# Gawar Construction Limited

January 22, 2021

**Ratings**

| **Facilities/Instruments** | **Amount (Rs. crore)** | **Ratings** | **Rating Action** |
|---|---|---|---|
| Long Term Bank Facilities | 190.00 | CARE AA-; Stable (Double A Minus; Outlook: Stable ) | Revised from CARE A+; Positive (Single A Plus; Outlook: Positive) |
| Long Term / Short Term Bank Facilities | 1,850.00 (Reduced from 1,905.00) | CARE AA-; Stable /CARE A1+ (Double A Minus ; Outlook: Stable/ A One Plus ) | Revised from CARE A+; Positive / CARE A1+ (Single A Plus ; Outlook: Positive / A One Plus) |
| **Total Bank Facilities** | **2,040.00 (Rs. Two Thousand Forty Crore Only)** | | |

*Details of instruments/facilities in Annexure-1*

**Detailed Rationale & Key Rating Drivers**

The revision in the ratings assigned to the bank facilities of Gawar Construction Ltd (GCL) factors in the consistent improvement in the company's financial risk profile marked by sustained improvement in turnover and profitability margins and low reliance on debt leading to comfortable debt coverage metrics. The ratings also factor in the company's strong order book position of Rs. 15,264 crore as on November 30, 2020 translating to 3.75 times of order book to FY20 sales thereby providing adequate revenue visibility. Further, around 75% of the order-book of the company is from National Highways Authority of India (NHAI), Ministry of Road Transport and Highways (MoRTH) and National Highway and Infrastructure Development Corporation (NHICL) thereby precluding counterparty risk. The ratings are also underpinned by continued thrust of the Government on the road construction sector, as evidenced in the rapid pace of project awards, in Engineering, Procurement and Construction (EPC) and Hybrid Annuity Model (HAM) modes. The ratings further continue to factor in the proven experience of the promoters in road construction industry and their track record of timely execution of projects resulting in regular receipt of bonus from the clients, and the company's comfortable liquidity position and efficient working capital management.

The ratings, however, continue to remain constrained by sectoral concentration in roads, significant equity commitments towards HAM projects, inherent through-the-lifecycle risks in HAM projects, including, *inter alia*, variability of annuities to changes in bank rate and inflation indices, during both execution and operation stages, inherent cyclical trends associated with the construction sector and competitive nature of the industry.

**Rating sensitivities**

Positive factors:

- Successful monetization of HAM assets
- Increase in scale of operations by about 15%-20% annually with improvement in PBILDT margin to 18- 20% levels on sustained basis.
- Sustained growth in order book providing revenue visibility of 3.0-3.5x with quality counterparties

Negative factors:

- Delay in receipt of appointed dates for major projects resulting in decline in revenues.
- Deterioration in PBILDT margin below current levels
- Delays or execution issues in HAM projects requiring enhanced support beyond envisaged equity infusions
- Deterioration in capital structure or substantial decline in available liquidity buffer (in the form of unencumbered cash and cash equivalents and undrawn working capital lines)

**Detailed description of the key rating drivers**

**Key Rating Strengths**

**Experienced promoters and long track record of operations:** GCL is promoted by Mr Rajender Singh, Mr Rakesh Kumar and Mr Ravinder Kumar having an 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 a demonstrated capability 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, with Rs.

28.41 crore in FY19 and Rs. 40.32 crore in FY20 and Rs.19.44 crore during 9MFY21. The company has additionally applied for bonus payout of more than Rs.24 crore related to some of its recently executed projects, which is expected to be received in Q4FY21.

**Strong order book with low counterparty risk:** The order book position of the company has been steadily increasing y-o-y as reflected by outstanding order book of Rs. 15,264 crore as on November 30, 2020 as against Rs, 12,354 crore as on January 31, 2020. The order book as on November 30, 2020 stood at 3.75x of FY20 revenue thereby providing adequate revenue visibility for medium term. The continued thrust of the Government on road construction sector augurs well for the company's growth prospects in the medium term. Under the Government's National Infrastructure Pipeline (NIP), substantial outlay on road construction – about 18% of the overall Rs 111 trillion plan – is expected to provide the necessary impetus to companies operating in this segment, like GCL. In line with this, NHAI has awarded substantial new orders in H1FY21 worth approximately Rs.47,000 crore. GCL has been awarded four projects worth Rs. 6,189 cr under the HAM) during 9MFY21 wherein the Appointed Date (AD) has not yet been received

Of the total order book, around 75% is from NHAI, NHIDCL and MoRTH, and the remaining is from various Government authorities (PWDs, MPRDC, Northern Railways etc). Further, around 1% of outstanding order book is from private players. With improvement in order book from government bodies or departments, the counterparty risk remains low.

