Ahluwalia Contracts (India) Limited

February 21, 2022

Ratings

Facilities/Instruments	Amount (Rs. crore)	Rating[1]	Rating Action
Long Term Bank Facilities	85.00	CARE A+; Stable (Single A Plus; Outlook: Stable)	Reaffirmed
Long Term / Short Term Bank Facilities	1,415.00	CARE A+; Stable / CARE A1 (Single A Plus; Outlook: Stable/ A One)	Reaffirmed
Total Bank Facilities	**1,500.00 (Rs. One Thousand Five Hundred Crore Only)**		

Details of instruments/facilities in Annexure-1

Detailed Rationale & Key Rating Drivers

The reaffirmation of the ratings assigned to the bank facilities of Ahluwalia Contracts (India) Limited (ACIL) continues to derive strength from ACIL's experience in diversified construction activities, its established track record and execution capabilities along with healthy and diversified order book position of the company providing medium to long term revenue visibility with presence of price escalation clauses with respect to input costs for a major portion of contracts. The ratings take into account ACIL's comfortable capital structure, healthy debt coverage with strong liquidity position along with increased thrust of government on infrastructure development.

The rating strengths, however, are constrained by moderation in the profitability parameters, inherent cyclical trends associated with the construction sector, the working capital intensive nature of operations and its relatively high level of receivables, which had witnessed some write-offs in the past particularly from real estate sector.

Rating Sensitivities

Positive Factors - Factors that could lead to positive rating action/upgrade:

- Consistent increase in scale of operations by 15%-20% for 2-3 years with sustained profitability margins of around 12%
- Maintained order book position with strong counterparties providing a revenue visibility of 3-3.5x.

Negative Factors- Factors that could lead to negative rating action/downgrade:

- Elongation of operating cycle beyond 150 days
- Decline in scale of operations and contraction in the profitability margins below 8%
- Increased write-offs and provisioning of debtors, beyond envisaged levels, leading to deterioration of profitability margins and financial risk profile of the company

Detailed description of the key rating drivers

Key Rating Strengths

Experienced management with established track record and execution capabilities

ACIL is a professionally managed company, headed by Mr. Bikramjit Ahluwalia, who has more than five decades of experience in the construction industry. He is assisted by a team of qualified executives including Mr. Shobhit Uppal, Deputy Managing Director, and Mr. 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.

Healthy and diversified order book, comprising primarily of Government contracts, with significant order inflows in FY21 and 6MFY22

The company had unexecuted order book of around Rs.7,324.98 crore as on September 30, 2021, representing ~3.70x of total operating income of FY21, providing revenue visibility over medium to long term. While ACIL had received orders worth Rs.3280 crore during FY21, it has also bagged orders of about Rs.1200 crore during 6MFY22. Government contracts constitute around 86% of the order book as on September 30, 2021 (81% as on December 31, 2020) as against the earlier position till FY18 wherein there was relatively higher dependence on private real estate contracts facing execution challenges and payment issues. Besides, the company's order book position is fairly diversified geographically with orders to be executed across various states such as Bihar, Jammu and Kashmir, West Bengal, Delhi, Maharashtra, Uttar Pradesh and Uttarakhand. Furthermore, the company has reduced its exposure towards residential/real estate segment (private) and subsequently increased its exposure in other segments like hospitals and educational institutions, thereby leading to reduced counterparty risk.

Comfortable financial risk profile and healthy liquidity position

ACIL's capital structure continues to remain comfortable with low reliance on external debts and healthy debt service coverage ratios. The overall gearing ratio (including long-term and short-term mobilization advances as debt) stood comfortable at 0.44x

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

as on March 31, 2021 (as against 0.37x as on March 31, 2020). Interest coverage ratio moderated to 4.16x in FY21 (PY: 4.86x) on account of increased interest costs due to higher mobilization advances and increased utilisation of NFB limits with the increased order book position of the company. Furthermore, the free cash and bank balance of Rs.225 crore as on September 30, 2021, gives an additional comfort amidst disruption in the sector owing to Covid-19 pandemic.

