

Gawar Constructions Limited

September 12, 2023

Facilities/Instruments	Amount (₹ crore)	Rating ¹	Rating Action
Long-term bank facilities	199.00 (Reduced from 200.00)	CARE AA; Stable	Revised from CARE AA-; Positive
Long-term/Short-term bank facilities	2,301.00 (Enhanced from 2,300.00)	CARE AA; Stable/CARE A1+	Revised from CARE AA-; Positive/ CARE A1+

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

CARE Ratings Limited (CARE Ratings) has revised the long-term rating while reaffirming the short-term rating assigned to the bank facilities of Gawar Constructions Limited (GCL). The revision takes into consideration the improvement in the business risk profile marked by increase in the healthy portfolio of five operational Hybrid Annuity Model (HAM) road assets and expected completion of three to four HAM assets during FY24 (FY refers to the period from April 1 to March 31), which are in advanced stages of completion aiding financial flexibility of GCL through unlocking of investments. Rating revision also factors sustained growth in its scale of operations with a compounded annual growth rate (CAGR) of 16% over the last five years, leading to around ₹7,000 crore for FY2023.

The rating strengths continue to be underpinned by GCL's strong order book position, robust execution capabilities in completing large-sized road projects involving complex structures ahead of time, resulting in regular receipt of bonus from the clients and diversified presence across various states. Furthermore, ratings continue to factor low leverage, strong debt coverage indicators and efficient management of working capital requirements marked by lean operating cycle.

The rating strengths are, however, tempered by sectoral concentration in roads, geographical concentration in central and northern India including Himachal Pradesh with topographical challenges, significant equity commitments towards under construction HAM projects, and innate cyclical trends associated with the construction sector, and the competitive nature of the roads construction industry.

Rating sensitivities: Factors likely to lead to rating actions

Positive factors

- Successful monetisation of HAM assets leading to release of significant capital, with growth in cash accruals and maintaining prudent working capital management.
- Significant growth in the scale of operations with substantial segmental diversification in revenue stream while maintaining low leverage.

Negative factors

- Higher than envisaged increase in debt levels leading to deterioration in the total debt /profit before interest, lease rentals, depreciation and taxation (PBILDT) to more than 1.25x on a sustained basis.
- Significant delays in project execution as well as a stark reduction in the PBILDT margin below 12%.
- Aggressive addition of build-operate-transfer (BOT) projects, resulting in high exposure of its investments and advances against net worth on a sustained basis.

Analytical approach

Standalone, factoring in the support and investments to its subsidiary and associate companies.

Outlook: Stable

The outlook is expected to remain steady supported by strong financial flexibility from a pool of operational HAM assets and sustenance in a comfortable business risk profile at the back of steady execution of the outstanding order book, and a strong liquidity position.

¹Complete 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

Increase in the pool of operational HAM assets and envisaged increase in financial flexibility

GCL has a healthy portfolio of self-reliant five operational HAM road assets as on April 30, 2023. Furthermore, the aggregate debt/aggregate bid project cost (BPC) of these operational projects stands comfortable at 37%, rendering visibility of upstreaming of cash flows either through annual surplus, top-up loan, or stake sale. The company is also planning to complete another three to four projects during the current financial year, thereby leading to substantial increase in its portfolio of operational assets.

The management of GCL has also articulated their plans for stake sale of their operational portfolio by transferring the assets into an InvIT, which is expected to aid the financial flexibility for funding the future equity commitments. Alternatively, in case if the InvIT does not fructify, GCL also has the flexibility to upstream surplus cash of the operational SPVs or explore the monetisation of the operational HAM assets.

Strong order book with low counterparty risk

GCL had a healthy outstanding order book of ₹17,408 crore as on March 31, 2023, as against ₹14,540 crore as on September 30, 2022, reflecting adequate revenue visibility over the medium term with the outstanding order book translating to 2.50x of the FY23 revenue. Furthermore, during FY23, the company has added orders worth ₹11,500 crore, which includes orders received through harmonious substitution from the Sadbhav group. However, GCL is exposed to inherent execution risk especially with respect to complex projects on hand. Furthermore, majority of the orders primarily HAM orders were received during FY22 and FY23, the projects are still in their early phases of execution thereby exposing GCL to the inherent project execution risk.

The continued thrust of the government on the road construction sector augurs well for the company's growth prospects in the medium term. Under the government's National Infrastructure Pipeline (NIP), a substantial outlay on road construction – about 18% of the overall ₹111 trillion plan – is expected to provide the necessary impetus to companies operating in this segment, like GCL.