**Consistent improvement in financial risk profile:** GCL's financial risk profile has undergone consistent improvement as reflected by increasing operating income and profitability margins. The total income of the company grew at a CAGR of 17.24% over past 3 years ending FY20 to Rs. 4073 crore (FY19: Rs. 3853 crore; FY18: Rs. 2527 crore) on account of efficient execution of the order book.

With improvement in total operating income, the profitability margins of the company has also improved as reflected in PBILDT margin of 15.28% during FY20 (FY19: 13.87%; FY18: 12.56%). The improvement in margin is mainly on account of timely execution of the orders, leading to lower cost and also completion of certain contracts ahead of the scheduled timeline, leading to bonus pay-outs.

Despite issues on account of COVID-19 and lockdown announced thereof, GCL reported a 40% improvement in total operating income to Rs. 2,260 crore during H1FY21 with PBILDT margin of 15.03% as against Rs 1,611 crore with PBILDT margin of 12.74% during H1FY20. GCL is expected to post growth over the previous year during the FY21 on the back of improved H1FY21 performance and strong order book position.

Due to its low reliance on debt and improved operational performance, the overall gearing of the company stood stable at 0.19x (PY: 0.19x). Other debt coverage indicators also remained comfortable as reflected by interest coverage ratio of 24.05x (PY: 29.33x) and total debt total GCA of 0.59x (PY: 0.45x). However, possible increases in debt to finance equipment purchases for the sharply increased order book, the quantum of which shall be a key monitorable.

**Efficient working capital management**: During FY20, the working capital cycle of the company elongated but remained comfortable at 48 days as on March 31, 2020 as against 27 days as on March 31, 2019. This is primarily on account of reduced creditor holding period. Despite issues on account of COVID 19 and lockdown announced thereof the company was able to realize its payments in a timely manner and manage its working capital cycle efficiently. The debtor days remained stable at 50 days as on March 31, 2020 as against 47 days as on March 31, 2019. GCL has primarily relied on its internal accruals to support its working capital requirements leading to lower dependence on external borrowings.

**Key Rating Weaknesses**

**Sector concentration in revenue:** The order book of GCL continues to remain concentrated only in the road segment, implying sectorial concentration. The concentration from the top three orders as a percentage of total unexecuted order-book stood at 36% as on November 30, 2020 (30% for as January 31, 2020). With recent large orders, the order book has become moderately concentrated; however, it remains geographically diversified. The company has orders in hand from 14 states and Nepal also. Orders from Bihar contribute the highest which is 25% of pending order work followed by Haryana (20%) and Uttar Pradesh (18%).

**Inherent execution risks of a significant fresh order book :** The contract value of the top 10 orders in GCL's order book stood at Rs.12,244 crore against which the execution is Rs.1,600 crore as on November 30, 2020. As majority of the orders was received during FY21, the projects are still in their early phases of execution thereby exposing GCL to project execution risk. The execution risk is mitigated to some extent given the past track record of GCL in executing its projects in a within or before time.

**Equity commitments towards HAM Projects:** GCL has been awarded four HAM projects during 9MFY21 apart from the ongoing HAM projects awarded during FY19. Out of the total eight HAM projects, two projects are under construction stage, one project has received COD in July 2020 (approximately 299 days ahead of schedule) and one has achieved PCOD in January 2021. Remaining four projects (recently awarded) have yet to receive Appointed Date (AD). Total equity commitment in these eight HAM projects is estimated to be around Rs. 1000 crore out of which Rs. 205 crore has already been infused till March 31, 2020. The company plans to fund the equity commitment through cash accruals from its EPC business. The equity requirement is spread of next three to four years thereby providing adequate cushion to the company. However, going forward any higher than envisaged exposure towards its HAM SPVs shall remain key monitorable from the credit perspective.

**Fragmented and competitive road construction sector:** The Indian construction sector is highly competitive and fragmented. Due to the presence of large players as well as significant number of unorganized players and project award based on competitive bidding, the sector witnesses high competitive intensity. Over the years participation of private players hav increased significantly especially in the road sector, this has resulted in aggressive bidding on the projects across modes which may put pressure on the margins.

***Impact of COVID***

Subsequent to the announcement of the nationwide lockdown in March-April 2020, the construction work on all sites of GCL was temporarily suspended. Works on the sites commenced after the relaxations were announced on April 20, 2020 by Ministry of Home Affairs (MHA). Due to labour issues, restrictions on interstate movement and mining activities the execution was slow till mid of May'20. However, the pace has gradually picked up and the company was able to achieved higher turnover during H1FY21 of Rs. 2260 crore as against Rs. 1611 crore during H1FY20. Further the company has benefited from the release of BGs (for retention monies and for performance) of approximately Rs. 100 crore as December 31, 2020, non- deduction of retention money and monthly receipt of payments for NHAI and MoRTH projects under the reliefs announced under the Atmanirbhar package.

