

JSIW Infrastructure Private Limited

January 08, 2018

Ratings

Facilities	Amount (Rs. crore)	Rating ¹	Rating Action
Long-term Bank Facilities	70.00 (enhanced from Rs.55.00 crore)	CARE A; Stable (Single A; Outlook: Stable)	Revised from CARE A-; Stable (Single A Minus/Outlook: Stable)
Long/Short-term Bank Facilities	395.00 (enhanced from Rs.235.00 crore)	CARE A; Stable/ CARE A1 (Single A; Outlook: Stable/ A One)	Revised from CARE A-; Stable / CARE A1 (Single A Minus; Outlook: Stable/ A One)
Short-term Bank Facilities	97.00	CARE A1 (A One)	Reaffirmed
Total Facilities	562.00 (Rupees Five hundred and Sixty Two Crore Only)		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The revision in the long term rating assigned to the bank facilities of JSIW Infrastructure Private Limited (JSIW) takes into account growth in its scale of operations with improved profitability margins during FY17 (refers to the period April 01 to March 31) along with strengthening of its revenue visibility backed by healthy order book position.

The ratings further continue to derive strength from vast experience of JSIW's promoters, established track record of the company in execution of cross-country oil-gas and water supply pipeline laying projects, JSIW's association with the reputed clientele, favourable industry prospects with thrust of the Government on supplying river water to the interior parts of the states through pipeline laying and construction of dams.

The ratings however continue to be constrained by JSIW's modest scale of operation in fragmented and competitive construction industry, its working capital intensive nature of operations, limited revenue diversity due to concentration on few large projects, and inherent challenges associated with construction sector.

Ability of the company to significantly grow its scale of operation along with sustained improvement in profitability, diversify its revenue stream while reducing its dependency on Government projects and effective management of working capital requirements are the key rating sensitivities.

Detailed description of the key rating drivers

Key Rating Strengths

Strong revenue visibility backed by healthy order book position and lower counterparty credit risk: JSIW has an outstanding gross order value of Rs.2,309 crore as on October 31, 2017, which is 4.77 times the total operating income of FY17. Out of the total order book, 26% of it is already executed and the balance unexecuted order book of Rs.1,706 crore is likely to be executed over a period of 1.5-2 years, thus providing healthy revenue visibility. The order book position has strengthened considerably over past one year and increased from Rs.770 crore as on October 31, 2016 with receipts of four new orders under SAUNI Yojna during FY17 and H1FY18. The outstanding orders are mainly from the government undertakings thereby translating into low counterparty credit risk for the company.

Growth in the scale of operations with improving profitability margins: The total operating income of JSIW reported a healthy Y-o-Y growth rate of 41% during FY17 on the back of successful completion of Saurashtra-Narmada Avataran Irrigation (SAUNI) Yojna contract under link 3 package 4 within envisaged time frame and other timely execution of orders. The PBILDT margins also improved by nearly 100 bps during FY17 due to large in-house execution of orders with reduced dependency on sub-contractors. The PAT margins too improved in line with the PBILDT margins and stood at 4.00% during FY17 due to reduction in the finance costs on the back of lower utilization of the bank borrowings. As per provisional financial result for H1FY18, JSIW reported total operating income of Rs.229 crore with PBILDT and PAT margins of 10.41% and 5.57% respectively.

Experienced promoters: Shri B.K. Patel, Chairman and Managing Director have experience of more than three decades in the pipeline laying segment. With the wide experience of JSIW's promoters, the company has developed its expertise in the execution of cross country oil and gas pipelines within the envisaged time and cost parameters. During FY17, JSIW was awarded the "Best executed water management project" for Government of Gujarat's (GoG) ambitious SAUNI Yojna

¹Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications

water link project. JSIW completed the first phase of the project within 5 months from the date of allotment as against the envisaged time period of 18 months.

Established track record in execution of small & mid-size cross country oil-gas gridline/water supply pipeline laying projects: JSIW has long standing track record of executing various sized cross country gas pipelines and spur & high pressure line laying projects in various states including Gujarat, Andhra Pradesh, Madhya Pradesh, Haryana, U.P., Orissa and National Capital Region. Further, JSIW also completed the first phase of SAUNI Yojna link project of Gujarat government to connect dams of Saurashtra region with Narmada dam to capture excess overflowing water by installing 21 km of water supply pipeline. The company has executed projects for big clients like GAIL India Limited (CARE AAA; Stable/CARE A1), Gujarat State Petronet Limited (CARE AA+; Stable/ CARE A1+), Oil and Natural Gas Corporation Limited (CARE AAA; Stable/CARE A1+), GSPC Gas Company Limited, Indian Oil Corporation Limited, GoG etc.

