Ahluwalia Contracts (India) Limited

January 06, 2025

Facilities/Instruments	Amount (₹ crore)	Rating[1]	Rating Action
Long-term bank facilities	170.00 (Enhanced from 130.00)	CARE AA-; Stable	Reaffirmed
Long-term / Short-term bank facilities	2,345.00 (Enhanced from 1,975.00)	CARE AA-; Stable / CARE A1+	Reaffirmed

Details of instruments/facilities in Annexure-1.

Rationale and key rating drivers

Reaffirmation in ratings assigned to bank facilities of Ahluwalia Contracts (India) Limited (ACIL) continues to derive strength from ACIL's demonstrated experience of over four decades in diversified construction activities, robust order book position, comfortable leverage and debt coverage, strong liquidity profile and thrust of government on development of building/infrastructure for health care and education sector and revival in capex from private sector.

The order book has been growing on year-over-year (y-o-y) basis with outstanding order book at ₹16,193 crore as on September 30, 2024, providing long-term revenue visibility. The company has forte in the building construction segment and hence majority work orders are dominated in the segment with work orders from the government and private sector almost 1:1. The company's financial performance has been satisfactory with revenue growth of ~37% in FY24 to ₹3,892 crore (PY: ₹2,832 crore) while maintaining profit before interest, lease rentals, depreciation and tax (PBILDT) margin of 9.93% (PY: 10.53%). The performance moderated in current fiscal with low revenue growth of 16% and reduction in margin to ~6.9% in H1FY25 (against a PBILDT margin of 10.36% for the corresponding period in the last fiscal). Some factors contributing to the moderation are extended monsoons, slowdown of economic activities during union elections and project design changes in few key contracts. Besides, ban on construction activities in the national capital region (NCR) by the National Green Tribunal (NGT) has also added to the lower growth with 11% work orders in NCR.

With a strong diversified order book and execution capabilities, CARE Ratings Limited (CARE Ratings) expects ramping up execution pace in H2FY25 which would also lead to recovery in PBILDT margins to ~8-8.5%. Although margins are expected to remain below the 10% level for entire fiscal with improvement thereafter expected in FY26.

Ratings derive comfort from low leverage as marked by total outside liability to total net worth (TOL/TNW) of 1.00x as on March 31, 2024. While the total debt/PBILDT (1.65x in FY24) is expected to moderate for FY25 due to the subdued profitability, with the lower reliance on external borrowings and strong liquidity position of the company, the credit profile is expected to continue to remain strong.

However, ratings strengths are tempered by working capital intensive operations with moderate gross current asset days of 205 days (PY: 210 days), 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% on a sustained basis.
- Deterioration in the orderbook position with revenue visibility below 2x.

Analytical approach: Standalone

CARE Ratings has considered the standalone financials of ACIL for the assessment of its credit profile. ACIL has five subsidiaries, however, none of them have any operations.

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

Outlook: Stable
The outlook is expected to remain 'Stable' considering strong revenue visibility backed by the outstanding orders in hand and ramping up of operations leading to improved profitability in the medium term.

Detailed description of key rating drivers:

Key strengths

Healthy and diversified order book with strong inflows
The company had unexecuted order book of ~₹16,200 crore as on September 30, 2024, representing ~4x of the total operating income (TOI) of FY24, providing revenue visibility over medium-to-long term. Private contracts constitute to 52% orderbook as on September 30, 2024 (29% as on December 31, 2023). Besides, the company's order book position continues to be diversified geographically in 16 Indian states and Nepal, and the company has executed projects across Bihar, Jammu and Kashmir, West Bengal, Delhi, Maharashtra, Uttar Pradesh and Uttarakhand. ACIL also continues to be diversified among different segments in infrastructure, residential, commercial spaces and hospitals.

ACIL secured an EPC project in May 2024 pertaining to construction and development of India Jewellery Park at Navi Mumbai, which contributes 13% of the orderbook. India Jewellery Park is a SPV formed by Gems and Jewellery Council of India and is a crucial project for Ministry of commerce. The company's biggest order till date contributing 15% of the order book pertaining to re-development of Chhatrapati Shivaji Maharaj Terminus (CSMT) at Mumbai, had faced slow progress in H1FY25 due to design changes by the authority, however, presently the project is progressing at a satisfactory pace. Strong execution capabilities and adequate resources of ACIL are viewed favourably for execution of these large orders.

Satisfactory financial performance
The company's TOI continues to be healthy for FY24 with year-over-year (y-o-y) growth of 37% while maintaining margin at ~9.93% (PY: 10.53%). The revenue continued to grow in current fiscal, nevertheless at a slower pace of ~16% in H1FY25 against H1FY24. The company witnessed execution hurdles primarily due to extended monsoons, slowdown of economic activities during union elections and project design changes in few key contracts. While the ramped up orderbook called for increase in company's resources for execution, but due to lower than envisaged execution, the overheads moderated the PBILDT margin to ~6.9% (H1FY24: 10.36%). Due to low reliance on fund-based bank lines, despite the moderation in profitability in H1FY25, the company's credit profile has remained stable.
CARE Ratings expects the revenue growth to be robust for FY25 considering the company's strong orderbook and long-standing position in buildings construction segment, however, profitability is expected to remain lower at ~8-8.5% and recover from FY26 onwards. The movement of margins going forward would be important from credit perspective.

