Ahluwalia Contracts (India) Limited

August 24, 2023

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	105.00	CARE AA-; Stable	Reaffirmed
Long-term / Short-term bank facilities	2,000.00 (Enhanced from 1,395.00)	CARE AA-; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

The reaffirmation in the ratings assigned to the bank facilities of Ahluwalia Contracts (India) Limited (ACIL) continues to factor the operational track record of the company while maintaining a healthy financial risk profile. The ratings continue to be underpinned by the healthy total operating income of ₹2,832 crore reported during FY23 (PY: ₹2,689 crore). The PBILDT margins, which remain modest, have also reported a healthy improvement to 10.53% (PY: 9.44%) during FY23. The robust scale of operations and improving profitability has enabled the generation of healthy gross cash accruals of ₹232.22 crore during FY23 (PY: 185.10 crore).

CARE Ratings Limited (CARE Ratings) expects the revenues to grow further for the current fiscal as well supported by a strong orderbook position of the company of about 4x the revenues from operations for FY23. 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/infrastructure. 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 of the company providing medium to long-term cash flow assurance. 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 factor favourably, 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. The gross current asset days stood at 210 days (PY:189 days) during FY23. Sustenance of the working capital efficiency remains a key monitorable for the rating. Furthermore, the 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: Factors likely to lead to rating actions

Positive factors

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

Negative factors

- 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.

Analytical approach: Standalone

CARE Ratings has considered the standalone financials of ACIL along with its standalone business profile to arrive at the ratings.

Outlook: Stable

The outlook is expected to remain 'Stable' on account of expectations of healthy growth in scale of operations while maintaining profitability considering large order book and thrust of government on development of building/infrastructure for health care & education sector and revival in capex from private sector.

[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 strengths

Healthy and diversified order book with strong inflows during FY23:

The company had unexecuted order book of around ₹11,779 crore as on June 30, 2023, representing around 4x of the total operating income (TOI) of FY23, providing revenue visibility over medium to long term. The order inflow during FY23 and year to date-FY24 stood at ₹5,057 crore and ₹4,377 crore respectively. The government contracts constitute around 75% of the order book as on June 30, 2023 (81% as on September 30, 2022). Besides, the company's order book position is diversified geographically in 16 Indian states and Nepal, and the company has executed projects across various states, such as Bihar, Jammu and Kashmir, West Bengal, Delhi, Maharashtra, Uttar Pradesh and Uttarakhand. Furthermore, the exposure towards residential/real estate segment from private players stood at 13.62%.

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 continues to be healthy for FY23. There has also been about 25% growth in the revenue from operations during Q1FY24 vis-à-vis Q1FY23. CARE Ratings expects the revenue growth to be robust for FY24 on the back of the company's strong orderbook and long-standing position in buildings construction segment. The favourable demand outlook for the sector allows the company to sustain the scale of operations going forward as well. The profitability of the company continues to remain rangebound, however, the same has reported a healthy improvement during FY23 over the previous fiscal. During FY23, the PBILDT margin stood at 10.53% (PY: 9.44%), while the profit after tax (PAT) margins stood at 6.85% (PY: 5.77%). The margins have been sustained in the Q1FY24 financials as well. The improvement in PBILDT has been largely driven by the efficient absorption of operating overheads. The company did not undergo any major write-off/provisions during FY23 as well. CARE Ratings expects the company shall be able to maintain the profitability in medium term.

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) continues to be strong at 0.30x as on March 31, 2023 (as against 0.25x as on March 31, 2022). The total outside liabilities to tangible net worth (TOL/TNW) of the company stood robust at 1.03x as on March 31, 2023 against 0.98x as on March 31, 2022. The total debt/PBILDT stood at 0.48x as on March 31,2023 (P.Y. 0.49x). The interest coverage ratio also improved to 9.12x in FY23 (PY: 5.81x) on account of the about mobilisation advances being interest free and the improved PBILDT position. 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 2023-24, the government proposes to set up an Urban Infrastructure Development Fund to develop the urban infra by public agencies in tier-2 and tier-3 cities. The allocation of Ministry of Housing and Urban Affairs for FY24 stood at ₹76,432, about 2.5% higher than the revised estimated for FY23. The railway station redevelopment projects have also been exhibiting a significant project pipeline in the medium term. 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, sport complexes, etc.

