

RATING RATIONALE

10Feb2022



Brickwork Ratings upgrades the ratings for the enhanced Bank Loan Facilities of Rs. 75.00 Crs. of Udayshivakumar Infra Private Limited

Particulars

| Facilities** | Amount (Rs.Crs.) | | Tenure | Rating# | |
|--------------------|------------------|--------------|--|---|--|
| | Previous | Present | | Previous (07 Dec 2020) | Present |
| Fund Based | 14.00 | 14.00 | Long Term | BWR BB+ /Stable Reaffirmation | BWR BBB - /Stable Upgrade |
| Non Fund Based | 35.60 | 61.00 | Short Term | BWR A4+ Reaffirmation | BWR A3 Upgrade |
| Grand Total | 49.60 | 75.00 | (Rupees Seventy Five Crores Only) | | |

#Please refer to BWR website www.brickworkratings.com for definition of the ratings

**Details of Bank Loan facilities, consolidation or instruments are provided in Annexure

RATING ACTION / OUTLOOK

The upgradation of ratings of Udayshivakumar Infra Private Limited (UIPL or the company) reflects the sustained improvement in the overall financial risk profile with y-o-y improvement in the revenue and profits in FY21 and stable performance during 9MFY22, despite the Covid-19 related disruptions. Also, the rating action positively factors the company's CAGR of ~10% since 2018, moderate order book position with adequate fresh order accretion and positive industry/business outlook post the various recently announced government schemes. The company has received fresh orders to the tune of ~Rs.170 Crs during 9MFY22 and the unexecuted orders were around ~Rs.368 Crs as of 31 Dec 2021, ensuring near-term revenue visibility.

The ratings continue to draw strength from the extensive experience of the promoters of the company in the civil construction business, established operational track record and demonstrated execution capabilities of UIPL, long-standing relations with various government bodies, and adequate liquidity profile of the company backed by the timely debtor realisation. However, the ratings remain constrained by the company's modest scale of operation, dependence on government contracts, geographical concentration risks, working-capital-intensive nature of business operations, and the inherent industry risks viz. project execution risk, risks arising from the tender based nature of business, the vulnerability of profitability to margin-based competitive bidding and fluctuation in construction material prices. Furthermore, as clients are mainly government bodies, any delay in the release of payments and retention money withheld by clients can impact the company's cash flows.

Brickwork Ratings (BWR) believes UIPL's business risk profile will be maintained over the medium term. The outlook

may be revised to Positive if a sustained significant increase in the scale of operations, along with improved margins, a further improvement in the capital structure, an improved geography/client-wise diversification, and the timely realisation of receivables result in an improved credit risk profile. The outlook may be revised to Negative in case the company's business profile continues to be impacted and is unable to complete the projects without time and cost overruns, especially in view of the Covid-19 disruptions. Further, any decline in the order book or decline in new order accretion, deterioration in the capital structure due to debt-financed capital expenditure, and/or delay or non-realisation of receivables resulting in high utilisation of working capital funding, thus weakening the company's credit risk profile may exert downward pressure on the ratings.

KEY RATING DRIVERS

Credit Strengths:

- **Experienced management and established track record :**

The main promoters of UIPL have over 25 years of experience in the civil construction business. UIPL, a closely held family business with an established operational track record, is registered as PWD Class-I Contractor and undertakes civil contract work for Govt of Karnataka such as the construction of bridges, cement concrete roads, canals, and other civil infrastructure works. The Company is also registered as Karnataka Neeravari Nigam Limited (KNNL) Category -I Contractor, CNNL Category - 1 contractor, KBJNL Category - contractor, and PRED category - 1 contractor. It has demonstrated its project execution capability in the sector and has been able to win repeat orders from various government agencies based on its track record.

- **Established clientele and moderate order book position :**

UIPL has reputed clientele including Karnataka Public Works Department (PWD), Karnataka Industrial Area Development Board (KIADB), National Highway Division-Karnataka, Karnataka Niravari Nigam Limited (KNNL), Krishna Bhagya Jala Nigam Limited (KBJNL), Davangere Smart City Ltd, Belagavi Smart City Ltd, etc. The company has been associated with these clients for a long time. Due to reputed client profiles, the company has low counterparty credit risk although, at times, there can be occasional delays in the realisation of some bills. The company is currently executing orders worth ~Rs.880 Crs and unexecuted orders were ~Rs. 368 Crs. as of 31 Dec 2021, to be completed within the next 2-3 years.

