

## Ashcons Infrastructure Private Limited

November 18, 2022

### Ratings

Facilities/Instruments	Amount (₹ crore)	Ratings <sup>1</sup>	Rating Action
Long Term Bank Facilities	6.17	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Assigned
Long Term Bank Facilities	12.00 (Enhanced from 9.75)	CARE BB+; Stable (Double B Plus; Outlook: Stable)	Reaffirmed
Short Term Bank Facilities	14.03 (Enhanced from 9.03)	CARE A4 (A Four)	Reaffirmed
<b>Total Bank Facilities</b>	<b>32.20</b> <b>(₹ Thirty-Two Crore and Twenty Lakhs Only)</b>		

Details of instruments/facilities in Annexure-1.

### Detailed Rationale and Key Rating Drivers

The ratings assigned to the bank facilities of Ashcons Infrastructure Private Limited (AIPL) continue to be constrained by modest scale of operations along with moderate order book position, highly competitive & fragmented industry along with tender driven nature of business, geographic and segment concentration risk and susceptibility of margins to volatile raw material prices.

The rating, however, continue to derive strength from established track record of operations & experienced management in civil construction industry, established relations with reputed clientele, healthy profit margins, moderately comfortable capital structure and debt coverage indicators, moderate operating cycle and adequate liquidity position.

### Rating Sensitivities

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

- Increase in the scale of operations with a total operating income exceeding Rs.100 crore on a sustained basis
- Improvement in the total operating cycle reaching below 60 days on a sustained basis

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

- Deterioration in the capital structure with the overall gearing exceeding 1.5x on a sustained basis
- Decrease in PBILDT margins below 10% owing to increase in competition or operational cost overheads on continued basis

### Detailed description of the key rating drivers

#### Key Rating Weaknesses

**Modest and fluctuating scale of operations:** AIPL's total operating income remained moderate and fluctuating over the period of past five years (FY18-FY22). Furthermore, total operating income (TOI) of the company grew by 55% during FY22 and stood at Rs. 47.32 crore (vis-à-vis Rs. 30.54 crore in FY21) owing to revival of economic activity post the outbreak of Covid-19. Furthermore, in H1FY23 the company has booked revenue of Rs. 15.26 crore.

**Moderate order book position albeit geographic and segment concentration risk:** AIPL has moderate unexecuted order book position amounting to Rs.42.73 crore as on September 30, 2022 (vis-à-vis Rs.45.30 crore as on December 31 2021) which is to be executed by FY23-24 which provides medium term revenue visibility to the company. Furthermore, the current order book comprised of major order received from its SPVs namely AIPI Infra Projects LLP and S M L Road Infra Projects LLP contributing 61.61% of the total orderbook. The projects are posing geographic risk as well due to concentration of projects limited to Maharashtra state. Hence, timely completion of the projects and thereby increase its scale of operations would be critical from the credit perspective for AIPL.

**Working capital intensive nature of operations:** The operations of AIPL are working capital intensive in nature with funds being blocked in debtors as the company undertakes central government construction projects and get orders through tender bidding process. Furthermore, after receiving orders the company has to pay earnest money deposit (EMD) in the range of 1-5% of contract value and also has to maintain security deposit as retention money of 2-5% with the clients at the time of entering into the contract. Owing to which the working capital cycle of the company stood at 91 days in FY22 vis-à-vis 164 days in FY21.

**Susceptibility of profit margins due to volatile material prices:** The raw material is the major cost driver and the prices of the same are volatile in nature therefore cost base remains exposed to any adverse price fluctuations in the prices of cement, sand, metal plates and pipes being major cost components amongst all materials. Accordingly, the profit margins of the firm are

<sup>1</sup>Complete definition of the ratings assigned are available at [www.careedge.in](http://www.careedge.in) and other CARE Ratings Ltd.'s publications

susceptible to fluctuation in raw material prices. With limited ability to pass on the increase in raw material costs in a competitive operating spectrum and any substantial increase in raw material costs would affect the entity's profitability

**Highly competitive and fragmented industry due to tender-driven nature of business:** The construction industry is fragmented in nature with a large number of small and medium scale players present at regional level. This coupled with the tender-driven nature of construction contracts poses huge competition and puts pressure on the profit margins of the players. Further, AIPL faces competition from other companies for tenders of contracts and hence, successful bidding of the contracts is also remained critical. Moreover, the revenue position of the company remained susceptible to budgetary allocations for infrastructure projects and the same are cyclical in nature.

#### **Key Rating Strengths**

**Established track record of operations & experienced management in civil construction industry:** AIPL is managed by Mr. Ashish Jayram Rai who has rich experience in civil construction for more than two decades through his association with Ashish Construction and this company and over the years of its operations it has developed long standing relationship with clients and gained significant experience in tender bidding process which helps in continuous receipt of order. Further, the director is also supported by experienced and professionally qualified second line of management which also includes experienced engineers (Civil) and other personnel.

**Established relations with reputed clientele:** AIPL has maintained long-standing & established relationship with the reputed clients viz. Pradhan Mantri Gram Sadak Yojna, National Highways Authority of India (CARE AAA; Stable), Public Works Department, Maharashtra Industrial Development Corporation (MIDC Raigad), Tata Power company Ltd. (Raigad), Mumbai Metropolitan Region Development Authority (MMRDA), Reliance Industries Limited (CARE AAA; Stable / CARE A1+), Roha Municipal Council, Maharashtra State Road Development Corporation for which the entity does various types of construction work viz. construction of road, buildings, water pipelines, drainage system, bridges, etc. through tender bidding process.

