Lekcon Infrastructure Pvt Ltd (LIPL)

October 01, 2024

Ratings

Security / Facility*	Amount (Rs. crore)	Current Ratings	Previous Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	54.38 (enhanced from 36.87)	IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	IVR BBB+; Stable (IVR Triple B Plus with Stable Outlook)	Reaffirmed	Simple
Short Term Bank Facilities	94.00 (reduced from 96.00)	IVR A2 (IVR A Two)	IVR A2 (IVR A Two)	Reaffirmed	Simple
Short Term Bank Facilities – FDOD	-	-	IVR A2 (IVR A Two)	Withdrawn**	Simple
Total	**148.38 (Rupees one-hundred and forty-eight crore and thirty-eight lakh only)**				

**Previously we had rated proposed long term/ short term facility of Rs.20.00 crore, which has now been sanctioned and has been reclassified as long term to the tune of Rs.17.51 crore and short term to the tune of Rs.2.00 crore.*

***For FDOD Facilities from IndusInd Bank, the company has shared No Objection Certificate issued by the bank along with request for withdrawal.*

Details of Facilities/Instruments are in Annexure 1. Facility wise lender details are at Annexure 2. Detailed explanation of covenants is at Annexure 3.

Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities of Lekcon Infrastructure Pvt Ltd (LIPL) continues to draw comfort from its experienced promoters, reputed clientele coupled with proven project execution capability of the company, satisfactory order book position indicating near to medium term revenue visibility and government thrust on road infrastructure. The ratings also factor in stable business performance of the company in FY24 (Provisional) (FY refers to the period from April 01 to March 31) coupled with its comfortable capital structure and satisfactory debt protection metrics. However, these rating strengths continues to remain partially offset by LIPL’s exposure to geographical and sectoral concentration risk, susceptibility of operating margin to volatile input prices, tender based nature of business with intense competition in the industry and working capital intensive nature of its operations. The stable outlook reflects the expected stable business performance of the company on the back of its experienced promoters in the industry and healthy order book position indicating satisfactory near to medium term revenue visibility.

Infomerics Ratings has withdrawn the rating assigned to FDOD facility availed from IndusInd Bank by LIPL with immediate effect. The above action has been taken at the request of company and based on the 'No Objection Certificate' issued by IndusInd Bank. The rating is being withdrawn in accordance with Infomerics' Policy on Withdrawal of ratings.

Key Rating Sensitivities:

Upward Factors

- Substantial and sustained growth in scale of operations with a topline of more than Rs.600 crore coupled with improvement in profitability and cash accruals on a sustained basis
- Sustenance of the capital structure with improvement in debt protection metrics with interest coverage to remain over 4x
- Improvement in the operating cycle with improvement in average receivable period leading to improvement in liquidity

Downward Factors

- Moderation in operating income and/or profitability and cash accrual impacting the debt protection metrics on a sustained basis
- Any unplanned debt funded capex leading to deterioration in overall gearing to over 1x and/or moderation in interest coverage ratio to below 2x
- Increase in working capital intensity due to elongation in the operating cycle impacting the liquidity

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced promoters

The promoter, Mr. Purushotham Naidu, is a first- generation entrepreneur having more than a decade of experience in the construction sector. Mr. Jeevan Sivakrishna Lekkala and Mr. Gopi Sivakrishan Lekkala (sons of Mr. Naidu) looks after the day-to-day operations of the company under the guidance of Mr. Naidu. The directors are well supported by a team of experienced and qualified professionals.

Proven project execution capability

Over the past years, the entity has successfully completed many projects across Odisha, Telangana and Andhra Pradesh and ensured timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities. However, the company has recently got a mining contract which is a relatively new avenue for the company.

Reputed clientele

LIPL mainly bids for tenders floated by various government departments/entities and is mainly engaged in road construction. Moreover, the company also works as a sub-contractor for other contractors.

Satisfactory order book reflecting satisfactory near to medium-term revenue visibility

The company has an order book position of Rs.5336.95 crore (including a mining contract order from Andhra Pradesh Mineral Development Corporation Limited worth Rs.4500 crore) as on August 31, 2024, which is ~23.61 times of its FY24 (Provisional) contract revenue. The mining contract is for 15 years. Excluding mining orders, order book position for civil construction works as on August 31, 2024, stands at Rs.836.95 crore, which is about 3.70x of its FY24 (Provisional) contract revenue and are expected to be completed in the coming 2-3 years, indicating a satisfactory revenue visibility. The present order book is majorly skewed towards road construction in Telangana and Andhra Pradesh. In order to diversify its geographical operations, the company has also procured few orders in Manipur.

