Ahluwalia Contracts (India) Limited

April 05, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long Term Bank Facilities	130.00 (Enhanced from 105.00)	CARE AA-; Stable	Reaffirmed
Long Term / Short Term Bank Facilities	1,975.00 (Reduced from 2,000.00)	CARE AA-; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in the ratings assigned to the bank facilities of Ahluwalia Contracts (India) Limited (ACIL) derive strength from ACIL's experience in diversified construction activities, its established track record of over four decades and execution capabilities of the company. The company has witnessed robust growth in order book to ₹ 11,247 crore as of December 31, 2023, resulting in strengthened long-term revenue visibility. CARE Ratings Limited (CARE Ratings) expects that ACIL will be benefited in the medium term with thrust of government on healthcare and education sector.

CARE Ratings also notes that ACIL has a single major EPC project pertaining to Re-Development of Chhatrapati Shivaji Maharaj Terminus (CSMT) at Mumbai, which contributes 22% of the order book. Also work on various projects is at nascent stage with large sized work addition during 9MFY24. However, strong execution capabilities of the company mitigates the risk associated with project challenges.

The rating also factors in satisfactory financial performance during FY23 (refers to period April 1 to March 31) and 9MFY24. The revenue witnessed y-o-y growth of 5% and 36% during FY23 and 9MFY24 respectively on the back of strong order backlog and execution. The profit before interest, lease rentals, depreciation and taxation (PBILDT) margins have witnessed consistent improvement to 10.53% for FY23 (P.Y 9.44%) and further to 11.36% for 9MFY24, thereby resulting in healthy cash accrual generation. ACIL's capital structure and debt coverage metrics continue to remain comfortable with TOL/TNW of 1.03x as on Mar 31, 2023, and Total Debt/PBILDT of 1.25x in FY23. With lower reliance on external borrowings, the debt metrics are expected to continue to remain strong in the medium term.

The rating strengths are, however, tempered by working capital intensive nature of operations with slight moderation in gross current asset days to 210 days in FY23 from 189 days in FY22, primarily due to moderation in collection efficiency. However, the average fund based working capital utilization for the trailing 12 months ended December 2023, remained comfortable at 8%. The ratings also factor in the inherent cyclical trends associated with the civil construction sector, operations being exposed to variability in commodity prices and modest profitability parameters of 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

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

The company had unexecuted order book of around ₹11,247 crore as on December 31, 2023, representing around 4x of the total operating income (TOI) of FY23, providing revenue visibility over medium to long term. Moreover, the company has also secured additional orders worth ₹1,277 crore by March 31, 2024. Government contracts constitute around 71% of the order book as on December 31, 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 12%.

ACIL secured a major EPC project pertaining to Re-Development of Chhatrapati Shivaji Maharaj Terminus (CSMT) at Mumbai, which contributes 22% of the order book. ACIL is exposed to execution challenges associated with complexity involved in the project. However, strong execution capabilities and adequate resources of ACIL are viewed favourably for the same.

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 36% growth in the revenue from operations during 9MFY24 vis-à-vis 9MFY23. 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 9MFY24 financials as well. The improvement in PBILDT has been largely driven by the efficient absorption of operating overheads. 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 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 1.25x in FY23 (P.Y. 1.01x). The interest coverage ratio has also been strong at 9.12x in FY23 (PY: 5.81x) with low debt and substantial portion of mobilisation advances interest free.

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

Modest profitability

Profitability indices in the period of FY23 have reported a healthy improvement, while the margins remained modest. The PBILDT margins for 9MFY24 improved to 11.36% vis-à-vis margins of 9MFY23 at 10.75. 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. With the easing of commodity prices, and increasing share of private work orders the margins have witnessed improvement during current fiscal and are expected to remain at similar level going forward.

Working capital intensive nature of operations

The operations of the company are working capital intensive, which is also inherent to the building construction industry. The operating cycle stands moderated 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) primarily due to moderation in collection efficiency. Going forward, GCA days are expected to remain range bound as big-ticket size orders are at still nascent stage.
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 8.45% for the 12-months' period ending December 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 ₹597 crore (₹487 crore as on March 31, 2023) cash & bank balance as on December 31, 2023. Furthermore, its average working capital utilisation remained low at around 8.45% during the 12 months period ending December 2023. The company has negligible long-term debt repayment obligations in FY24 against a cash accrual of ₹232 crore reported during FY23.

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 workplace.
- 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

Definition of Default
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Rating Watch
Financial Ratios – Non financial Sector
Construction
Infrastructure Sector Ratings
Short Term Instruments

About the company and industry

Industry classification

Macro Economic Indicator	Sector	Industry	Basic Industry
Industrials	Construction	Construction	Civil Construction

ACIL, incorporated on June 2, 1979, is promoted by Mr. 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)	9MFY24 (UA)
Total operating income	2,689.09	2,832.53	2,715.94
PBILDT	253.89	298.31	308.58
PAT	155.26	194.16	175.7
Overall gearing (times)	0.25	0.30	NA
Interest coverage (times)	5.81	9.12	8.92

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 (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		-	-	-	130.00	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC		-	-	-	1975.00	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	Fund-based - LT-Working Capital Limits	LT*	130.00	CARE AA-; Stable	1)CARE AA-; Stable (24-Aug-23)	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*	1975.00	CARE AA-; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+ (24-Aug-23)	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)

LT: Long term; LT/ST: 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

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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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