Key weaknesses

Moderate profitability:
While the profitability indices in the period of FY23 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. While the proportion of projects from private clientele has improved to 25% (P.Y.: 19%) as on June 30, 2023, 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 75 days during FY23 against 67 days during FY22 on the back of increase in the receivables and contract assets. Consequently, the gross current asset (GCA) days of the company also increased to 210 days during FY23 (FY22: 189 days, FY21: 259 days, FY20: 251 days) and continue to be modest.
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 fund-based working capital limit utilisation of 2.5% for the 12-months' period ending May 2023.

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 engineering, procurement & construction (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 unencumbered ₹487 crore (₹245 crore as on September 30, 2022) cash and bank balance as on March 31, 2023. Furthermore, its average working capital utilisation remained low at around 2.5% during the 12 months period ending May 2023. The company has negligible long-term debt repayment obligations in FY24 against a cash accrual of ₹232 crore and ₹50.03 crore reported during FY23 and Q1FY24, respectively.

Assumptions/Covenants
Not applicable

Environment, social, and governance (ESG) risks
The factors of ESG affecting the sector are the environmental aspects such as material selection, water consumption, method of construction, waste management; the social aspects like workmen safety, community impact and accessibility and governance aspects such as stakeholder engagement, supply chain management and business ethics.
CARE Ratings expects ACIL's commitment to ESG will support its credit profile. Highlights of the impact of the company's key ESG initiatives are as follows:
Environment:
- Establishing, implementing and maintaining Environmental and Occupational Health & Safety systems in compliance with international standards.
- Dissemination of this EHS Policy through effective communication and training to personnel working for and on behalf of ACIL and be made available to other interested parties, as required

Social:
- The company keeps an established policy for protection of women in the work place
- The company has a committed CSR policy

Governance:
- The company's board comprises of four independent directors
- The company has an established information systems and follows highest standards of internal controls

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
Policy on Withdrawal of Ratings

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Consumer Discretionary	Realty	Realty	Residential, Commercial Projects

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, 2022 (A)	March 31, 2023 (A)	Q1FY24 (UA)
Total operating income	2,689.09	2,832.53	763.61
PBILDT	253.89	298.31	82.66
PAT	155.26	194.16	49.73
Overall gearing (times)	0.25	0.30	NA
Interest coverage (times)	5.81	9.12	7.62

A: Audited UA: Unaudited; NA: Not available; Note: 'the above results are latest financial results available'

Status of non-cooperation with previous CRA:
Not applicable

Any other information:
Not applicable

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

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

Complexity level of various instruments rated: Annexure-4

Lender details: Annexure-5

Annexure-1: Details of instruments/facilities

Name of the Instrument	ISIN	Date of Issuance	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	-	-	-	2000.00	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 2023-2024	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
1	Fund-based - LT-Working Capital Limits	LT	105.00	CARE AA-; Stable	-	1)CARE AA-; Stable (15-Dec-22)	1)CARE A+; Stable (21-Feb-22)	1)CARE A+; Stable (26-Mar-21) 2)CARE A+; Stable (01-Apr-20)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	2000.00	CARE AA-; Stable / CARE A1+	-	1)CARE AA-; Stable / CARE A1+ (15-Dec-22)	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)

*Long term/Short term.

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

Annexure-4: Complexity level of the various instruments rated

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

Annexure-5: Lender details

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

Note on the 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.

Contact us

Media Contact	**Analytical Contacts**
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in **Relationship Contact** Dinesh Sharma Director **CARE Ratings Limited** Phone: +91-11-4533 3200 E-mail: dinesh.sharma@careedge.in	Rajashree Murkute Senior Director **CARE Ratings Limited** Phone: +91-22-6837 4474 E-mail: rajashree.murkute@careedge.in Maulesh Desai Director **CARE Ratings Limited** Phone: +91-79-40265605 E-mail: maulesh.desai@careedge.in Prasanna Krishnan Lakshmi Kumar Associate Director **CARE Ratings Limited** Phone: +91-120-4452014 E-mail: prasanna.krishnan@careedge.in

About us:
Established in 1993, CARE Ratings is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India, it has been acknowledged as an External Credit Assessment Institution by the RBI. With an equitable position in the Indian capital market, CARE Ratings provides a wide array of credit rating services that help corporates raise capital and enable investors to make informed decisions. With an established track record of rating companies over almost three decades, CARE Ratings follows a robust and transparent rating process that leverages its domain and analytical expertise, backed by the methodologies congruent with the international best practices. CARE Ratings has played a pivotal role in developing bank debt and capital market instruments, including commercial papers, corporate bonds and debentures, and structured credit.

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