Ahluwalia Contracts (India) Limited

December 15, 2022

Ratings

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	105.00 (Enhanced from 85.00)	CARE AA-; Stable (Double A Minus; Outlook: Stable)	Revised from CARE A+; Stable (Single A Plus; Outlook: Stable)
Long-term/Short-term bank facilities	1,395.00 (Reduced from 1,415.00)	CARE AA-; Stable/CARE A1+ (Double A Minus; Outlook: Stable/A One Plus)	Revised from CARE A+; Stable/CARE A1 (Single A Plus; Outlook: Stable/A One)
Total bank facilities	**1,500.00 (₹ One thousand five hundred crore only)**		

Details of instruments/facilities in Annexure-1.

Detailed rationale and key rating drivers

The revision in the ratings assigned to the bank facilities of Ahluwalia Contracts (India) Limited (ACIL) primarily factors in the improvement in the operational performance of the company while maintaining a healthy financial risk profile. The revenue from the operations for FY22 (refers to the period April 1 to March 31) reported an increase of 36% from the previous fiscal alongside improvement in profitability. The PBILDT margins, which remain modest, have also reported a healthy improvement to 9.44% (PY: 7.69%) during FY22, which coupled with the improved scale has resulted in strong cash accruals. The compounded annual growth rate (CAGR) of the revenue for the past three fiscals stood at 13%. CARE Ratings Limited (CARE Ratings) expects the revenues to grow at a similar rate for the current fiscal as well supported by a strong orderbook position of the company of about 3x the revenues from operations for FY22. CARE Ratings also expects that ACIL shall be benefited in the medium term with thrust of government on healthcare and education sector along with reconstruction of marquee government buildings. The revival in capex from the private sector in the medium term shall also benefit ACIL in diversifying its revenue stream with relatively better profitability.

Furthermore, the ratings continue to derive strength from ACIL's experience in diversified construction activities, its established track record of over four decades and execution capabilities along with healthy order book position of the company providing medium to long-term revenue visibility. The presence of price escalation clauses with respect to input costs for a major portion of contracts also protects the profitability to an extent. The ratings take into account ACIL's comfortable capital structure, healthy debt coverage indicators and strong liquidity position.

The rating strengths are, however, constrained by working capital intensive nature of operations, which has reported an improvement in FY22. The collections of the company stand improved leading to improvement in the gross current asset days to 189 days during FY22 against 259 days in FY21 and 251 days in FY20. Sustenance of the working capital efficiency remains a key monitorable for the rating. Furthermore, inherent cyclical trends associated with the civil construction sector and modest profitability parameters of the company are the other credit weaknesses for the company.

Rating sensitivities

Positive factors – Factors that could lead to positive rating action/upgrade:

- Sustained growth in the scale of operations by 20%-25% for medium term with improved profitability and segmental revenue diversity.

Negative factors – Factors that could lead to negative rating action/downgrade:

- Elongation of gross current asset days beyond 275 days on a sustained basis.
- Decline in the scale of operations and contraction in the profitability margins below 8%.
- Deterioration in the orderbook position with revenue visibility below 2x.

[1]Complete definition of the ratings assigned are available at www.careedge.in and other CARE Ratings Ltd.'s publications

Detailed description of the key rating drivers

Key rating strengths

Healthy and diversified order book with strong inflows during year to date-FY23:

The company had unexecuted order book of around ₹7,588 crore as on September 30, 2022, representing around 2.80x of the total operating income (TOI) of FY22, providing revenue visibility over medium to long term. However, ACIL has received orders post September 2022 onwards as well, and the net order inflow till December 08, 2022, stands at ₹4,018 crore, with the revenue visibility remaining at 3x the FY22 income. The government contracts constitute around 81% of the order book as on September 30, 2022 (86% as on September 30, 2021) as against the earlier position till FY18 wherein there was relatively higher dependence on private real estate contracts facing execution challenges and payment issues. Besides, the company's order book position is diversified geographically in 14 Indian states and Nepal, and the company has executed across various states, such as Bihar, Jammu and Kashmir, West Bengal, Delhi, Maharashtra, Uttar Pradesh and Uttarakhand. Furthermore, the company has reduced its exposure towards residential/real estate segment from private players and subsequently increased its exposure in other segments like hospitals and educational institutions, thereby leading to reduced counterparty risk. CARE Ratings also expects that ACIL shall be benefited in the medium term with thrust of government on healthcare and education sector along with reconstruction of marquee government buildings. The revival in capex from the private sector in the medium term shall also benefit ACIL in diversifying its revenue stream with relatively better profitability.