Stable business performance

The business performance of the company continued to remain stable in FY24 with marginal growth in its total operating income (TOI) with healthy profitability. The TOI improved by ~12% y-o-y in FY24 (provisional) to Rs.226.08 crore from Rs.201.22 crore in FY23. However, notwithstanding the growth in TOI, EBITDA moderated in FY24 mainly due to rise in sub-contracting expenses. Consequently, the EBITDA margin though remained healthy, witnessed moderation from 13.94% in FY23 to 11.88% in FY24 (Prov.). Similarly, the PAT margin though remained healthy witnessed moderation from 4.91% in FY23 to 4.61% in FY24 (Prov.). During Q1FY25, the company has achieved a revenue of Rs.35.55 crore.

Comfortable capital structure with satisfactory debt protection metrics in FY24 (Provisional)

The capital structure of the company continued to remain comfortable in FY24 underpinned by its healthy net worth base and low reliance on external debts. The net worth base (ATNW) of the company stood at Rs.133.87 crore as on March 31,2024 (Provisional). The leverage ratios marked by debt equity ratio and overall gearing ratio continued to remain satisfactory though moderated to 0.34x and 0.61x respectively as on March 31, 2024 (Prov.) (0.27x and 0.58x respectively as on March 31, 2023). The moderation in leverage ratio was mainly due to availment of term loan against property during the FY24 (Prov.). However, the total indebtedness marked by TOL/ATNW improved to 1.24x as on March 31,2024 (Prov.) from 1.27x as on March 31,2023. The debt protection metrics as indicated by interest coverage ratio improved and remained comfortable at 3.55x in FY24 (Prov.) from 2.89x in FY 23 due to decline in interest cost. However, Total debt to EBITDA and Total debt to GCA both moderated to 3.05x and 5.08x respectively as on March 31,2024(Prov.) (2.54x and 4.39x as on March 31,2023) due to increase in long-term debt coupled with moderation in EBITDA and gross cash accruals. Infomerics Ratings believes that the capital structure of the company will continues to remain comfortable in the near to medium term.

Government thrust on road infrastructure

India has the one of largest road network across the world, spanning over a total of 5.5 million km with gradual increase in road transportation over the years attributable to improvement in connectivity between cities, towns and villages in the country. The government, through a series of initiatives, is working on policies to attract significant investor interest. A total of 200,000 km national highways is expected to be built by 2025. LIPL being mainly in road construction likely to be benefitted in near to medium term the increased thrust of the government in developing the road infrastructure.

Key Rating Weaknesses

Geographical concentration and sectorial concentration risk

The present order book is majorly skewed towards road construction in Odisha, Telangana and Andhra Pradesh from various government departments indicating a geographical and sectorial concentration risk. However, the company has adequate experience in order to execute projects in these states which provides a comfort. Further to reduce its geographical concentration risk the company has started bidding for projects in other states and has secured few contracts in Manipur and Tripura which will be executed in the next one-three years. Further, in order to reduce its geographical concentration, the company has started venturing in mining space and has secured a mining (Coal extraction) contract.

Susceptibility of operating margin to volatile input prices

Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including sub-contracting) cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, presences of escalation clause (for raw materials) in most of the contracts protect the margin to an extent.

Tender based nature of business with intense competition in the industry

The domestic construction sector is highly crowded with presence of many players with varied statures and capabilities. Further, the company receives work orders through tenders amidst intense price war. The profit margins of the company may remain under pressure because of this highly competitive nature of industry. However, promoters' long industry exposure imparts comfort.

Working capital intensive nature of operation

The operations of LIPL are working capital intensive as a large amount of working capital remains blocked in earnest money deposits and retention money. Further, most of its road construction works and consequent billings are skewed towards last two quarters (almost ~30-40% of sales are booked in the last quarter on an average) which led to high debtors outstanding as on the last date of the financial year (payments have generally been received in 1st quarter of the next fiscal) and resulted in high average collection period. This apart, its clients are government departments/entities having various procedural requirements where payments are relatively slow. However, despite high collection period, comfort can be derived from the fact that the dues are from various government departments (Mostly NHAI) though its state wings) which carries a low default risk.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies.

Financial Ratios & Interpretation (Non-Financial Sector).

Criteria for assigning Rating outlook.

