



## Press Release

### FORTUNE GROUP

December 03, 2020

#### Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Bank Facilities	11.00 (enhanced from 9.00 crore)	IVR BBB- / Stable Outlook (IVR Triple B Minus with Stable Outlook)	Revised from IVR BB+(Double B Plus) and removed from 'Issuer Not Cooperating'
Short Term Bank Facilities	15.00 (reduced from Rs. 17.00 crore)	IVR A3 (IVR A Three)	Revised from IVR A4+ (A Four Plus) and removed from 'Issuer Not Cooperating'
<b>Total</b>	<b>26.00</b>		

Details of Facilities are in Annexure 1

#### Detailed Rationale

The ratings assigned to the bank loan facilities of Fortune Group has been removed from the 'ISSUER NOT COOPERATING' category as the has now submitted the information required for the rating exercise. In a review of the information, the ratings take cognisance of the experience of promoters with proven project execution capability, reputed clientele and its comfortable gearing and debt protection metrics. The ratings also derive comfort from the strong order book position of the firm reflecting satisfactory near to medium-term revenue visibility and Government thrust on road infrastructure. However, these rating strengths are constrained by its small scale of operations in a tender driven and highly competitive sector, exposure to geographical and sectorial concentration risk, susceptibility of its operating margin to volatile input prices and constitution as a partnership firm.

#### Rating Sensitivities

##### Upward Factors:

- Substantial and sustained growth in operating income and improvement in profitability.
- Improvements in the order book position of the firm.
- Sustenance of the capital structure with improvement in debt protection metrics.



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### **Downward Factors:**

- Substantial deterioration in operating income and/or profitability of the firm impacting its liquidity.
- Moderation in the capital structure with deterioration in the overall gearing to below 1x and/or moderation in the debt protection metrics with deterioration in the interest coverage ratio to below 3x.
- Delay in execution of its orders.
- Any deterioration in liquidity profile on a sustained basis.

### **Detailed Description of Key Rating Drivers**

#### **Key Rating Strengths**

- **Experienced promoters & long track record of the firm in civil construction work**  
FG has a track record of more than a decade in the construction sector. The partners of the firm have an experience of over a decade in civil construction and infrastructure related activities. They are well supported by a team of experienced professionals. Over the past years, the firm has successfully completed many projects across Odisha and Jharkhand and ensured timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities.
- **Reputed clientele**  
FG is registered as an approved contractor with Odisha State R&B dept., Odisha State irrigation dept, Odisha State RWD dept. and Odisha State RWSS dept. Over the years of its operations the firm has established a strong business relationship with various government departments as well as private clients.
- **Strong order book reflecting satisfactory medium-term revenue visibility**  
FG has a strong unexecuted order book of Rs.381.63 crore as on October 20,2020, which is about 4.46 times of its FY20 operating revenue (i.e. Rs.85.51 crore) and to be executed within next 2-3 years which shows a near to medium-term revenue visibility.
- **Comfortable gearing and adequate debt protection metrics**  
The capital structure of the firm remained comfortable and witnessed continuous improvement over the last three fiscals. During FY20, the partners have infused



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unsecured loan aggregating to Rs1.80 crore and considering the same as quasi capital the overall gearing ratio stood comfortable at 0.38x as on March 31,2020. Total indebtedness of the firm marked by TOL/ANW also remained comfortable at 1.02x as on March 31,2020. The debt protection metrics of the firm continued to remain comfortable marked by its healthy interest coverage ratio.

- **Government thrust on road infrastructure**

India has the one of largest road networks in the world, spanning over a total of 5.5 million kms, 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 completed by 2022. FG being mainly in road construction is likely to benefit in near to medium term from the increased thrust of the government in developing the road infrastructure.

- **Prudent working capital management**

The firm receives payments on a running account basis. The firm has managed its payment cycle well which gets reflected in its debtors' days (being below 20 days in the last 3 fiscals). A strong relationship with creditors allows the firm to avail credit period of about 30-60 days, which has kept the working capital cycle negative in the last three fiscals.

### Key Rating Weaknesses

- **Small sale of operation with concentration risk**

The scale of operations of the firm remained small marked by turnover of Rs.84.77 crore in FY20 (Rs. 83.35 crores in FY19). Further, the firm has achieved a turnover of Rs.50.75 crore in H1-FY21 as compared to Rs.36.45 crore of H1-FY20 with a y-o-y improvement of ~39%. The improvement was largely driven by realisation of bills which were stuck in March 2020 due to lock down. Small scale of operation restricts its financial flexibility to an extent. FG's order book generally comprises of roads and bridges (about 70%) (including construction, rehabilitation and up-gradation). Hence, the sectorial concentration risk is high. Further, the present order book is mainly from Odisha location only from various government departments and private clients indicating a geographical concentration risk. However, the firm has adequate



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experience in order to execute projects in Odisha which provide comfort. However, in order to reduce the geographical concentration, risk the firm is expanding its operations in Jharkhand.