Improvement in operational performance:

The TOI of the company reported a healthy increase of 36% during FY22 from the previous fiscal. The growth is driven by the lower base during FY22 and FY21 primarily due to disruptions due to COVID-19. However, the CAGR of the revenues has been sustained at 13% if the same is viewed for the past six fiscals as well as past three fiscals, which indicates that the company has sustained its execution and billing to the pre-COVID-19 levels during FY22. CARE Ratings expects that the growth of operations will be sustained on the back of company's healthy orderbook, long-standing position in buildings construction segment and favourable demand outlook for the sector. The profitability of the company continues to remain modest, however, the same has reported a healthy improvement during FY22 over the previous fiscal. During FY22, the PBILDT margin stood at 9.44% (PY: 7.69%), while the profit after tax (PAT) margins stood at 5.77% (PY: 3.90%). The improvement in the margins was driven by very marginal write-off requirement towards the debtors during FY22 against a significant write-off of ₹52 crore during FY21.
During H1FY23, the revenue from the operations stood at ₹1,232.09 crore (PY: ₹1,278.11 crore), the PBILDT margin improved at 9.94% against 9.67% for the corresponding period during FY22.

Strong financial risk profile:

The company has a low reliance on external debts and exhibits healthy debt service coverage ratios. The overall gearing ratio (including long-term and short-term mobilisation advances as debt) stood strengthened at 0.25x as on March 31, 2022 (as against 0.44x as on March 31, 2021). The total outside liabilities to tangible net worth (TOL/TNW) of the company strengthened to 0.98x as on March 31, 2022 against 1.34x as on March 31, 2021. The interest coverage ratio also improved to 5.81x in FY22 (PY: 3.59x) on account of the reduction reliance on mobilisation advances. The management has philosophy for maintaining low leverage, which is expected to continue in the medium term.

Thrust of government on urban infrastructure development:

In the budget 2022-23, the Government of India announced ₹76,549 crore to the Ministry of Housing and Urban Affairs (MHUA), which is about 40% higher than that for 2021-22, which shows the focus of the government towards the sector. Besides, the healthcare infrastructure needs of the country have come into the spotlight post COVID-19, both by centre and states. The New Education policy announced in January 2021 aims to increase the gross enrolment ratio from 26.3% in 2018 to 50% by 2035; the average enrolment of 0.6 million students will rise sharply, leading to higher addition of colleges than the current rate.
In terms of state-wise comparisons, the government's thrust on Uttar Pradesh, north east, and Madhya Pradesh is visible in capital outlays of these states, while Gujarat, Maharashtra, and Karnataka shall lead to the private capex in the medium term. CARE Ratings believes that ACIL shall be benefited from the government's thrust on urban infrastructure being its long-standing track record in buildings construction segment.

Experienced management with established track record and execution capabilities:

ACIL is a professionally managed company, headed by Bikramjit Ahluwalia, who has more than five decades of experience in the construction industry. He is assisted by a team of qualified executives, including Shobhit Uppal, Deputy Managing Director, and Vikas Ahluwalia, Whole time Director, who have significant experience in infrastructure space. In the past, the company has successfully completed several projects ranging over construction of institutional buildings, corporate office complexes, multi-storied housing complexes, township development projects, hospitals, hotels, educational institutes, gymnasiums and sport complexes, etc.

Key rating weaknesses

Moderate profitability:
While the profitability indices in the period of FY22 have reported a healthy improvement, the margins continue to be moderate. Higher geographical spread, extension of time in few projects beyond control of ACIL and focus on government contracts are the prominent reasons for the moderate profitability. CARE Ratings believes that ability of the company to improve its profitability margins while scaling up of operations is critical from credit perspective and shall continue to remain a key rating monitorable.

Working capital intensive nature of operations:
The operations of the company are working capital intensive, which is also inherent to the construction industry. The operating cycle, however, stands improved at 67 days during FY22 against 98 days during FY21. The gross current asset (GCA) days of the company though improved to 189 days during FY22 (FY21: 259 days, FY20: 251 days) continue to be modest. The improvement in GCA days has been on the back of the improved collection efficiency as reflected by gross receivable (including retention money and unbilled revenue) levels at about ₹918 crore as on March 31, 2022 against ₹870 crore as on March 31, 2021, while reporting a 36% growth in TOI.
The company meets its working capital requirements through mobilisation advances and its creditors with low reliance on working capital borrowings as reflected from the average working capital utilisation of 11% for the 12-months' period ending August 2022 (18% for 12-months period ending December 2021).