- **Moderate financial risk profile :**

Contract receipts increased from Rs.193.61 Crs in FY20 to Rs.210.40 Crs in FY21. Operating profit increased from Rs.20.38 Crs to Rs.23.98 Crs and net profit from Rs.6.66 Crs to Rs.10.45 Crs over the same period. Total debt reduced to Rs.30.60 Crs (PY: Rs.33.95 Crs) and the tangible net worth (TNW) improved to Rs.49.89 Crs (PY: Rs.39.44 Crs) by way of profit retention, as of 31 March 2021. The gearing continued to be comfortable with improvement to 0.61 times (PY: 0.86 times) as of 31 March 2021. Debt protection metrics is comfortable as marked by the ISCR and DSCR of 4.69 times and 2.41 times, respectively, as of 31 March 2021. The operating and net profit margins for FY21 were stable at 11.40% and 4.97%, respectively.

Credit Risks:

- **Order book concentration :**

The company's outstanding order book is exposed to client concentration risks as the order book is derived only from the Government of Karnataka departments/bodies, exposing it to region-specific economic and political risks. Any adverse economical and/or political scenario in the state is likely to constrain the operating performance of the company. The company's order book mainly constitutes infrastructure and road works and construction of canal & bridges. The top 5 clients contributed ~50% of the revenue in FY21.

- **Execution risk and susceptibility to industry competition and volatility in raw material prices :**

The company's operations are susceptible to many external factors such as the handover of sites, the mobilisation of funds, the change in governments policies and directives, cost escalation due to departmental delays, labour unrest, and climatic vagaries. The effect of any of these could be substantial on the company's timeline of the completion of projects, working capital utilisation level, and overall profitability. Since all of the operations are tender-based, revenue and profitability are expected to remain susceptible to risks inherent in tender-based operations and a competitive landscape. Further, in the current scenario of the breakdown of the supply chain due to the Covid-19-induced disruptions, the company may have to face supply chain constraints and elevated raw material prices such as cement/ steel in the short term. However, the cost escalation provisions in the company's contracts are expected to help it maintain its margins. Also, relief has been provided to the company by extending the tenure of contracts by the various departments.

- **Working-capital-intensive nature of operations :**

The company's operations are working-capital-intensive due to the high cost of construction material, high labour cost, advance to suppliers, and delays in getting payments from government departments, among others. The days receivables increased to 140 days (PY: 124 days) as of 31 Mar 2021, due to the pandemic situation. On the other hand, the days payables increased to 306 days (PY: 263 days), thereby keeping the cash conversion cycle comfortable as of 31 March 2021. The ability of the company to manage its receivables and its working capital requirements are rating monitorables.

ANALYTICAL APPROACH - Standalone

For arriving at its ratings, Brickwork Ratings has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale). The company has no subsidiary or associate as of 31 Mar 2021 and a standalone approach has been adopted.

RATING SENSITIVITIES

The ability of the company to ensure timely execution of the ongoing projects, improve order book and fresh order accretion, achieve geographical/segment/client diversification, a significant increase in its scale of operations, improve its profitability margins, strengthen its credit risk profile, ensure effective and timely realization of receivables and manage its working capital efficiently would remain the key rating sensitivities.

Positive:

- A significant improvement in the scale of operations and profitability on a sustained basis with the timely completion and delivery of projects
- Geographical, sectoral and client-wise diversification of operations

Negative:

- Delays in the execution of ongoing orders
- Deterioration in financial risk profile on account of stretch in the working capital cycle, mainly due to delay in realization of receivables or any large, debt-funded capital expenditure
- Sustained decline in the business profile due to reduction fresh order accretion and/or due to the impact of the spread of fresh variants of coronavirus

LIQUIDITY INDICATORS - Adequate

The company's liquidity position is adequate, as marked by EBITDA and net cash accruals adequately covering debt

servicing obligations. The company's EBITDA has been sufficient to cover the interest & finance charges during the past three fiscals; the trend is expected to continue in FY22 and FY23. The average working capital loan utilisations for the past 6 months were ~82% giving a spare line of credit for the company. The current ratio was 1.67 times and cash & cash equivalents were Rs.5.25 Crs, as of 31 Mar 2021. The cash conversion cycle was comfortable as of 31 Mar 2021 due to high days payables and low days inventory. Projected cash accruals of ~Rs.17 Crs and ~Rs.19 Crs respectively for FY22 & FY23 are sufficient to meet long-term debt repayments of ~Rs.9 Crs and ~Rs.6 Cr respectively for the same period.