GCL had not availed any moratorium for its debt servicing obligations under the COVID-19 - Regulatory Package announced by the RBI on March 27, 2020 and May 22, 2020.

Liquidity Analysis: Strong

The company has comfortable liquidity of around Rs.299.75 crore as on December 31, 2020. Further, liquidity is also supported by unutilized bank lines with negligible fund based working capital utilization of 6.33% during the trailing 11 months ending November 30, 2020. (PY: 19%). The company has debt repayment obligations of Rs. 57.48 crore during FY21 against projected GCA of approximately Rs. 516 crores.

**Analytical approach:** Standalone, factoring in support/ investments to its subsidiary/ associate companies.

**Applicable Criteria**

Criteria on assigning Outlook and Credit Watch to Credit Ratings
CARE's Policy on Default Recognition
Rating methodology-Construction Sector
Rating Methodology-Consolidation
Liquidity Analysis of Non-Financial Sector entities
Financial ratios-Non Financial Sector
Short Term Instruments

**About the Company**

GCL, incorporated in 2008, is engaged in the business of civil construction majorly into roads, bridges and government buildings. The company was initially operating as a partnership firm established in 1997. The company is promoted by Mr Rajender Singh, Mr Rakesh Singh, and Mr Ravinder Singh (all three are brothers). Over the years, the company has executed several orders as a principal contractor for road and building construction. As on November 30, 2020, the company had unexecuted order book of over Rs.15,264 crore to be executed over a period of next three to four years

| Brief Financials (Standalone) (Rs. crore) | FY19 (A) | FY20 (A) |
|---|---|---|
| Total operating income | 3853.32 | 4073.26 |
| PBILDT | 534.32 | 622.27 |
| PAT | 404.68 | 439.96 |
| Overall gearing (times)^ | 0.19 | 0.19 |
| Interest coverage (times) | 29.33 | 24.05 |

*A: Audited*
*^-Including Mobilization Advances as debt*

**Status of non-cooperation with previous CRA:** Not Applicable

**Any other information:** Not Applicable

**Rating History for last three years:** Please refer Annexure-2

**Annexure-1: Details of Instruments/Facilities**

| Name of the Instrument | Date of Issuance | Coupon Rate | Maturity Date | Size of the Issue (Rs. crore) | Rating assigned along with Rating Outlook |
|---|---|---|---|---|---|
| Non-fund-based - LT/ ST-Bank Guarantees | - | - | - | 1850.00 | CARE AA-; Stable / CARE A1+ |
| Fund-based - LT-Cash Credit | - | - | - | 190.00 | CARE AA-; Stable |

**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 2020-2021 | Date(s) & Rating(s) assigned in 2019-2020 | Date(s) & Rating(s) assigned in 2018-2019 | Date(s) & Rating(s) assigned in 2017-2018 |
| 1. | Non-fund-based - LT/ ST-Bank Guarantees | LT/ST | 1850.00 | CARE AA-; Stable / CARE A1+ | - | 1)CARE A+; Positive / CARE A1+ (17-Mar-20) | 1)CARE A+; Stable / CARE A1+ (29-Mar-19) 2)CARE A+; Stable / CARE A1+ (03-Aug-18) 3)CARE A+; Stable / CARE A1+ (06-Apr-18) | 1)CARE A+; Stable / CARE A1+ (16-Jan-18) 2)CARE A; Positive / CARE A1 (08-May-17) |
| 2. | Fund-based - LT-Term Loan | - | - | - | - | - | - | 1)CARE A+; Stable (16-Jan-18) 2)CARE A; Positive (08-May-17) |
| 3. | Fund-based - LT-Cash Credit | LT | 190.00 | CARE AA-; Stable | - | 1)CARE A+; Positive (17-Mar-20) | 1)CARE A+; Stable (29-Mar-19) 2)CARE A+; Stable (03-Aug-18) 3)CARE A+; Stable (06-Apr-18) | 1)CARE A+; Stable (16-Jan-18) 2)CARE A; Positive (08-May-17) |

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

| Name of the Facility- WC | Detailed explanation |
|---|---|
| **A. Financial covenants** | **TOL/TNW:** Maximum up to 2:1<br>**Current ratio:** Minimum 1.25 |
| **B. Non-financial covenants** | NA |

**Annexure 4: Complexity level of various instruments rated for this Company**

| Sr. No. | Name of the Instrument | Complexity Level |
|---|---|---|
| 1. | Fund-based - LT-Cash Credit | Simple |
| 2. | Non-fund-based - LT/ ST-Bank Guarantees | Simple |

***Note on complexity levels of the rated instrument:*** *CARE has classified instruments rated by it on the basis of complexity. This classification is available at www.careratings.com. Investors/market intermediaries/regulators or others are welcome to write to care@careratings.com for any clarifications.*

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