



## Rating Rationale

### Tarmat Limited

23 Sept 2020

**Brickwork Ratings upgrades the ratings to BWR BBB/Stable and BWR A3+ for the Bank Facilities of Rs.65.75 Cr of Tarmat Limited (or the company)**

#### Particulars

Facility	Amount (Rs. Cr)		Tenure	Rating *	
	Previous	Present #		Previous (Sep 2019)	Present (Sep 2020)
<b>Fund Based</b>	4.36	5.75	Long Term	<b>BWR BB+/Stable</b>	<b>BWR BBB/Stable Upgraded</b>
<b>Non Fund Based</b>	60.00	60.00	Short Term	<b>BWR A4+</b>	<b>BWR A3+ Upgraded</b>
<b>Total</b>	<b>64.36</b>	<b>65.75</b>	<b>INR Sixty Five Crore and Seventy Five Lakh Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

#Annexure I shows the detailed facilities

#### RATING ACTION/OUTLOOK

Brickwork Ratings upgraded the ratings to BWR BBB/Stable and BWR A3+ for the bank facilities of Tarmat Limited.

The upgrade in the ratings factors in the improvement in the overall financial risk profile in FY20 marked by a significant increase in the scale of operations, profit margins, capital structure & debt coverage indicators and overall liquidity position, coupled with a significant improvement in the operational performance in Q1FY21 vis-a-vis Q1FY20.

The ratings, further, continue to draw strength from established track record & experienced management and healthy order book position. The ratings, however, continue to be constrained by moderately low profit margins coupled with susceptibility of revenue to tender-based operations and inability to achieve projected financials for FY20.

#### KEY RATING DRIVERS

##### Credit Strengths:

- **Established track record & experienced management**

Tarmat Limited was established in 1986 by Mr. Jerry Varghese. The company is into the business of infrastructure development. The company specializes in the construction of runways & highways. Due to recent restructuring of management, new investors have stepped into the company and the



management is professionally controlled by them. These directors viz. Mr. Amit Shah and Mrs. Regina Sinha possess over 2 decades of experience in the construction business. Their experience in the industry has helped the company establish a strong relationship with its suppliers & customers, whereas their technical expertise has helped the company to bid & win new orders.

- **Healthy order book position**

On a standalone basis, the company possesses a healthy order book position worth Rs.407.96 crore comprising 12 open orders in hand, which are expected to be fully executed latest by February 2022. The company has already achieved net sales of ~Rs.36 crore till Q1FY21, whereas Rs.200 crore is expected to be achieved from the pending order book position, however the balance Rs.64 crore is dependent on the orders in pipeline. Moreover, the order book comprises orders from reputed clientele & government agencies, viz. National Highways & Infrastructure Development Corporation Limited (NHIDCL), Cochin International Airport Limited (CIAL), Public Works Department (PWD) Mizoram, Airport Authority of India Limited (AAI), and Military Engineering Services (MES).

- **Healthy financial risk profile marked by a significant increase in the scale of operations and comfortable capital structure & debt coverage indicators**

The total operating income increased significantly from Rs.129.16 crore in FY19 to Rs.263.73 crore in FY20 owing to increase in order executions from various existing customers coupled with addition of new customers. This is reflected in the increase in the revenues from AAI-Trichy, AAI-Chennai, CIAL and Mizoram State Road Project, for whom the existing orders were executed on a larger scale. Moreover, the company received two new orders from CIAL, whereas nine new small-sized orders were received from the other customers for small type of road construction. Furthermore, the increase in order executions from various JVs also contributed to the increase in the total operating income in FY20. However, the company was not able to achieve the projected financials submitted to BWR during last rating exercise.

The overall gearing stood moderately leveraged, however improved significantly from 2.45 times as on March 31, 2019 to 1.97 times as on March 31, 2020 owing to increase in the tangible net-worth base on the back of infusion of fresh share capital worth Rs.9.48 crore coupled with accretion of profits. However, considering the unsecured loans from promoters & related parties, worth Rs.86.82 crore as quasi equity, the overall gearing stood comfortable at 0.16 times as on March 31, 2020. On the other hand, the ISCR and DSCR stood comfortable at ISCR of 4.71 times in FY20 and DSCR on a standalone basis of 3.68 times projected for FY21.

Moreover, on a consolidated basis, the net sales (adjusted of opening & closing WIP) increased significantly by 112.94% y-o-y from Rs.17.05 crore in Q1FY20 to Rs.36.31 crore in Q1FY21, whereas the PAT also increased significantly by 770.25% y-o-y from Rs.0.11 crore in Q1FY20 to Rs.0.97 crore in Q1FY21; owing to increase in order executions in that period.

- **Healthy liquidity profile**

The current ratio stood comfortable at 1.97 times as on March 31, 2020 (vis-à-vis 2.38 times as on March 31, 2019), whereas the conversion cycle also stood negative at -172 days in FY20 (vis-à-vis -196 days in FY19), whereas the same shortened significantly in FY20 over FY19 owing to improvement in the inventory holding and the collection period coupled with shortening of the



creditors' period on the back of a significant turnaround in the operations in that year. Moreover, the company is not dependent on any working capital bank borrowings for managing its working capital requirements. Furthermore, the company owns a free cash & cash equivalents balance worth ~Rs.16 crore as on March 31, 2020, whereas the free cash & cash equivalents balance as on today stands at ~Rs.14 crore, thereby providing healthy liquidity.