- **Operation in a highly competitive segment with many unorganized players**

The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.

- **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 firm is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, the firm has an in-built price variation clause for major raw materials like cement, bitumen & steel in majority of its contracts. Hence FG is largely safeguarded from the adverse movement in the raw material prices. However, FG is exposed to the risk of timely execution of projects.

- **Constitution as a partnership concern**

The firm is exposed to inherent risk of fluctuation in capital due to withdrawal of capital by partners. Further withdrawal of capital by the partners for any personal contingency would adversely affect the capital structure of the firm.

**Analytical Approach:** Standalone

**Applicable Criteria:**

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)



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### **Liquidity: Adequate**

The firm's liquidity position is expected to remain adequate marked by sufficient cushion in its cash accruals vis-à-vis its low repayment obligations. GCA of the firm stood at Rs.5.18 crore in FY20 and the firm is expecting to earn a GCA in the range of Rs.8-10 crore as against its debt repayment obligation in the range of Rs.1-2 crore during FY21-23. Further, its bank limits are moderately utilized to the extent of ~84% on an average during the past 12 months ended in August 2020 indicating a moderate liquidity buffer. Current Ratio of the firm stood favourable at 1.69 times as on March 31,2020.

### **About the Firm**

Fortune group (FG) was initially set up as a proprietorship firm in 2003 and reconstituted as a partnership firm in 2009 with Mr. Tapas Kumar Pathy, Mr. Rajendra Narayan Nayak and Mrs. Meenakshi Panda as partners. The firm offers a wide range of services in construction and infrastructure related developmental works across several sectors which includes execution of heavy earth work, construction of road embankment, raising of subgrade, concrete structures, asphalt topping of roads, reservoirs, steel structures, road projects, drainage work, etc. with major focus on roads and bridges

### **Financials (Standalone):**

For the year ended* / As On	(Rs. crore)	
	31-03-2019	31-03-2020
	Audited	Audited
Total Operating Income	84.14	85.51
EBITDA	8.65	9.44
PAT	5.01	6.00
Total Debt	10.29	10.67
Tangible Net worth^	22.05	27.97
EBITDA Margin (%)	10.28	11.05
PAT Margin (%)	3.05	3.89
Overall Gearing Ratio (x)	0.47	0.38

\*Classification as per Infomerics' standards. ^including subordinated unsecured loans

**Status of non-cooperation with previous CRA: Nil**

**Any other information: Nil**



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### Rating History for last three years:

Sr. No.	Name of Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit*	Long Term	9.00	IVR BBB-/ Stable Outlook	IVR BB+/Issuer Not Cooperating (04.09.2020)	IVR BBB-/ Stable Outlook (01.08.2019)	-
2	GECL	Long Term	1.42	IVR BBB-/ Stable Outlook	-	-	-
3	Demand Loan*	Long Term	0.58**	IVR BBB-/ Stable Outlook	-	-	-
4.	Bank Guarantee	Short Term	15.00	IVR A3	IVR A4+/Issuer Not Cooperating (04.09.2020)	IVR A3 (01.08.2019)	-

\* Covid19 Emergency Credit Facility by way of standby line of credit

\*\*Though the facility is of 0.90 crore the firm has requested us to rate only 0.58 crore

**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](http://www.infomerics.com).

### Name and Contact Details of the Rating Analyst:

Name: Mr. Mayank Sethi	Name: Mr. Avik Podder
Tel: (033) 46022266	Tel: (033) 46022266
Email: <a href="mailto:mayank.sethi@infomerics.com">mayank.sethi@infomerics.com</a>	Email: <a href="mailto:apodder@infomerics.com">apodder@infomerics.com</a>

### About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually



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widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

**Disclaimer:** Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change, suspend or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Fund based facilities- Cash Credit	-	-	-	9.00	IVR BBB-/ Stable Outlook
Long Term Fund based facilities- GECL	-	-	June 2024	1.42	IVR BBB-/ Stable Outlook
Long Term Fund based facilities- Demand Loan	-	-	April 2022	0.58	IVR BBB-/ Stable Outlook
Short Term Bank Facilities – Bank Guarantee	-	-	-	15.00	IVR A3