Gawar Construction Limited

December 11, 2024

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	400.00	CARE AA; Stable	Assigned
Long-term bank facilities	225.00 (Enhanced from 199.00)	CARE AA; Stable	Reaffirmed
Long-term / Short-term bank facilities	3,500.00 (Enhanced from 2,301.00)	CARE AA; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation of ratings assigned to bank facilities of Gawar Constructions Limited (GCL) reflects its strong business risk profile, characterised by sustained growth in its scale of operations with a compounded annual growth rate (CAGR) of 14% in the last five years ending FY24 (FY refers to April 1 to March 31). This growth is supported by GCL's robust execution capabilities, enabling the timely completion of large-scale road projects with complex structures, often ahead of schedule, resulting in regular bonus receipts from clients. Despite a slight moderation in the order book due to a slower pace of awards in the roads sector, the order book remained healthy at ₹16,433 crore as on June 30, 2024, and is well diversified across states. Ratings also consider the increase in GCL's operational asset portfolio to 11 hybrid annuity model (HAM) road assets, with three HAM assets expected to be completed in FY25, which are in advanced stages of completion. This progress enhances GCL's financial flexibility by unlocking of investments. Additionally, the company is in advanced stages of divesting the stake in its operational road portfolio by transferring nine operational HAM assets into an Infrastructure Investment Trust (InvIT), which is anticipated to further aid financial flexibility for future equity commitments.

The rating strengths continue to be underpinned by GCL's healthy financial risk profile, maintained through meeting equity commitments and working capital requirements using robust internal cash accruals. This, combined with the timely realisation of debtors, has resulted in low reliance on debt, strong debt coverage indicators, and efficient management of working capital requirements.

However, rating strengths are tempered by sectoral concentration in roads, geographical concentration in central and northern India, including Himachal Pradesh with topographical challenges, 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

- Sustenance of financial risk profile through divestment of stake in HAM projects and prudent working capital management
- Significant growth in the scale of operations of over 10-15% 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 over 1.25x on a sustained basis.
- Significant delays in project execution and a stark reduction in the PBILDT margin below 12%.
- Aggressive addition of build-operate-transfer (BOT) or new HAM projects, resulting in high exposure of its investments and advances against net worth on a sustained basis.

Analytical approach:

Standalone, factoring in the pending equity commitments in its under-construction special purpose vehicles (SPVs), and support, if any, required in construction and operational phase.

Outlook: Stable

The outlook is expected to remain steady supported by strong financial flexibility from a pool of operational HAM assets, healthy revenue visibility backed by robust outstanding order book, low leverage, and a strong liquidity position.

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

Detailed description of 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 11 operational HAM road assets as on June 30, 2024. The aggregate debt/aggregate bid project cost (BPC) of these operational projects stands comfortable at 39%, rendering visibility of upstreaming of cash flows either through annual surplus, top-up loan, or stake sale. The company also has another three projects which are scheduled to complete in the current financial year, leading to substantial increase in its portfolio of operational assets.

The company also plans for stake sale of their operational portfolio by transferring nine assets into an InvIT releasing GCL's funds to the tune of ~₹1,000 crore, 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 ₹16,433 crore as on June 30, 2024, reflecting adequate revenue visibility over the medium term with the outstanding order book translating to 2.26x of the FY24 revenue. The order book moderated from ₹17,408 crore as on March 31, 2023, due to intense competition and lower awards in the roads sector. In FY24 and Q1FY25, GCL secured orders worth ₹7,651 crore, compared to ₹11,500 crore in FY23. Further, projects worth ₹1,612 crore are awaiting receipt of appointed date.

Of the total order book, ~66% 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 the Highways (MoRTH), including HAM projects executed for its own SPVs, wherein NHAI is the ultimate counterparty. The remaining 27% comprises orders from government authorities such as Mumbai Metropolitan Region Development Authority (MMRDA), public work departments (PWDs), and Madhya Pradesh Road Development Corporation Ltd (MPRDC), among others. Additionally, ~7% of the outstanding order book is from private players, excluding orders from group SPVs. The predominance of orders from government bodies or departments ensures low counterparty risk.

However, GCL faces inherent execution risks, particularly with complex projects. Most of the orders, primarily HAM orders, were received in FY23 and FY24 and are still in the early stages of execution, exposing GCL to inherent project execution risks.

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 company's total income grew at a CAGR of 14% in the last five years ending FY24 to ₹7,287 crore (FY23: ₹6,958 crore, FY22: ₹6,442 crore, FY21: ₹5,901 crore, and FY20: ₹4,052 crore) considering the efficient execution of the order book.

In terms of profitability, GCL witnessed a marginal decline in the PBILDT margin from 13.45% in FY23 to 13.19% in FY24 due to intensified competition, however, continues to be comfortable backed by receipt of bonuses for early completion and higher execution of orders, resulting adequate absorption of fixed expenses. The company generates strong cash accruals of ₹832 crore for FY24 against ₹696 crore for FY23. Going forward, the ability to sustain the operating profit margins above 13%, considering 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 0.07x as on March 31, 2024 (FY23: 0.05x) and total outside liabilities (TOL) to tangible net worth (TNW) at 0.23x as on March 31, 2024 (FY23: 0.24x).

The other debt coverage indicators also continued to remain healthy with interest coverage ratio of 39.30x in FY24 (FY23: 48.53x), whereas total debt /PBILDT stood at 0.32x in FY24. GCL has exhibited strong profitability in the past five years, which has strengthened its net worth base, leading to strong debt protection metrics.