#### **Credit Weaknesses:**

- **Moderately low profit margins coupled with susceptibility of revenue to tender-based operations**

The operating profit margin stood moderately low, however improved significantly from 1.31% in FY19 to 4.22% in FY20 owing to decrease in proportionate construction costs (material consumption + sub-contracting charges) to the total operating income, owing to increase in contribution of own works (one of the orders of CIAL) to the total operating income in that year. Moreover, the other administrative expenses decreased on an absolute level as well as proportionate level owing to a significant increase in the total operating income in that year.

The company is exposed to raw material price fluctuation risk as raw material consumed constitutes 49-50% of total operating expenses annually. Any new contracts with absence of cost escalation clause can impact the profitability of the company. Since the entire sales is tender-based, revenue and profitability entirely depend on the ability of the company to win tenders.

#### **ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA**

BWR has essentially relied upon the consolidated audited financials of the company up to FY20, projections up to FY21, publicly available information and information/clarifications provided by the management. 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 SENSITIVITIES**

Going forward, the ability of the company to increase its scale of operations as projected, improve its profit margins and efficiently manage its working capital by further strengthening its liquidity position would be the key rating sensitivities.

**Positive:** Significant improvement in the scale of operations amid the global pandemic situation coupled with improvement in the profit margins & liquidity profile

**Negative:** Inability to achieve the envisaged improvement in the scale of operations coupled with deterioration in the profit margins, capital structure, debt coverage indicators & liquidity profile

#### **LIQUIDITY POSITION: Adequate**

The current ratio stood comfortable at 1.97 times as on March 31, 2020 (vis-à-vis 2.38 times as on March 31, 2019). Moreover, the company is not dependent on any working capital bank borrowings for managing its working capital requirements. Furthermore, the company owns a free cash & cash equivalents balance worth ~Rs.16 crore as on March 31, 2020, whereas the free cash & cash equivalents balance as on today stands at ~Rs.14 crore, thereby providing healthy liquidity.



## COMPANY PROFILE

Tarmat Limited was established in 1986 by Mr. Jerry Varghese. The company is into the business of infrastructure development. The company specializes in construction of runways & highways. The company is engaged in construction of various airfields, runways, parking bays, apron, taxiways etc. The company's operations are spread in the states of Maharashtra, Jammu & Kashmir, Kerala, Gujarat, Tamil Nadu, Mizoram and Chattisgarh. The company had its IPO in 2007 and got listed on BSE and NSE.

## KEY FINANCIAL INDICATORS (Consolidated)

Key Parameters	31.3.2019 Audited	31.3.2020 Audited
<b>Total Operating Income</b> (Rs. Cr)	129.16	263.73
<b>EBITDA</b> (Rs. Cr)	1.69	11.14
<b>PAT</b> (Rs. Cr)	0.58	6.92
<b>Tangible Networth</b> (Rs. Cr)	39.65	56.00
<b>Tangible Networth (Adjusted)</b> (Rs. Cr)	88.30	109.02
<b>Total Debt:TNW</b> (Times)	2.45	1.97
<b>Total Debt:TNW (Adjusted)</b> (Times)	0.55	0.53
<b>Current Ratio</b> (Times)	2.38	1.97

**KEY COVENANTS OF INSTRUMENTS/FACILITIES TO BE RATED: NA**

**NON-COOPERATION WITH PREVIOUS RATING AGENCY, IF ANY: NA**

**Rating History for the last three years: (Including withdrawal and Suspended)**

Sl. No.	Facility	Current Rating (Sep 2020)			Rating History		
		Type	Amount (Rs. Cr)	Rating	Sep 2019	-	-
1	Fund based Term Loans	Long Term	5.75	BWR BBB/Stable Upgraded	BWR BB+/Stable Assigned	-	-
2	Non Fund Based Bank Guarantee	Short Term	60.00	BWR A3+ Upgraded	BWR A4+ Assigned	-	-
			65.75	INR Sixty Five Crore and Seventy Five Lakh Only			

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Trading Entities](#)
- [Short Term Debt](#)
- [Consolidation of Companies](#)
- [Infrastructure Sector](#)
- [Approach to Financial Ratios](#)

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**Annexure I**  
**Details of Rated Bank Facilities**

Bank	Name of Facility	Nature of Facility	Rated Amount (Rs.in Cr.)
ICICI Bank	Term Loan I	Fund Based - Long Term	1.92*
	Term Loan II	Fund Based - Long Term	1.96*
	Term Loan III	Fund Based - Long Term	0.94
	Term Loan IV	Fund Based – Long Term	0.94
Canara Bank	Bank Guarantee	Non Fund Based - Short Term	60.00
		<b>Total</b>	<b>65.75</b>

**INR Sixty Five Crore and Seventy Five Lakh Only**

**List of JVs in consolidation**

Name of the JV	Stake in FY19	Stake in FY20
NG Tarmat Gujarat JV	60:40	-
NG Tarmat Goa JV	74:26	74:26
MSKEL Tarmat JV	51:49	51:49
Sonai Tarmat JV	-	80:20

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