Rating Rationale

Ace Pipeline Contracts Pvt. Ltd.

08-Mar-2019

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 75.00 Crores of Ace Pipeline Contracts Pvt. Ltd..

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	15.00	Long Term	BWR BB (Pronounced as BWR Double B) Outlook: Stable
Non Fund Based	60.00	Short Term	BWR A4 (Pronounced as BWR A Four)
Total	75.00	INR Seventy Five Crores Only	

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

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon audited financial results of Ace Pipeline Contracts Pvt. Ltd up to FY 18 & projected financial up to FY 20, publicly available information & clarification/information provided by the company & its management.

The rating assigned to the bank facilities of Ace Pipeline Contracts Pvt. Ltd positively factors extensive long business experience of the promoters since 1989 in EPC service industry especially relating to oil & gas pipeline construction and established track record of the company and better revenue visibility in near future due to good order book position with reputed client base & moderate debt coverage indicators.

The ratings are however, constrained on account of its working capital intensive nature of operations, intense industry competition, stretched receivable position, highly fragmented industry with competitive market and project execution risks inherent in this line of business and timely execution of EPC contracts etc.

Going forward the ability of the Company to successfully complete the projects/order on hand without any cost or time overrun along with improvement in its profit margins, scale up its revenues, ensure timely realisation of its receivable and effectively manage its working capital, strengthen the capital structure, service debt repayment timely would be key rating sensitivities.

Description of Key Rating Drivers

Credit Strengths:

- **Extensive experience of the promoters and operating track record in EPC hydrocarbon pipeline business –** company was incorporated in 1989 by Mr. Anoop Singh and Mr. Gurmeet Singh, APCPL undertakes engineering, procurement and construction contracts, project management, and testing and commissioning of pipelines for the oil and gas sector. The promoters are qualified professionals and have around three decades in oil and gas pipeline construction projects.
- **Established relationship and reputed client base-** The company's clientele include reputed players like (IOCL,GAIL,HPCL,ONGC,L&T). The company has established relationship with its major customer and able to generate repeat orders
- **Healthy current order-book position-**APCPL's unexecuted order book stood at ~Rs. 443.00 crore (~3.16 times of OI in FY2018), providing adequate revenue visibility in the near to medium term
- **Moderate Financial Risk-** Moderate Interest coverage ratio and Debt coverage reflected by2.37 x and 1.92x in Fy18.The company has a moderate level of liquidity position reflected by a current ratio of 1.30 times in FY18.

Credit Risks:

- **High order-book concentration with significant dependence on a few large orders –** Company has order of which 70% remained concentrated between the top three projects, exposing APCPL to high project concentration risk. Any delays in execution of these projects may adversely impact its revenues.
- **Risk of delayed payments from Government clients** – APCPL derives almost its entire revenues from the Government clients pertaining to the oil and gas sector. Though the counterparty credit risk remains limited in such clients, the company remains exposed to the risk of delayed payments, which could result in stretched working capital metrics.
- **Vulnerability of operations to delays in project execution –** Most of the company's projects have an execution period of 12 months or higher and remain vulnerable to execution risks with possibilities of delays due to external factors.
- **Working capital intensive operations-**The operating cycle of the company continues to remain

elevated at significantly higher levels in FY18, mainly on account of higher collection and inventory period for the company. The operations of the company continued to be working capital intensive with fund based fully CC utilization during the last 12 months.

- **Exposure to volatile raw material prices-** APCPL has exposure to volatile raw material prices as operating profit margin of APCPL remains exposed to any sharp increase in raw material prices.
- **Inherent project execution risk-** Ace Pipeline Contracts Pvt. Ltd has exposure to inherent project execution risk in EPC business.

Analytical Approach

For arriving at its ratings, BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Outlook: *Stable*

BWR believes the **Ace Pipeline Contracts Pvt. Ltd.** business risk profile will be maintained over the medium term. The ‘Stable’ outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Ace Pipeline Contracts Pvt. Ltd.(APCPL) was incorporated in 1989 by Mr. Anoop Singh and Mr. Gurmeet Singh, ACE Pipe Line Service Provider of engineering procurement service, pipeline project service & pipeline construction service in Mumbai, Maharashtra.
APCPL undertakes engineering, procurement and construction contracts, project management, and testing and commissioning of pipelines for the oil and gas sector. The company has executed contracts at a pan-India level for various reputed Government entities from the oil and gas sector.The company has executed contracts in Assam, Maharashtra, Gujarat, Madhya Pradesh, West Bengal, and Andhra Pradesh.

Company Financial Performance

Company generated a total operating income of ₹ 138.21 Crs. in FY18 as compared to ₹ 104.04 Crs. in FY17. Profit after tax stood at ₹ 5.07 Crs. in FY18 as compared to ₹ 2.56 Crs. in FY17. The tangible net worth of the company stood at Rs. 28.34 Crs. as on 31-3- 2018.

Rating History for the last three years

S.No	Instrument /Facility	Current Rating			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	2017	2016	2015
1	**Fund Based**	Long Term	15.00	**BWR BB (Pronounced as BWR Double B) Outlook: Stable**	**N.A**	**N.A**	**N.A**
2	**Non Fund Based**	Long Term	60.00	**BWR A4 (Pronounced as BWR A Four)**	**N.A**	**N.A**	**N.A**
	Total		**75.00**	**₹ Seventy Five Crores Only**			

Status of non-cooperation with previous CRA- N.A

Any other information- N.A

Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		**Audited**	**Audited**
Operating Revenue	₹ Cr	138.21	104.04
EBITDA	₹ Cr	11.76	10.90
PAT	₹ Cr	5.07	2.56
Tangible Net worth	₹ Cr	28.34	24.02
Total Debt/Tangible Net worth	Times	0.98	1.68
Current Ratio	Times	1.30	1.29

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Infrastructure Sector
- Short Term Debt

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:
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.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

DISCLAIMER

Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented “as is” without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.