Inherent cyclical trends associated with the construction sector:
The construction sector continues to witness cyclical trends consistent with its inherent nature, notwithstanding a promising outlook for the sector in the long term. The sector has been marred by varied challenges over the past few years on account of fragmented nature of the operations and intense competition in the industry. Besides, rising input prices also continue to be putting pressure on the margins of the EPC players as compensation for escalation passed is not always in tandem with the rising costs. Moreover, ACIL is segmentally concentrated to buildings construction sector unlike few large EPC players. CARE Ratings continues to monitor the inherent cyclical trends associated with the civil construction sector as well as the profitability parameters that are crucial for the ratings of ACIL in the future.

Liquidity: Strong
The liquidity position of the company remained strong with ₹245 crore (₹225 crore as on September 30, 2021) cash and bank balance as on September 30, 2022. Furthermore, its average working capital utilisation remained low at around 11% during 12 months period ending August 2022 (18% for 12 months ending December 2021). The company has negligible long-term debt repayment obligations in FY22 and FY23 against a cash accrual of ₹185 crore and ₹93 crore reported during FY22 and 6MFY23, respectively.

Analytical approach: Standalone

Applicable criteria

Policy on default recognition

Financial Ratios – Non financial Sector

Liquidity Analysis of Non-financial sector entities

Rating Outlook and Credit Watch

Short Term Instruments

Construction

About the company

Ahluwalia Contracts (India) Limited (ACIL), incorporated on June 2, 1979, is promoted by Bikramjit Ahluwalia, CMD, a civil engineer by profession with more than five decades of experience in the construction industry. A listed company with a PAN-India presence, ACIL is engaged in civil construction and execution of turnkey projects. It is actively engaged in the construction of institutional and industrial buildings, corporate office complexes, multi-storied housing complexes, township development projects, hospitals, medical colleges, hotels, educational & technical institutes, schools, and gymnasiums and sports complexes.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23 (UA)
Total operating income	1,980.11	2,689.09	1,232.09
PBILDT	152.25	253.89	122.46
PAT	77.24	155.26	76.95
Overall gearing (times)	0.44	0.25	0.22
Interest coverage (times)	3.59	5.81	8.24

A: Audited; UA: Un-audited
Note: Financials classified as per CARE Ratings' internal benchmarks

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

Rating history for the last three years: Please refer Annexure-2

Covenants of the rated instruments/facilities: Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of various instruments rated for this company: Annexure-4

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance (DD-MM-YYYY)	Coupon Rate (%)	Maturity Date (DD-MM-YYYY)	Size of the Issue (₹ crore)	Rating Assigned along with Rating Outlook
Fund-based - LT-Working capital limits	NA	-	-	-	105.00	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC	NA	-	-	-	1395.00	CARE AA-; Stable / CARE A1+

NA: Not applicable

Annexure-2: Rating history for the last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating History			
		Type	Amount Outstanding (₹ crore)	Rating	Date(s) and Rating(s) assigned in 2022-2023	Date(s) and Rating(s) assigned in 2021-2022	Date(s) and Rating(s) assigned in 2020-2021	Date(s) and Rating(s) assigned in 2019-2020
1	Fund-based - LT-Working capital limits	LT	105.00	CARE AA-; Stable	-	1)CARE A+; Stable (21-Feb-22)	1)CARE A+; Stable (26-Mar-21) 2)CARE A+; Stable (01-Apr-20)	1)CARE A+; Stable (05-Apr-19)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1395.00	CARE AA-; Stable / CARE A1+	-	1)CARE A+; Stable / CARE A1 (21-Feb-22)	1)CARE A+; Stable / CARE A1 (26-Mar-21) 2)CARE A+; Stable / CARE A1 (01-Apr-20)	1)CARE A+; Stable / CARE A1 (05-Apr-19)

*Long term/Short term.

Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities

Name of the Instrument	Detailed Explanation
A. Financial covenants	
	TOL/TNW exceeding 4.00 (Annual)
	Current ratio falling below 1 (Annual)
	More than 20% adverse variance in revenue (Annual)
	Total Debt/ EBITDA<=2.5x
	EBITDA/Net interest>=1.5x
B. Non-financial covenants	
	The management shall maintain management control of the borrower.
	The borrower shall not without prior written permission of the bank undertake or permit any merger, de-merger, consolidation, reorganisation, dissolution or reconstitution scheme of arrangement.
	The borrower shall not without any prior written permission of the bank engage in any manner whatsoever in any business activities other than those which the borrower is currently engaged in.

Annexure-4: Complexity level of various instruments rated for this company

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Working capital limits	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure-5: Bank lender details for this company

To view the lender wise details of bank facilities please [click here]

Note on complexity levels of the rated instruments: CARE Ratings has classified instruments rated by it on the basis of complexity. Investors/market intermediaries/regulators or others are welcome to write to care@careedge.in for any clarifications.

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About us:
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