Of the total order book, around 85% is from the National Highways Authority of India (NHAI; rated CARE AAA; Stable), the National Highways and Infrastructure Development Corporation Limited (NHIDCL) and the Ministry of Road Transport and Highways (MoRTH) (including HAM projects being executed for own special purpose vehicles [SPVs], wherein the ultimate counterparty is NHAI); the remaining 12% are from various government authorities (public work departments [PWDs], Madhya Pradesh Road Development Corporation Ltd [MPRDC], Northern Railways, Uttar Pradesh Expressways Industrial Development Authority [UPEIDA], etc). Furthermore, around 3% of the outstanding order book is from private players (excluding orders from group SPVs). With improvement in the order book from government bodies or departments, the counterparty risk remains low.

Growth in scale of operations while maintaining comfortable operating profitability

GCL has benefitted from its strong execution capabilities and early completion of projects, supported by operational efficiency in the past five years, resulting in increasing scale of operations. The total income of the company grew at a CAGR of 16% over the last five years ending FY23 to ₹6,958 crore (FY22: ₹6,442 crore, FY21: ₹5,901 crore, FY20: ₹4,052, crore and FY19: ₹3,824 crore) on account of the efficient execution of the order book.

In terms of profitability, GCL witnessed a marginal improvement in the PBILDT margin from 13.13% in FY22 to 13.39% in FY23, backed by receipt of bonuses for early completion, higher execution of orders, resulting adequate absorption of fixed expenses, and moderation in raw material prices. Furthermore, the company is generating strong cash accruals of ₹783 crore for FY23 as against ₹734 crore for FY22. Going forward, the sustenance of the operating profit margins above 14%, given the intense competition in the roads sector, and the company's successful segmental diversification of order book in sectors other than roads will remain a key rating monitorable.

Healthy financial risk profile

Due to its improved operational performance and lower reliance on debt, the capital structure ratios remained comfortable, with the overall gearing at 0.05x as on March 31, 2023 (FY22: 0.04x) and total outside liabilities (TOL) to tangible net worth (TNW) at 0.19x as on March 31, 2023. (FY22: 0.22x).

The other debt coverage indicators also continued to remain healthy. The interest coverage ratio (ICR) stood at 48.53x during FY23 (FY22: 61.78x) whereas TD/PBILDT stood at 0.18x during FY23. GCL has exhibited strong profitability during the past three to four years, which has strengthened its net worth base along with high profitability, leading to strong debt protection metrics. Going forward, with the expected increase in debt to fund the equity commitments in the projects acquired and to be acquired from the Sadbhav group or from any other sponsor through harmonious substitutions, leverage and debt protection indicators are expected to be marginally moderated to an extent in the medium term.

The successful monetisation of the HAM assets, resulting in liberating growth capital and strengthening of the capital structure, will be viewed favourably. Going forward, pace of addition of BOT asset and its impact on leverage shall be key rating monitorable.

Efficient working capital management:

GCL has lean operating cycle of 59 days as compared to its peers. The gross current asset days also stood comfortable at 109 days for FY23 as against 119 days for FY22 and better as compared to peers. GCL has primarily relied on its internal accruals to support its equity commitments and working capital requirements, leading to lower indebtedness.

Experienced promoters and long track record of operations

GCL is promoted by Rakesh Kumar and Ravinder Kumar, having extensive experience of more than two decades in the construction industry. The promoters are mainly focussed on government contracts, and over a period of time, have developed strong capabilities to execute large projects. There has been demonstrated capabilities to bid for and win large-sized projects from various government departments. The company has a track record of completing projects ahead of schedule, for which it regularly earns bonus payments year-on-year. In the past five years, the company has consistently earned bonus pay-outs, ranging between ₹30-170 crore during the period FY20 to FY23. GCL's management expects to receive large bonuses for the completed and to be completed projects during FY24 as well.

Reforms led growth for the sector partly offset by intensified competition

Over the period of FY15-FY23, the cumulative investments in the roads sector amounted to ₹23.53 lakh crore. The GoI's commitment to implementing successive reforms, the focus on executing the ambitious Bharatmala Phase-I project under the NIP, and the growth in state capex have all contributed to creating a favourable investment climate. The introduction of HAM, toll-operate-transfer (TOT), and FastTag, along with the harmonious substitution of sponsors, stand out as major successful reforms implemented by the GoI. However, the road sector faces several prominent hurdles that impede its progress. These challenges include the increased cost of land acquisition, heightened competition leading to funding challenges, particularly for moderate sponsors, limited contractors' bandwidth, and a relatively moderate pace of monetisation by the NHAI (rated 'CARE AAA; Stable'). Nevertheless, the sector presents significant monetisation potential through an increased portfolio of operational HAM assets as well as the NHAI's engineering procurement and construction (EPC) projects. Given the intensified competition, timely execution of HAM projects awarded post March 2020 with maintaining profitability shall be critical going forward.