Key Rating Weaknesses

Moderation in operating performance during FY21, though improvement reflected in 9MFY22

While the total operating income for the company increased by ~6% to Rs.2004.51 crore during FY21 as against Rs. 1895.31 crore during FY20 primarily on account of expedited execution of the projects during the second half of FY21, the profitability margins of the company have remained subdued as reflected by PBILDT and PAT margin of 8.81% (PY:8.63%) and 3.85% (PY:3.40%) respectively during FY21 as against 12.94% and 6.65% respectively in FY19. Moderation in profitability margins in the period of FY21 and FY20 is on account of write-off of debtors to the tune of Rs.52 crore and Rs. 42 crore respectively. Furthermore, COVID-19 pandemic had also hindered the company's efforts towards improving their margins largely due to inadequate absorption of fixed costs thereby affecting the profitability margins of the company to a certain extent.
During 9MFY22, the company reported a total operating income of Rs.1961.61 crore as against Rs.1239.33 crore reported during the corresponding period in the previous fiscal. The company has reported a 60% growth in scale of operations during this period primarily due to impacted execution during 9MFY21. Furthermore, the PBILDT margins improved to 10.65% against 8.33% during 9MFY22 and the PAT margin improved to 5.70% against 3.24% during the said period owing to nil write-offs, reduced provisioning for bad debts at Rs.9.70 crore and improved execution activities during 9MFY22. The ability of the company to sustain its profitability margins amidst rising input costs and competitive environment shall continue to remain a key rating monitorable.

Working capital intensive nature of operations with relatively large receivables

The operations of the company are working capital intensive as reflected by its operating cycle of 99 days during FY21, (PY:108 days). This is primarily on account of a high collection period of 125 days (PY: 146 days), which, however, improved on account of reduction in debtors outstanding at gross levels from Rs.771.74 crore on March 31, 2020 to Rs.619.04 crore on March 31, 2021 (Both figures include retention money). As on September 30, 2021, the total outstanding receivables stood at around Rs.667.34 crore (including retention money). The company meets its working capital requirements through mobilization advances and elongating its creditors with low reliance on working capital borrowings as reflected from average working capital utilization of 18.43% for the 12-months' period ending December'21 (16% for 12-months period ending Dec'20).

Inherent cyclical trends associated with the construction sector

The construction sector continues to witness cyclical trends consistent with its inherent nature, notwithstanding a stable outlook for the sector in the long term. The construction industry contributes around 8% to India's gross domestic product (GDP). The sector has been marred by varied challenges over the past few years on account of economic slowdown, Covid-19, regulatory changes and policy paralysis, which had adversely impacted the financial and liquidity profile of players in the industry. The Government of India has undertaken several steps for boosting the infrastructure development and reviving the investment cycle, which has gradually resulted in increased order inflow and movement of passive orders in existing order book. The focus of the government on infrastructure development is expected to translate into business potential for the construction industry in the long-run. Going forward, companies with better financial flexibility are likely to be able to grow at a faster rate by leveraging potential opportunities.

Liquidity: Strong

The liquidity position of the company remained strong with Rs. 225 crore (Rs. 201 crore as on December 31, 2020) cash and bank balance as on September 30, 2021. Furthermore, its average working capital utilization remained low at around 18.43% during 12 months period ending December'21 (16% for 12 months ending December'20). The company has negligible long-term debt repayment obligations in FY22 and FY23 against a GCA of Rs.108.60 crore and Rs.135.10 crore reported during FY21 and 9MFY22 respectively.

