equivalents of the company was 11.5 crore in FY 19 when compared to Rs. 8.00 crore as on March 31, 2017. The average utilization for the fund based limit is 80% and for non-fund based limit is below 60% for the last 12 month ended December 19, 2019.

Analytical approach: Standalone

Applicable criteria
Criteria on assigning Outlook to Credit ratings
CARE's Policy on Default Recognition
Financial ratios – Non-Financial Sector
Criteria for Short Term Instruments

About the Firm
Andhra Pradesh based, IRP Infra Tech Private Limited (IITPL), was incorporated in February, 2019. as Private Limited Company by Mr. Raghu Kranthi Vemuri along with Ms. Saroja Tammabattula, Mr. Raghu Sheetal Kanchi. IRP Infra Tech is a special class contractor engaged in Railway contract works. Previously, it was a proprietorship firm and was incorporated as a Private Limited Company on February 2019. The day to day operations of the company are managed by Mr. Raghu Kranthi, who is an engineer by qualification along with other directors. The company receives the contracts majorly from South Central Railways, East Cost Railway, South East Central Railway in state of Maharashtra and The Guntur Municipal Corporation in Andhra Pradesh.

Brief Financials (Rs. crore)	FY18 (A)	FY19 (A)
Total operating income	20.31	56.51
PBILDT	1.74	4.40
PAT	1.01	2.52
Overall gearing (times)	2.61	1.10
Interest coverage (times)	2.95	6.28

A-Audited

Status of non-cooperation with previous CRA: NA

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	-	-	-	4.00	CARE BB-; Stable
Non-fund-based - ST-Bank Guarantees	-	-	-	18.00	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 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.	Fund-based - LT-Cash Credit	LT	4.00	CARE BB-; Stable	-	-	-	-
2.	Non-fund-based - ST-Bank Guarantees	ST	18.00	CARE A4	-	-	-	-

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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