Towards the 15 under-construction projects, the total promoter contribution is ₹3,260 crore, of which the company has infused ~₹2,078 crore as on March 31, 2024. Despite the significant pending equity commitments to be infused over next two to three years in both existing and upcoming under-construction projects and an increase in capital expenditure, the leverage and debt protection metrics of GCL are expected to remain robust underpinned by healthy expected cash accruals of over ₹800-900 crore in the medium term, alongside the growth capital expected to be unlocked through strategic asset monetisation plans. Going forward, higher-than-envisaged equity commitments and its impact on leverage shall be key rating monitorable.

Efficient working capital management

GCL has lean operating cycle of 58 days compared to its peers. The gross current asset days also stood comfortable at 116 days for FY24 against 111 days for FY23 and better 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 over two decades in the construction industry. The promoters are mainly focussed on government contracts, and over time, have developed strong capabilities to execute large projects. There has been demonstrated capabilities to bid for and win large-sized projects from 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 ₹26 crore and ₹170 crore in FY20 to FY24. GCL's management expects to receive large bonuses for the completed and yet to-be-completed projects in FY25 as well.

Government thrust on infrastructure development

Continued government thrust on the road construction sector augurs well for ABL's growth prospects in the medium term. Under the government's National Infrastructure Pipeline (NIP), a substantial outlay on road construction ~18% of the overall ₹111 trillion plan – is expected to provide necessary impetus to companies operating in this segment. There is a significant traction in T&D projects supported by governments focus on electrifying and upgrading the grid infrastructure and adopting renewables. A proposed Urban Infrastructure Development Fund in the 2023-24 budget aims to bolster urban infrastructure in tier-2 and tier-3 cities. Railway station redevelopment projects show promise, and post-COVID-19, there is a heightened focus on healthcare infrastructure. Thus, increased focus of the government of India (GOI) on overall Infrastructure development is expected to benefit players such as ABL given its strong execution track record.

Key weaknesses

Sectoral concentration risk

GCL's order book 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 29% as on June 30, 2024 (26% as on March 31, 2023). With large orders, the order book has become moderately concentrated, though geographically diversified.

The company has outstanding orders from 19 states, wherein majority of the orders are in Himachal Pradesh (30%), followed by Maharashtra and Uttar Pradesh at 20% and 9%, respectively. Considering the tough terrains and unpredictable geological conditions in Himachal Pradesh, having projects with complex structures such as tunnels and bridges, among others, and completing them within the envisaged cost and timelines will be critically viewed from the operating performance.

Risk related to intense competition in industry

The government's thrust on infrastructure sector augurs well for GCL's prospects. However, competition has intensified in the roads sector with the foray of mid-sized players. Owing to intensified competition, strong developers such as GCL forayed into different sectors and few newer geographies, heightening execution risk. GCL's profitability is also exposed to disproportionate hike in commodity prices over wholesale price index and bidding aggression due to intense competition. GCL's revenue depends on the government's stance on infrastructure spending and prevailing economic conditions.

Liquidity: Strong

The company has strong liquidity with a free cash and bank balance of ₹289 crore and unencumbered fixed deposits (FDs)/ investments of ₹229 crore as on March 31, 2024. The liquidity is supported by unutilised bank lines with negligible fund-based working capital utilisation of 13% in the trailing 12 months ending August 31, 2024. The GCA is expected to be above ~₹900-1000 crore per annum, sufficient to meet the yearly debt obligations of ₹67-136 crore in the next three years.

Assumptions/Covenants: Not applicable

Environment, social, and governance (ESG) risks: Not applicable

Applicable criteria

[Definition of Default](#)
[Factoring Linkages Parent Sub JV Group](#)

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

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil construction

Incorporated in 2008, GCL is engaged in 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 June 30, 2024, the company had an unexecuted order book of over ₹16,433 crore to be executed over the next two to three years.

Brief Financials (₹ crore)	March 31, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	6,958	7,287	3,333
PBILDT	936	961	519
PAT	652	784	354
Overall gearing (times)	0.05	0.07	NA
Interest coverage (times)	48.53	39.30	30.69

A: Audited UA: Unaudited; NA: Not available; Note: these are latest available financial results

Status of non-cooperation with previous CRA: Not applicable

Any other information: Not applicable

Rating history for last three years: Annexure-2

Detailed explanation of covenants of rated instrument / facility: Annexure-3

Complexity level of 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 and Rating Outlook
Fund-based - LT-Cash credit		-	-	-	225.00	CARE AA; Stable
Fund-based - LT-Term loan		-	-	30-11-2027	400.00	CARE AA; Stable
Non-fund-based - LT/ ST-Bank guarantee		-	-	-	3500.00	CARE AA; Stable / CARE A1+

Annexure-2: Rating history for 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 2024-2025	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
1	Non-fund-based - LT/ ST-Bank guarantee	LT/ST	3500.00	CARE AA; Stable / CARE A1+	-	1)CARE AA; Stable / CARE A1+ (12-Sep-23)	1)CARE AA-; Positive / CARE A1+ (04-Jan-23)	1)CARE AA-; Stable / CARE A1+ (21-Feb-22)
2	Fund-based - LT-Cash credit	LT	225.00	CARE AA; Stable	-	1)CARE AA; Stable (12-Sep-23)	1)CARE AA-; Positive (04-Jan-23)	1)CARE AA-; Stable (21-Feb-22)
3	Fund-based - LT-Term loan	LT	400.00	CARE AA; Stable				

LT: Long term; ST: Short term; LT/ST: Long term/Short term

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

Annexure-4: Complexity level of instruments rated

Sr. No.	Name of the Instrument	Complexity Level
1	Fund-based - LT-Cash credit	Simple
2	Fund-based - LT-Term loan	Simple
3	Non-fund-based - LT/ ST-Bank guarantee	Simple

Annexure-5: Lender details

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

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

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About us:
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