

RATING RATIONALE

18 May 2020

Ace Pipeline Contracts Pvt. Ltd.

Brickwork Ratings Revises ratings for the Bank Loan Facilities of ₹. 104.00 Crores of Ace Pipeline Contracts Pvt. Ltd. (APCPL Or the ‘Company’).

Particulars:

| Facility** | Amount (₹ Cr) | | Tenure | Rating* | |
|----------------|---------------|---------------|--|------------------------|------------------------|
| | Previous | Present | | Previous (08-Mar-2019) | Present |
| Fund based | 15.00 | 15.00 | Long Term | BWR BB Stable | BWR BB+ Stable Upgrade |
| Non Fund Based | 60.00 | 89.00 | Short Term | BWR A4 | BWR A4+ Upgrade |
| Total | 75.00 | 104.00 | INR One Hundred Four Crores Only. | | |

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

** Details of Bank facilities is provided in Annexure-I

RATING ACTION: Ratings upgraded.

BWR has essentially relied upon audited financial results of Ace Pipeline Contracts Pvt. Ltd.(APCPL) up to FY19, Provisional FY20 and projections up to FY21, publicly available information or clarification/information provided by the Company.

The rating revision positively factors the extensive business experience of the promoters since 1989 in EPC industry relating to oil & gas pipeline construction, established track record of the Company, long-standing relationships with customers and better revenue visibility in near future due to good order book position with reputed client base, improvement in total receipts Y-o-Y & healthy financial risk profile. The rating also factors in the project management capabilities of the Company on account of presence of an experienced management team and technical personnel.



The ratings are however, constrained on account of its working capital intensive nature of operations, intense industry competition, stretched receivables position, adverse impact of the pandemic sweeping across the country taking a toll on both men and materials and project execution risks inherent in this line of business.

Going forward, the Company's ability to ensure satisfactory and timely execution of the ongoing projects within estimated costs, increase its scale of operations, improve its profitability, ensure geographical diversification, ensure effective and timely realization of receivables, timely debt servicing and efficiently manage its working capital would be key rating sensitivities.

The 'Stable' outlook indicates a low likelihood of a rating change over the medium term. BWR believes that Ace Pipeline Contract Pvt Ltd (APCPL) business risk profile will be maintained over the medium term.

KEY RATING DRIVERS

Credit Strengths:

Experience of the promoters and operating track record in EPC hydrocarbon pipeline business –The Company was incorporated in 1989 by Mr. Anoop Singh and Mr. Gurmeet Singh, both qualified professionals. The promoters have around three decades in oil and gas pipeline construction projects.

Established relationship and reputed client base- The Company's clientele includes all the major Hydrocarbon players and others like L&T, reflecting low counterparty credit risks.

Healthy order-book position- APCPL's unexecuted order book stood at ~Rs. 673.52 crore (~4.60 times of OI in FY2019), providing adequate revenue visibility in the near to medium term.

Increasing scale of operations-The Company reported Total Operating Income of Rs. 143.90 Crores for FY 2019 as compared to Rs. 138.21 Crores in the previous year. Further in FY20, the Total operating Income improved to Rs.225.00 Crs, as per the provisional financials furnished.

Moderate financial risk profile - The Company's financial risk profile remains healthy, marked by a moderate gearing of 0.49 times as on March 31, 2019 as compared to 0.98 times in FY18. The Company's debt servicing capabilities are satisfactory reflected by ISCR of 4.54 times as on 31st March 2019 as against 2.37 times as on 31st March 2018 and DSCR of 3.54 times as on 31st March 2019 as against 1.92 times as on 31st March 2018.

Credit Risks:

Project implementation risk of ongoing projects: The ratings are sensitive to project execution risk of the pending order book, owing to the uncertainties in the EPC business. The ability of the Company to achieve the project revenue would be a key rating monitorable due to Covid 19



Effect.

Vulnerability to economic and industrial cycles: APCPL growth is highly correlated with industrial development activity. The Company caters to clients in sectors such as oil & gas, engineering, etc. Any slowdown in the growth prospects of these sectors affects the Company's revenue and its profitability.