Key rating weaknesses**Sectoral concentration risk**

The order book of GCL continues to remain concentrated only in the road segment, implying sectoral concentration. The concentration from the top three orders as a percentage of the total unexecuted order book stood at 26% as on March 31, 2023 (29% as on September 30, 2022). With large orders, the order book has become moderately concentrated, albeit geographically diversified.

The company has outstanding orders from 18 states, wherein majority of the orders of (28%) are in Himachal Pradesh, followed by Uttar Pradesh and Punjab at 11% and 9%, respectively. Gujarat and Bihar contributed to 8% and 7%, respectively, of the outstanding order book. Considering the tough terrains and unpredictable geological conditions in Himachal Pradesh, having projects with complex structures such as tunnels and bridges, etc, and completing them within the envisaged cost and timelines will be critically viewed from the operating performance.

Sizeable equity commitments towards HAM projects

GCL has a portfolio of 21 HAM-based road assets, of which five are operational and 16 are under-construction (including two projects acquired through harmonious substitution) at various stages of implementation. In addition to these, the company is also executing EPC works and has equity commitments for five more HAM projects that are yet to be acquired by the company. The total promoter contribution towards the 21 projects is ₹2,750 crore, of which the company has infused ₹748 crore as on March 31, 2023. Furthermore, GCL has infused about ₹250 crore during FY24 up to August 09, 2023.

Although the equity commitment towards HAM projects is sizeable, the same is to be infused during FY24-FY26 and GCL expects to meet the same through the presence of a strong cash balance of ₹641 crore as on March 31, 2023, along with expected gross cash accruals (GCA) generation of around ₹850-900 crore per annum and some quantum of debt especially for the projects acquired from the Sadbhav group through harmonious substitution.

Liquidity: Strong

The company has strong liquidity with a free cash and bank balance of ₹258 crore and unencumbered fixed deposits (FDs)/ investments of ₹384 crore as on March 31, 2023. Furthermore, the liquidity is supported by unutilised bank lines with negligible fund-based working capital utilisation of 12% during the trailing 12 months ending April 30, 2023. The GCA is expected to be above around ₹850-900 crore per annum, sufficient to meet the yearly debt obligations of ₹43-6060 crore in the next three years.

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 GCL's commitment to ESG to support its credit profile. Highlights of the impact of the company's key ESG initiatives are as follows:

Environmental	GCL has increased its reliance on renewable energy sources
Social	The company has a committed corporate social responsibility (CSR) policy in place.
Governance	- The company's board comprises four independent directors. - The company has an established information system and follows the highest standards of internal controls.

Applicable criteria

[Policy on default recognition](#)

[Factoring Linkages Parent Sub JV Group](#)

[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
Industrials	Construction	Construction	Civil Construction

GCL, incorporated in 2008, is engaged in the business of civil construction mainly in roads, bridges, and government buildings. The company was initially operating as a partnership firm established in 1997. GCL is promoted by Rakesh Singh and Ravinder Singh (both brothers). Over the years, the company has executed several orders as a principal contractor for road and building construction. As on March 31, 2023, the company had an unexecuted order book of over ₹17,408 crore to be executed over the next two to three years.

Brief Financials (₹ crore)	March 31, 2022 (A)	March 31, 2023 (Prov.)	Q1FY24(UA)
Total operating income	6,442	6,958	NA
PBILDT	846	932	NA
PAT	693	743	NA
Overall gearing (times)	0.04	0.05	NA
Interest coverage (times)	61.78	48.53	NA

A: Audited; UA: Unaudited; NA: Not available. Note: The above results are the latest financial results 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 the covenants of the rated instruments/facilities is given in Annexure-3

Complexity level of the various instruments rated: Annexure-4

Lender details: Annexure-5

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	-	-	-	-	199.00	CARE AA; Stable
Non-fund-based - LT/ ST-Bank Guarantee	-	-	-	-	2301.00	CARE AA; Stable / CARE A1+

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	Non-fund-based - LT/ ST-Bank Guarantee	LT/ST*	2301.00	CARE AA; Stable / CARE A1+	-	1)CARE AA-; Positive / CARE A1+ (04-Jan-23)	1)CARE AA-; Stable / CARE A1+ (21-Feb-22)	1)CARE AA-; Stable / CARE A1+ (22-Jan-21)
2	Fund-based - LT-Cash Credit	LT	199.00	CARE AA; Stable	-	1)CARE AA-; Positive (04-Jan-23)	1)CARE AA-; Stable (21-Feb-22)	1)CARE AA-; Stable (22-Jan-21)

*Long term/Short term.

Annexure-3: Detailed explanation of the 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-Cash Credit	Simple
2	Non-fund-based - LT/ ST-Bank Guarantee	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.

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About us:

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Disclaimer:

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