**Healthy profit margins:** AIPL's profitability stood comfortable during past five financials years ended FY22. The PBILDT margin of the company has been fluctuating in the range of 13.04%-20.35% during FY18-FY22. AIPL's PBILDT margin deteriorated and stood at 15.23% in FY22 (vis-à-vis 15.94% in FY21 and 20.35% in FY20) due to increase in raw material prices like bitumen. Bitumen is a petrochemical product, the prices of crude oil increased leading to increase in prices of bitumen during the year. However, the profit margin of the company depends on nature of work undertaken during the period and the same varies on contract-to-contract basis owing to tender driven nature of operations. Further the PAT margin improved significantly to 10.14% in FY22 (vis-à-vis 4.40% in FY21) due to decrease in depreciation and other non-operating income of Rs. 1.77 crore mainly consists of Rs. 0.81 crore profit from SPV - AIPI Infra Projects LLP and Rs. 0.95 crore profit from SPV - S M L Road Infra Projects LLP. Although, margins remain to be healthy.

**Moderately comfortable capital structure and debt coverage indicators:** AIPL's capital structure has marginally improved and remained moderately comfortable marked by overall gearing of 1.01x as on March 31, 2022 vis-à-vis of 1.16x as on March 31, 2021. The improvement was mainly due to accretion of profits to reserves in FY22 and also lower utilization of working capital borrowings as on balance sheet date. Moreover, the tangible net-worth base also increased by 35% y-o-y in FY22 owing to accretion of profits coupled. The total debt/GCA has improved markedly owing to higher profits in FY22. The same remained at 2.95 times in FY22 vis-à-vis 5.41 times in FY21. Also, interest coverage has improved marginally at 4.31 times in FY22 vis-à-vis 3.35 times in FY21 owing to improved accruals. Nevertheless, it continues to remain comfortable

#### **Liquidity: Stretched**

Liquidity position remained stretched marked by sufficient cushion in cash accruals against the debt repayment obligations of the company. The AIPL has low free cash and bank balance of Rs.0.01 crore as on March 31, 2022 vis-à-vis Rs. 0.29 crore as on March 31, 2021. Its cash credit limits of Rs.12.00 crore is average utilized at 71.22% and average maximum utilized at 85.25% during past twelve months ended September 2022. Further the net cash flow from operating activities stood positive at Rs.3.37 crore owing to realization in receivables during the year (vis-à-vis negative at Rs. 1.68 crore in FY21). On the other hand, the current ratio and quick ratio stood moderate at 1.48 times and 1.30 times respectively as on March 31, 2022 (vis-à-vis 1.61 times and 1.35 times respectively as on March 31, 2021)

**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**

Established in 1990, as a proprietorship entity by Mr. Jayaram Rai under the name of "Ashish Construction" which was taken over by Mr. Ashish Rai in 1999, later on in 2013 the proprietorship entity was reconstituted as private limited company under the name "Ashcons Infrastructure Private Limited" (AIPL). AIPL is A-I class contractor registered under Government of Maharashtra and Public Works Department (PWD) which is engaged in civil construction and turnkey business primarily roads, highways & building construction & also other engineering work (constructions of drainage, slab drains, bridges, boundary and compound walls). The company operates through its administrative office located at Roha, Raigad.

Brief Financials (₹ crore)	March 31, 2021 (A)	March 31, 2022 (A)	H1FY23(Prov.)
Total operating income	30.54	47.32	15.26
PBILDT	4.87	7.21	NA
PAT	1.34	4.80	0.95
Overall gearing (times)	1.16	1.01	NA
Interest coverage (times)	3.35	4.31	NA

A: Audited, Prov.: Provisional, NA: Not Available

**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-Cash Credit		-	-	-	12.00	CARE BB+; Stable
Fund-based - LT-Term Loan		-	-	10-12-2026	6.17	CARE BB+; Stable
Non-fund-based - ST-Bank Guarantee		-	-	-	14.03	CARE A4

#### 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-Cash Credit	LT	12.00	CARE BB+; Stable	-	1)CARE BB+; Stable (15-Mar-22)	1)CARE BB+; Stable (18-Feb-21)	1)CARE BB+; Stable (17-Jan-20)
2	Non-fund-based - ST-Bank Guarantee	ST	14.03	CARE A4	-	1)CARE A4 (15-Mar-22)	1)CARE A4 (18-Feb-21)	1)CARE A4 (17-Jan-20)
3	Fund-based - LT-Term Loan	LT	-	-	-	-	1)Withdrawn (18-Feb-21)	1)CARE BB+; Stable (17-Jan-20)
4	Fund-based - LT-Term Loan	LT	6.17	CARE BB+; Stable				

\*Long term/Short term.

**Annexure-3: Detailed explanation of the covenants of the rated instruments/facilities:** Not available

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

Sr. No.	Name of Instrument	Complexity Level
1	Fund-based - LT-Cash Credit	Simple
2	Fund-based - LT-Term Loan	Simple
3	Non-fund-based - ST-Bank Guarantee	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](mailto:care@careedge.in) for any clarifications.

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#### About us:

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