Policy on Default Recognition

Complexity Level of Rated Instruments/Facilities

Liquidity – Adequate

The liquidity position of the company is expected to remain adequate in the near term marked by its expected adequate cash accruals as against its debt repayment obligations. The company is expecting to generate cash accruals in the range of ~Rs.18.52 to ~Rs.24.46 crore as against its debt repayment obligations in the range of ~Rs.4.01 to ~Rs.6.44 crore during FY25-FY27. Further, on the back of its comfortable capital structure, the company has adequate gearing headroom. Moreover, the average utilisation of bank borrowings remained moderate at ~76% during the past 12 months ended July 2024 indicating moderate liquidity buffer.

About the Company

Incorporated in 2009, Hyderabad based Lekcon Infrastructure Private Limited (LIPL) is promoted by Mr. L.Purushotham Naidu. The company is engaged in contract-based construction and renovation of roads and highways, irrigation work, housing, etc. for various Government bodies and private entities. LIPL is accredited with ISO 9001:2008, ISO 18001-2007, ISO 14001-2015 certification. LIPL primarily has presence in Odisha, Telangana and Andhra Pradesh. It is registered as a “Super Class” contractor with the Odisha roads and building department and “Class 1” contractor in Andhra Pradesh and Telangana. In order to diversify its operations, the company has started bidding in mining contracts and recently got a mining contract for coal extraction in Brahmadiha coal mine in Giridh, Jharkhand from Andhra Pradesh Mineral Development Corporation Limited worth Rs.4500 crore which is to be executed over the next 15 years.

Financials (Standalone):

(Rs. crore)

For the year ended/ As on*	31-03-2023	31-03-2024
	Audited	Provisional
Total Operating Income	201.22	226.08
EBITDA	28.05	26.85
PAT	9.98	10.50
Total Debt	71.14	82.01
Tangible Net Worth	123.38	133.87
EBITDA Margin (%)	13.94	11.88
PAT Margin (%)	4.91	4.61
Overall Gearing Ratio (x)	0.58	0.61
Interest Coverage (x)	2.89	3.55

* *Classification as per Infomerics’ standards.*

Status of non-cooperation with previous CRA: Nil

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Security/ Facilities	Current Ratings (Year 2024-2025)			Rating History for the past 3 years		
		Type (Long Term/Short Term)	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2023-24	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22
					Aug 01, 2023	July 01, 2022	May 12, 2021
1.	Cash Credit	Long Term	26.00	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable
2.	GECL	Long Term	0.09	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable
3.	Term Loan	Long Term	28.29	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable	IVR BBB+; Stable
4.	FDOD	Short Term	0.00	Withdrawn*	IVR A2	-	-
5.	Bank Guarantee	Long Term	94.00	IVR A2	IVR A2	IVR A2	IVR A2

**Withdrawn facility from IndusInd Bank*

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About Infomerics:

Infomerics Valuation and Rating Private Ltd (Infomerics) was founded in the year 1986 by a team of highly experienced finance professionals for research and risk evaluation. Infomerics commenced its activities as External Credit Assessment Institution after obtaining registration from Securities Exchange Board of India (SEBI) and accreditation from Reserve Bank of India (RBI).

Adhering to best international practices and maintaining high degree of ethics, the team of analysts at Infomerics deliver quality credit ratings. Infomerics evaluates wide range of debt instruments which helps corporates access to financial markets and provides investors credit ratings backed by in-depth research. The transparent, robust, and credible ratings have gained the confidence of investors and the banks.

Infomerics has a pan India presence with Head Office in Delhi and Corporate Office at Mumbai, with branches in major cities and representatives in several locations.

Infomerics also has international presence with credit rating operations in Nepal through its JV subsidiary.

For more information and definition of ratings please visit www.infomerics.com.

Annexure 1: Instrument/Facility Details

Name of Facility/ Security	ISIN	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Cash Credit	-	-	-	-	26.00	IVR BBB+; Stable
GECL	-	-	-	Oct 2035	0.09	IVR BBB+; Stable
Term Loan	-	-	-	Oct 2035	28.29	IVR BBB+; Stable
Bank Guarantee	-	-	-	-	94.00	IVR A2
FDOD	-	-	-	-	11.00	Withdrawn

Annexure 2: Facility wise lender details:

https://www.infomerics.com/admin/prfiles/len-Lekcon-Infra-oct24.pdf

Annexure 3: Detailed explanation of covenants of the rated Security/facilities: Not Applicable

Annexure 4: List of companies considered for consolidated/Combined analysis: Not Applicable

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.