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.

Susceptibility to intense competition- Company operates in a competitive segment and as the business is mainly tender based, the ability of the Company to bid competitively is key for procurement of orders.

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

BWR has factored the standalone business and financial risk profile of the Company to arrive at the rating. Reference may be made to the Rating Criteria hyperlinked below.

RATING SENSITIVITIES

Going forward the ability of the Company to ensure satisfactory and timely execution of the ongoing projects within estimated costs, increase its scale of operations, improve its profitability, ensure geographical diversification, ensure effective and timely realization of receivables, maintain & strengthen its overall credit risk profile and efficiently manage its working capital would be the key rating sensitivities.

Positive: Significant and sustained revenue and margins improve significantly leading to cash generation, along with better working capital management will be positive for the ratings.

Negative: Deterioration in the scale of operations & Significant decline in profitability & higher working capital, weakening the capital structure or debt protection metrics will be negative for the ratings.

LIQUIDITY POSITION: Adequate

The Company's liquidity position remains comfortable as indicated by the current ratio at 1.53x as on 31.03.2019. APCPL has its positive free cash flows, with net cash accruals of Rs. 11.43 crores in FY19. Further, the Company is utilising ~95% its cash credit limit for the last six months. The Company also has not availed any moratorium announced by the RBI on the bank limits.



COMPANY PROFILE

Ace Pipeline Contracts Pvt. Ltd.(APCPL) was incorporated in 1989 by Mr. Anoop Singh and Mr. Gurmeet Singh. It is in the business of engineering procurement service, pipeline project service & pipeline construction service. The Company is headquartered 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.

KEY FINANCIAL INDICATORS (in ₹ Cr)

| Key Parameters | Units | FY18 | FY19 |
|------------------|---------|---------|---------|
| Result Type | | Audited | Audited |
| Operating Income | Rs. Crs | 138.21 | 143.90 |
| OPBDIT | Rs. Crs | 11.76 | 17.33 |
| PAT | Rs. Crs | 5.07 | 9.94 |
| Total Debt/TNW | Times | 0.98 | 0.49 |
| ISCR | Times | 2.37 | 4.54 |
| Current Ratio | Times | 1.30 | 1.53 |

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED: NA

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY: NA

RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]

| Sr. No. | Instrument / Facilities | Current Rating | | | Rating History | | |
|---------|-------------------------|--------------------------------|---------------|---|----------------|------|------|
| | | Tenure (Long Term/ Short Term) | Amount (₹ Cr) | Rating | 08-Mar-2019 | 2017 | 2016 |
| 1 | Fund Based | Long Term | 15.00 | BWR BB+ Stable Upgrade | BWR BB Stable | N.A | N.A |
| 3 | Non Fund Based | Short Term | 89.00 | BWR A4+ | BWR A4 | N.A | N.A |
| | Total | | 104.00 | INR One Hundred Four Crores Only | | | |

COMPLEXITY LEVELS OF THE INSTRUMENTS

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria:

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Services Sector](#)
- [Short Term Debt](#)

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Ace Pipeline Contracts Pvt. Ltd.(APCPL)
ANNEXURE I

Details of Bank Facilities rated by BWR

| S.No. | Name of the Bank | Type of Facilities | Long Term (₹ Cr) | Short Term (₹ Cr) | Total (₹ Cr) |
|--------------|-------------------------------------|--------------------|---------------------|----------------------|-----------------|
| 1 | Allahabad Bank (Now Indian Bank) | Cash credit | 10.00 | - | 10.00 |
| | | Bank Guarantee | - | 65.00 | 65.00 |
| 2 | ICICI | Cash credit | 5.00 | - | 5.00 |
| | | Bank Guarantee | - | 7.00 | 7.00 |
| 3 | Yes Bank | Bank Guarantee | - | 17.00 | 117.00 |
| TOTAL | | | | | 104.00 |



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