Ahluwalia Contracts (India) Limited
April 1, 2020

Ratings

Facilities	Amount (Rs. crore)	Rating[1]	Rating Action
Long-term Bank Facilities	85	**CARE A+; Stable (Single A Plus; Outlook: Stable)**	**Reaffirmed**
Long/Short-term Bank Facilities	1415 (enhanced from 1100)	**CARE A+; Stable/CARE A1 (Single A Plus; Outlook: Stable/A One)**	**Reaffirmed**
Total Facilities	**1500 (Rs. One thousand and 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 its satisfactory financial performance in FY19 (refers to the period April 1, 2018 to March 31, 2019), notwithstanding some moderation in 9MFY20 (refers to the period April 1, 2019 to December 31, 2019), the build-up of a strong and fairly diversified order book with significant orders won in FY20 till date providing medium to long term revenue visibility, continued focus of group on Government contracts with input price escalation clauses in majority of contracts, ACIL's experience in diversified construction activities, established track record and its execution capabilities, and a comfortable financial risk profile with adequate liquidity position.
The ratings, however, are constrained by a near-term disruption envisaged in all sectors including construction sector on account of the nationwide shutdown in the aftermath of the COVID-19 crisis, 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% for 2-3 years while maintaining sustained operating margins of around 13%
- Maintenance of order book position with good counterparties providing a revenue visibility of 3-3.5x.

Negative Factors

- Further protraction of operating cycle beyond 150 days
- Consistent decline in scale of operations and contraction in the profitability margins from the current levels

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.

[1]*Complete definition of the ratings assigned are available at www.careratings.com and other CARE publications*

Healthy and diversified order book, comprising primarily of Government contracts, with significant order inflows in FY20: The company had unexecuted order book of around Rs. 6,357.56. crore as on December 31, 2019 (representing ~3.40x of total income of FY19) as compared to Rs. 5,337.51 crore as on December 31, 2018 (representing ~3.25x of total income of FY18). Apart from the above mentioned order book, the company has won additional orders aggregating Rs.1,915.00 crore in February and March 2020 taking total order receipt to Rs.3900.96 crore in FY20. Government contracts constitute around 79% of the order book as on December 31, 2019 (86% as on December 31, 2018) 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, West Bengal, Delhi, Maharashtra, Uttar Pradesh and Uttrakhand. 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, notwithstanding some moderation in execution in 9MFY20: The total operating income for the company increased by ~6.60% to Rs. 1761.78 crore as against Rs.1652.83 crore in FY19 primarily on account of improved execution of the projects during the year. The profitability margins remained stable with PBILDT margin of 12.95% and PAT margin of 6.66% in FY19 as against PBILDT margin of 13.11% and PAT margin of 6.98% in FY18.
The overall gearing ratio (including long-term and short-term mobilization advances as debt) further remained moderate at 0.32x as on March 31, 2019 (as against 0.22x as on March 31, 2018) on account of increased working capital borrowings and mobilization advances outstanding as on 31st March 2019.
Interest coverage ratio, while moderating from the previous year, remained high at 12.26x in FY19 (PY: 12.90x) on account of higher interest and commission expenses on mobilization advances and BG facility.
During 9MFY20, the company reported a total operating income of Rs.1179.95 crore as against Rs.1271.38 crore reported during the same period last year. The revenue reported in the current year was slightly lower on account of a construction ban (due to National Green Tribunal (NGT) order to mitigate the increasing pollution in the region) in Delhi NCR for three months and a delay in receipt of certain approvals for three of its projects aggregating Rs.1019 crore (outstanding as on 31st December 2019) worth of orders leading to slow execution.
PBILDT margins deteriorated to 10.82% during 9MFY20 as against 13.07% during 9MFY19. This was primarily on account of a one-time write off of Rs. 12.50 crore pertaining to debtors outstanding from Housing Development and Infrastructure Limited (HDIL) and an additional provision of Rs. 2.50 crore provided during Q3FY20 and overall slow movement in some of the relatively bigger orders as explained above.

Key Rating Weaknesses

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 101 days during FY19, (that remained similar to 102 days witnessed during FY18). This is primarily on account of a high collection period of 147 days (PY: 139 days). In absolute terms, debtors outstanding as on 31st March 2019 was Rs. 756.62 crore as against Rs. 597.85 crore (both figures including retention money) as on 31st March 2018. As on December 31, 2019, the total outstanding receivables stood at around Rs.692 crore (including retention money). Moreover, to better manage receivables, the company repossessed some inventory of flats from some of the real estate customers against delayed receivables (outstanding Rs.50.50 crore as on March 31, 2019). While the company monetized some inventory during 9MFY20, it also acquired additional inventory during the year leading to an outstanding inventory of Rs. 54.89 crore as on December 31, 2019

Inherent cyclical trends associated with the construction sector; temporary disruption envisaged because of the on-going nationwide shutdown due to COVID-19: 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.
Besides, in the aftermath of the worldwide COVID-19 pandemic, in March 2020, the Indian government has declared a nationwide shutdown leading to halt of all construction related activities. The period of the shutdown could also be extended if the situation does not improve, which could further impact the awarding of new orders and the execution of existing ones.

Liquidity Position: Adequate

The liquidity position of the company remained adequate with Rs. 87 crore (Rs. 78 crore as on 31st December 2018) cash and bank balance as on March 31, 2019. Furthermore, its average working capital utilization remained low at around 15% during 12 months period ending December'19 (23% for 12 months ending Jan'19). The company has negligible long term debt repayment obligations in FY20 and FY21 against a GCA of 137.61 crore reported during FY19.

Analytical approach: Standalone

Applicable Criteria

Criteria on assigning Rating Outlook and Credit Watch
CARE's Policy on Default Recognition
Short Term Instruments
Rating Methodology-Construction Sector
Financial Ratios – Non-Financial 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 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 (Rs. crore)	FY18 (A)	FY19(A)
Total operating income	1652.83	1761.78
PBILDT	216.74	228.12
PAT	115.45	117.27
Overall gearing (times)^	0.22	0.32
Interest coverage (times)	13.90	12.26

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 2019-2020	Date(s) & Rating(s) assigned in 2018-2019	Date(s) & Rating(s) assigned in 2017-2018	Date(s) & Rating(s) assigned in 2016-2017
1.	Term Loan-Long Term	LT	-	-	-	-	1)Withdrawn (26-Jun-17)	1)CARE A; Stable

								(03-Feb-17) 2)CARE A (13-Sep-16)
2.	Fund-based - LT-Cash Credit	LT	85.00	CARE A+; Stable	1)CARE A+; Stable (05-Apr-19)	1)CARE A; Stable (02-Apr-18)	1)CARE A; Stable (26-Jun-17)	1)CARE A; Stable (03-Feb-17) 2)CARE A (13-Sep-16)
3.	Non-fund-based - LT/ ST-BG/LC	LT/ST	1415.00	CARE A+; Stable / CARE A1	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)	1)CARE A; Stable / CARE A1 (03-Feb-17) 2)CARE A / CARE A1 (13-Sep-16)

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.

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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