Comfortable liquidity: The liquidity of the company remained comfortable marked by strong current ratio at 1.60 times as on March 31, 2017 and relatively short working capital cycle. The working capital cycle has consistently improved during past three years ended FY17 largely due to effective inventory management apart from healthy collection efficiency under SAUNI Yojna. The liquidity of the company is also supported by healthy and growing cash accruals and unencumbered cash and bank balance of Rs.74.76 crore as on March 31, 2017. The promoters have also supported the operations of the company by timely infusion of funds, thereby leading to lower reliance on working capital borrowings.

Healthy growth industry prospects: SAUNI Yojna has been launched to divert excess over flowing flood water of Narmada River to Saurashtra region. The excess over flowing flood water of Narmada will be distributed to 115 reservoirs of eleven districts of Saurashtra through total 1,126 km long four link pipelines benefitting 10,22,589 acre land. The entire scheme comprises four link to various dams spanning 230 km with cost aggregating to around Rs.10,000 crore. GoG is planning to apply the same model of river linking to Tapi River near Surat which further provides opportunity to EPC players like JSIW.

Key Rating Weakness

Modest scale of operation with moderate profitability: Despite consistent growth in total operating income, the scale of operation of the company remained modest marked by total operating income of Rs.357 crore during FY17 and tangible net-worth of Rs.94 crore as on March 31, 2017 which restricts the financial flexibility of the company. Moreover, limited net-worth of the company also restricts its ability to bid for large size construction projects. Further, despite improvement in operating profitability during FY17, the PBILDT margins continue to remain moderate at around 9-10%.

Limited revenue diversity: JSIW has limited revenue diversity as reflected by 60% contribution from SAUNI Yojna project during FY17 and it continued remain high at 62% during H1FY18. Although, JSIW has strong unexecuted order book of Rs.1,706 crore, large part of orders worth Rs.1,368 crore are from SAUNI Yojna thereby reflects high revenue and customer concentration risk.

Presence in fragmented and competitive construction industry with inherent challenges associated with execution of projects: Indian construction sector is highly fragmented with presence of many mid and large sized players. The inherent risk involved in the construction industry such as aggressive bidding, interest rate risk, volatile commodity prices and delay in project progress due to resistance towards land acquisition and regulatory clearances have collectively affected the credit profile of the players in the past. JSIW is also exposed delay project implementation risk since majority of ongoing projects are subject to sanction and release of government fund.

Working capital intensive nature of operations: The construction segment has high working capital intensity primarily due to funding requirement towards the security deposits, retention amount and margin money for the non-fund-based facilities.

Analytical approach: Standalone

Applicable Criteria

[Criteria on assigning Outlook to Credit Ratings](#)

[CARE's Policy on Default Recognition](#)

[Criteria for Short Term Instruments](#)

[Financial Ratios- Non Financial Sector](#)

About the Company

JSIW commenced operations as a partnership firm namely “Jay Somnath Iron Works” during August 1976 and got converted into a private limited company during June 2007 with separation of some of the partners. The company is promoted and presently managed by Mr Babubhai K. Patel and his family members. JSIW has an established track record of execution of various small and mid-sized cross country pipeline projects on Engineering Procurement and Construction (EPC) and Non EPC (job contract) basis. The company is amongst the largest contractor for SAUNI Yojna launched by GoG.

(Rs. Crore)

Brief Financials of JSIW	FY16 (A)	FY17 (A)
Total operating income	253.05	357.37
PBILDT	19.41	31.20
PAT	8.05	14.31
Overall gearing (times)	0.44	0.75
PBILDT Interest coverage (times)	3.74	5.18

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 clarifications.

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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
Fund-based - LT-Cash Credit	NA	NA	NA	70.00	CARE A; Stable
Non-fund-based - LT/ ST-BG/LC	NA	NA	NA	395.00	CARE A; Stable / CARE A1
Non-fund-based - ST-Letter of credit	NA	NA	NA	97.00	CARE A1

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 2017-2018	Date(s) & Rating(s) assigned in 2016-2017	Date(s) & Rating(s) assigned in 2015-2016	Date(s) & Rating(s) assigned in 2014-2015
1.	Fund-based - LT-Cash Credit	LT	70.00	CARE A; Stable	-	1)CARE A-; Stable (27-Jan-17)	1)CARE BBB+ (25-Feb-16)	1)CARE BBB (16-Mar-15) 2)CARE BBB- (03-Apr-14)
2.	Non-fund-based - LT/ ST-BG/LC	LT/ST	395.00	CARE A; Stable / CARE A1	-	1)CARE A-; Stable / CARE A1 (27-Jan-17)	1) CARE BBB+ / CARE A2+ (25-Feb-16)	1)CARE BBB / CARE A3+ (16-Mar-15) 2)CARE BBB- / CARE A3 (03-Apr-14)
3.	Non-fund-based - ST-Letter of credit	ST	97.00	CARE A1	-	1)CARE A1 (27-Jan-17)	1)CARE A2+ (25-Feb-16)	1)CARE A3+ (16-Mar-15) 2)CARE A3 (03-Apr-14)

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