ABOUT THE ENTITY

Uday Shivakumar, Davangere, Karnataka, was initially incorporated as a proprietorship concern in 1995 with Mr.Uday Shiva Kumar as the proprietor. In 2014, it was reconstituted as a partnership firm with Mr. Udayshivakumar and Ms. Amrutha w/o Mr. Udayshivakumar as partners. In 2019, the company converted into a private limited company by the name of Udayshivakumar Infra Private Limited. The company is a PWD Class-I Contractor and undertakes civil contract works like the construction of bridges, cement concrete roads, canals, and other civil infrastructure works for the Government of Karnataka departments/bodies. The company derives 90% of its revenue from contract business and the remaining ~10% from the sale of ready-mix concrete (RMC) through the three plants located at Davangere, Belgaum, and Shivamogga along with sale of other construction materials etc.

Mr.Udayshivakumar is the Managing Director and Ms. Amrutha Udayshivakumar is the other Director of the company.

KEY FINANCIAL INDICATORS (Standalone)

| Key Parameters | Units | FY 20-21 (Audited) | FY 19-20 (Audited) |
|-------------------------------|--------------|-------------------------------|-------------------------------|
| Operating Revenue | Rs.Crs. | 210.40 | 193.61 |
| EBITDA | Rs.Crs. | 23.98 | 20.38 |
| PAT | Rs.Crs. | 10.45 | 6.66 |
| Tangible Net Worth | Rs.Crs. | 49.89 | 39.44 |
| Total Debt/Tangible Net Worth | Times | 0.61 | 0.86 |
| Current Ratio | Times | 1.67 | 1.53 |

KEY COVENANTS OF THE FACILITY RATED

The terms of sanction include standard covenants normally stipulated for such facilities.

NON-COOPERATION WITH PREVIOUS CREDIT RATING AGENCY

NA

ANY OTHER INFORMATION

RATING HISTORY FOR THE PREVIOUS THREE YEARS (including withdrawal and suspended)

| Facilities | Current RatingÂ (2022) | | | 2022 (History) | | 2021 | | 2020 | | 2019 | |
|--------------------|------------------------|--------|--|----------------|------|--------|------|-----------|--------------------------------|-----------|---------------------------|
| | Type | Tenure | Amount (Rs.Crs.) | Rating | Date | Rating | Date | Rating | Date | Rating | Date |
| Fund Based | LT | 14.00 | BWR BBB-/Stable (Upgrade) | NA | NA | NA | NA | 07Dec2020 | BWR BB+ Stable (Reaffirmation) | 17Sep2019 | BWR BB+ Stable (Upgrade) |
| Non Fund Based | ST | 61.00 | BWR A3 (Upgrade) | NA | NA | NA | NA | 07Dec2020 | BWR A4+ (Reaffirmation) | 17Sep2019 | BWR A4+ (Upgrade) |
| Grand Total | | 75.00 | (Rupees Seventy Five Crores Only) | | | | | | | | |

Press Release, as on 27Dec2021

The rating was due for surveillance on 07 Dec 2021. Rating Advisory was issued citing the delay in conducting the review.

COMPLEXITY LEVELS OF THE INSTRUMENTS - Simple

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com / download / ComplexityLevels.pdf. Investors queries can be sent to info@brickworkratings.com.

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Engineering Procurement and Construction \(EPC\) Companies](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)

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Udayshivakumar Infra Pvt. Ltd. (erstwhile Udayshivakumar)

ANNEXURE-I

Details of Bank Facilities rated by BWR

| SL.No. | Name of the Bank/Lender | Type Of Facilities | Long Term(Rs.Crs.) | Short Term(Rs.Crs.) | Total(Rs.Crs.) |
|--------|---------------------------|------------------------|--------------------|---------------------|----------------|
| 1 | State Bank Of India (SBI) | Cash Credit-Sanctioned | 14.00 | — | 14.00 |

| SL.No. | Name of the Bank/Lender | Type Of Facilities | Long Term(Rs.Crs.) | Short Term(Rs.Crs.) | Total(Rs.Crs.) |
|--|---------------------------|---------------------------|--------------------|---------------------|----------------|
| 2 | State Bank Of India (SBI) | Bank Guarantee-Sanctioned | — | 61.00 | 61.00 |
| Total | | | 14.00 | 61.00 | 75.00 |
| TOTAL (Rupees Seventy Five Crores Only) | | | | | |

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