Comfortable financial risk profile
The company has a low reliance on external debts and exhibits healthy debt coverage ratios. The company's total outside liabilities to tangible net worth (TOL/TNW) stood at 1.00x as on March 31, 2024, against 1.03x as on March 31, 2023. The company has a strong net worth base and with sufficient cash accrual generation, reliance on external borrowings has been low with working capital requirements majorly funded from own sources. In terms of external working capital, the company uses bank borrowings and mobilisation advance, a large part of which is interest free. Thus, debt coverage metrics have been comfortable with total debt/PBILDT at 1.65x in FY24 (PY:1.25x) and interest coverage at 8.01x in FY23 (PY: 9.12x).
While the total debt/PBILDT has moderated to 2.29x as on September 30, 2024, at net level it remains comfortable at 0.14x.

Experienced management with established track record and execution capabilities
ACIL is a professionally managed company, headed by Bikramjit Ahluwalia, who has over 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 has 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, and sport complexes among others.

Thrust of government on urban infrastructure development
The Union Budget 2024-25 of India has placed a strong emphasis on infrastructure development, recognising it as a key driver for economic growth and development. The budget has allocated ₹11.1 lakh crore for capital investment in infrastructure, marking 11% increase from the previous year. This allocation represents 3.4% of India's projected GDP for 2024-25. Besides, the healthcare infrastructure needs of the country have come to the spotlight post-COVID-19 by centre and state.

Development of smart cities with integrated infrastructure, digital connectivity is one of the focused sector by the government. Investment in infrastructure by the private sector is being proposed to be promoted through viability gap funding and supportive policies and regulations in the budget in medium term. CARE Ratings believes ACIL shall benefit from the government's thrust on urban infrastructure being its long-standing track record in buildings construction segment.

Key weaknesses

Working capital intensive nature of operations

The company's operations are working capital intensive, which is also inherent to the building construction industry. The company's GCA days remained at similar level of 205 days for FY24 (against 210 days reported in FY23). Going forward, GCA days are expected to remain range bound as big-ticket size orders are at still nascent stage. The collection period improved at 124 days for FY24 (PY: 132 days).

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 15% for the 12-months' period ending October 2024.

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 in the last few years considering fragmented operations and intense competition in the industry. Besides, rising input prices also continue to be putting pressure on the margins of the engineering, procurement and 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 and the profitability parameters that are crucial for ACIL's ratings in the future.

Liquidity: Strong

The company's liquidity position remained strong with unencumbered ₹576 crore cash and bank balance as on September 30, 2024. Its average working capital utilisation remained low at ~15% during the 12 months period ending October 2024. The company has negligible long-term debt repayment obligations in FY25 against a cash accrual of ₹422 crore reported in FY24.

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 and 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

Macroeconomic indicator	Sector	Industry	Basic industry
Industrials	Construction	Construction	Civil construction

ACIL, incorporated on June 2, 1979, is promoted by Bikramjit Ahluwalia, CMD, a civil engineer by profession with over 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, 2023 (A)	March 31, 2024 (A)	H1FY25 (UA)
Total operating income	2,833	3,849	1,931
PBILDT	298	382	134
PAT	194	376	69
Overall gearing (times)	0.30	0.39	0.37
Interest coverage (times)	9.12	8.01	6.93

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-Working Capital Limits	NA	-	-	-	170.00	CARE AA-; Stable
Non-fund-based - LT/ ST-BG/LC	NA	-	-	-	2345.00	CARE AA-; Stable / CARE A1+

NA: Not applicable

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	Fund-based - LT-Working Capital Limits	LT	170.00	CARE AA-; Stable	1)CARE AA-; Stable (05-Apr-24)	1)CARE AA-; Stable (24-Aug-23)	1)CARE AA-; Stable (15-Dec-22)	1)CARE A+; Stable (21-Feb-22)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST	2345.00	CARE AA-; Stable / CARE A1+	1)CARE AA-; Stable / CARE A1+ (05-Apr-24)	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)

LT: Long 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-Working Capital Limits	Simple
2	Non-fund-based - LT/ ST-BG/LC	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.

Contact Us

Media Contact	Analytical Contacts
Mradul Mishra Director **CARE Ratings Limited** Phone: +91-22-6754 3596 E-mail: mradul.mishra@careedge.in	Rajashree Murkute Senior Director **CARE Ratings Limited** Phone: +91-22-6837 4474 E-mail: rajashree.murkute@careedge.in
Relationship Contact Saikat Roy Senior Director **CARE Ratings Limited** Phone: +91-22-6754 3404 E-mail: saikat.roy@careedge.in	Puja Jalan Director **CARE Ratings Limited** Phone: +91-40-4002 0131 E-mail: puja.jalan@careedge.in Utkarsh Yadav Assistant Director **CARE Ratings Limited** Phone: +91-22-6837 4413 E-mail: utkarsh.yadav@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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