Analytical approach: Standalone

Applicable Criteria

Policy on default recognition
Financial Ratios – Non financial Sector
Liquidity Analysis of Non-financial sector entities
Rating Outlook and Credit Watch
Criteria on rating of Short-Term Instruments
Criteria on rating methodology- Construction Sector

About the Company

Ahluwalia Contracts (India) Limited (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 construction of institutional & 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 (Rs. crore)	31-03-2020 (A)	31-03-2021 (A)	9MFY22(UA)
Total operating income	1,895.31	2,004.51	1961.61
PBILDT	163.57	176.64	201.80
PAT	64.44	77.24	112.91
Overall gearing (times)	0.37	0.44	NA
Interest coverage (times)	4.68	4.16	6.24

A: Audited; UA: Un-Audited, NA: Not available
Note: Financials are classified as per CARE's internal benchmarks

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 for this company: Annexure 4

Annexure-1: Details of Instruments / Facilities

Name of the Instrument	ISIN	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. crore)	Rating assigned along with Rating Outlook
Fund-based - LT-Cash Credit	**NA**	-	-	-	85.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	**NA**	-	-	-	1415.00	CARE A+; Stable / CARE A1

Annexure-2: Rating History of last three years

Sr. No.	Name of the Instrument/Bank Facilities	Current Ratings			Rating history			
		Type	Amount Outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2021-2022	Date(s) & Rating(s) assigned in 2020-2021	Date(s) & Rating(s) assigned in 2019-2020	Date(s) & Rating(s) assigned in 2018-2019
1	Fund-based - LT-Cash Credit	LT	85.00	CARE A+; Stable	-	1)CARE A+; Stable (26-Mar-21) 2)CARE A+; Stable (01-Apr-20)	1)CARE A+; Stable (05-Apr-19)	1)CARE A; Stable (02-Apr-18)
2	Non-fund-based - LT/ ST-BG/LC	LT/ST*	1415.00	CARE A+; Stable / CARE A1	-	1)CARE A+; Stable / CARE A1 (26-Mar-21) 2)CARE A+; Stable / CARE A1 (01-Apr-20)	1)CARE A+; Stable / CARE A1 (05-Apr-19)	1)CARE A; Stable / CARE A1 (02-Apr-18)

* Long Term / Short Term

Annexure-3: Detailed explanation of covenants of the rated instrument / facilities

Name of the Instrument	Detailed explanation
A. Financial covenants	
	TOL/TNW exceeding 4.00 (Annual)
	Current Ratio Falling below 1 (Annual)
	More than 20% adverse variance in revenue (Annual)
	Total Debt/ EBITDA<=2.5x
	EBITDA/Net Interest>=1.5x
B. Non financial covenants	
	The management shall maintain management control of the borrower
	The borrower shall not without prior written permission of the bank undertake or permit any merger, de-merger, consolidation, reorganization, dissolution or reconstitution scheme of arrangement.
	The borrower shall not without any prior written permission of the bank engage in any manner whatsoever in any business activities other than those which the borrower is currently engaged in.

Annexure 4: Complexity level of various instruments rated for this company

Sr. No	Name of instrument	Complexity level
1	Fund-based - LT-Cash Credit	Simple
2	Non-fund-based - LT/ ST-BG/LC	Simple

Annexure 5: Bank Lender Details for this Company

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

Note on complexity levels of the rated instrument: CARE Ratings Ltd. 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 CARE Ratings Limited:
Established in 1993, CARE Ratings Ltd. is one of the leading credit rating agencies in India. Registered under the Securities and Exchange Board of India (SEBI), it has also been acknowledged as an External Credit Assessment Institution (ECAI) by the Reserve Bank of India (RBI). With an equitable position in the Indian capital market, CARE Ratings Limited provides a wide array of credit rating services that help corporates to raise capital and enable investors to make informed decisions backed by knowledge and assessment provided by the company.
With an established track record of rating companies over almost three decades, we follow a robust and transparent rating process that leverages our domain and analytical expertise backed by the methodologies congruent with the international best practices. CARE Ratings Limited has had a pivotal role to play in developing bank debt and capital market instruments including CPs, corporate bonds and debentures, and structured credit.

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