Ahluwalia Contracts India Limited

March 26, 2021

Ratings

Facilities/Instruments	**Amount (Rs. crore)**	**Ratings**	**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) takes into account healthy and diversified order book position of the company thereby providing medium to long term revenue visibility, continued focus of group on Government contracts with presence of price escalation clauses with respect to input costs which forms major portion in all the contracts, ACIL's experience in diversified construction activities, established track record and its execution capabilities and a comfortable capital structure with adequate liquidity position.

The ratings, however, are constrained by moderation in the operational and financial performance of the company during FY20 and 9MFY21 amidst Covid-19 pandemic, inherent cyclical trends associated with the construction sector, the working capital intensive nature of ACIL's operations and its relatively high level of receivables with some write-offs expected in real estate debtors.

Rating sensitivities

Positive Factors:

- Consistent increase in scale of operations in excess of 15%-20% for 2-3 years with improvement in operating margins to around 13%
- Maintenance of order book position with good counterparties providing revenue visibility of 3-3.5x.

Negative Factors:

- Further protraction of operating cycle beyond 150 days
- Decline in scale of operations and contraction in the profitability margins from the current levels
- 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 four 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 from 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: The company had unexecuted order book of around Rs. 8,172.46 crore as on December 31, 2020 (representing ~4.31x of total income of FY20) as compared to Rs. 6,357.56 crore as on December 31, 2019 (representing ~3.40x of total income of FY19). Further, the company has won additional orders aggregating Rs.2,086.22 crore 9MFY21. Government contracts constitute around 81% of the order book as on December 31, 2020 (79% as on December 31, 2019) 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 at 0.37x as on March 31, 2020 (as against 0.32x as on March 31, 2019). Interest coverage ratio moderated to 4.68x in FY20 (PY: 12.27x) 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. Further, the free cash and bank balance of Rs.201 crore as on December 31, 2021 gives an additional comfort amidst disruption in the sector owing to Covid-19 pandemic.

Key Rating Weaknesses

Moderation in operating performance in FY20 and 9MFY21: While the total operating income for the company increased by ~7.42% to Rs.1895.31 crore during FY20 as against Rs.1764.31 crore during FY19 primarily on account of satisfactory execution of the projects during the year, the profitability margins of the company deteriorated as reflected by PBILDT and PAT margin of 8.63% and 3.40% respectively during FY20 as against 12.94% and 6.65% respectively in FY19. Moderation in profitability margins is on account of write off of debtors to the tune of Rs. 42 crore during FY20. Further, the operational performance of the company was also impacted due to non-recognition of revenue due to general elections, NGT ban, prolonged monsoon, delay in receipt of environmental clearances in some of its projects and subsequently COVID-19 pandemic, which led to inadequate absorption of fixed costs thereby affecting the profitability margins of the company to a certain extent.

During 9MFY21, the company reported a total operating income of Rs.1239.33 crore as against Rs.1343.25 crore reported during the corresponding period. The revenue reported in the current year was slightly lower on account of outbreak of COVID 19 and consequent lockdown announced by Government of India, wherein pace of work execution remained adversely affected during Q1FY21 owing to mass migration of labor and supply chain disruptions, considering that most of the project sites of ACIL are located at urban areas, where the impact of COVID was comparatively higher. The execution works have been ramped up gradually.

PBILDT margins deteriorated to 8.33% during 9MFY21 as against 10.24% during 9MFY20 owning to additional provisioning and write offs of approximately Rs.19 crore. Further, the margins have also been impacted to an extent due to increase in steel and other raw materials prices during Q3FY21. As informed by the management, majority of the increase in input cost is pass through on account of presence of escalation clause, though there is a timing mismatch with respect to reimbursement of the same from the client.

ACIL envisages an additional provisioning of Rs. 8-10 crore during Q4FY21 in line with revised policy adopted by the company based on expected credit loss approach.

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 108 days during FY20, (PY:101 days). This is primarily on account of a high collection period of 146 days (PY: 147 days). In absolute terms, debtors outstanding as on March 31, 2020 was Rs. 771.74 crore as against Rs. 756.62 crore (both figures including retention money) as on March 31, 2019. As on December 31, 2020, the total outstanding receivables stood at around Rs.686.46 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 15.40% for the 12-month period ending December 2020 (15% for 12-months period ending Dec'19).

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, 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 Analysis: Adequate

The liquidity position of the company remained adequate with Rs. 201 crore (Rs. 164 crore as on March 31, 2020) cash and bank balance as on December 31, 2020. Furthermore, its average working capital utilization remained low at around

15.40% during 12 months period ending December'20 (15% for 12 months ending December'19). The company has negligible long term debt repayment obligations in FY21 and FY22 against a GCA of 99.84 crore reported during FY20. The company has not availed any moratorium as allowed under the RBI circular due to COVID pandemic.

Analytical approach: Standalone

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

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 four 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.

Covenants of rated instrument / facility: *Detailed explanation of covenants of the rated instruments/facilities is given in Annexure-3*

Brief Financials (In Rs. crore)	FY19 (A)	FY20 (A)
Total operating income	1764.31	1895.31
PBILDT	228.29	163.57
PAT	117.38	64.44
Overall gearing (times)^	0.32	0.37
Interest coverage (times)	12.27	4.68

A: Audited
^-Including Mobilization Advance 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
Fund-based - LT-Cash Credit	-	-	-	85.00	CARE A+; Stable
Non-fund-based - LT/ ST-BG/LC	-	-	-	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 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.	Term Loan-Long Term	LT	-	-	-	-	-	1)Withdrawn (26-Jun-17)
2.	Fund-based - LT-Cash Credit	LT	85.00	CARE A+; Stable	1)CARE A+; Stable (01-Apr-20)	1)CARE A+; Stable (05-Apr-19)	1)CARE A; Stable (02-Apr-18)	1)CARE A; Stable (26-Jun-17)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1415.00	CARE A+; Stable / CARE A1	1)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)	1)CARE A; Stable / CARE A1 (26-Jun-17)

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

Long term loan	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 the Instrument	Complexity Level
1.	Fund-based - LT-Cash Credit	Simple
2.	Non-fund-based - LT/ ST-BG/LC	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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