Press Release

Amar Infrastructure Limited

July 10, 2020

Facilities	Amount (Rs. crore)	Rating	Rating Action
Long term Bank Facility- Cash Credit	25.00	IVR BBB/Stable Outlook (IVR Triple B Minus with Stable Outlook)	Reaffirmed with revision in Outlook from Positive to Stable
Short Term Bank Facility- Bank Guarantee	122.00	IVR A3+ (IVR A Three Plus)	Reaffirmed
Total	**147.00 (Rupees one hundred and forty seven crore only)**		

Details of Facilities are in Annexure 1

Detailed Rationale

The revision in the outlook from 'Positive' to 'Stable' of Amar Infrastructure Limited (AIL) reflects stable financial performance over the past years with no major improvement in revenue and cash accruals. The reaffirmation of the ratings of the bank facilities of Amar Infrastructure Ltd (AIL) derives comfort from its experienced promoters with proven project execution capability, reputed clientele and Government thrust on road infrastructure. The ratings also factor in stable financial performance over the years, improvement in capital structure and strong order book reflecting satisfactory medium-term revenue visibility. However, the rating strengths are partially offset by its moderate debt protection metrics, susceptibility of operating margin to volatile input prices, concentration risk in the highly fragmented & competitive construction sector with significant price war and its working capital-intensive nature of operation.

Key Rating Sensitivities

Upward Factor:

- Growth in scale of operations with improvement in profitability on a sustained basis
- Sustenance of the capital structure with improvement in the debt protection metrics

Downward factor:

- Dip in operating income and/or profitability impacting the debt protection metrics

- Moderation in the capital structure with deterioration in overall gearing

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

- **Experienced management & long track record of the company in road construction segment**

  AIL has a track record of more than three decades in the construction sector. The company is promoted by Mr. ChaturbhujRathi, Mr.NarendraRathi and Mr.SurendraRathi, who each have an experience of over three decades in civil construction work. They are well supported by a team of experienced and qualified professionals.
- **Proven project execution capability**

  Over the past years, the entity has successfully completed many projects across Chhattisgarh, Jharkhand and Maharashtra and ensured timely completion of all its projects. The repeat orders received from its clientele validate its construction capabilities.
- **Reputed clientele**

  AIL is registered as an approved contractor with M.P. Public Works Deptt., Bhopal, C.G. Public Works Deptt., South Eastern Railway, C.G. Water Resources Division, C.G. Housing Board and NHAI. Over the years of its operations the company has established a strong business relationship with various government departments as well as private clients.
- **Majority of fleet of equipment is owned by AIL; leading to operational efficiency**

  AIL has continuously added to its fleet of plant and machinery to complete the orders on time. The company has a large fleet of owned equipment's including dumpers, tankers, crushers, transit mixers, trailers, DG sets, etc. Owned fleet equipment has led to an improvement in operational efficiency for the company. Further, fleet addition has been done to be eligible for tenders floated by various authorities (mainly ADB funded projects which has various stipulations).
- **Strong order book reflecting satisfactory medium-term revenue visibility**

  AIL has a strong unexecuted order book of Rs.706.62crore as on May 30, 2020 with orders across 13 contracts which is about 3.60 times of its FY19 operating revenue (i.e. Rs.196.13crore). Further, orders amounting to ~Rs.300crores are projects funded by

Asian development Bank, where payment mechanism is relatively secured.The orders are expected to be completed within next one-three years, indicating a satisfactory near to medium term revenue visibility.

- **Stable financial performance**

AIL has maintained a stable financial performance over the past years, despite slackness in the infrastructure/ construction industry in the recent past. As the projects undertaken by a construction firm span over different accounting periods, it may be important to view the financials of the firm over a period of three years. AIL's total operating income has registered a muted CAGR of ~13.93% during FY17-19 with a y-o-y growth of about 12.28% in FY19, driven by higher orders executed during the year. AIL posted an EBIDTA margin of 14.17% in FY19, a decrease of 120 bpsfrom 15.37% in FY18. The decline was mainly on account of execution of few lower margin orders. However, the PAT margin improved from 4.14% in FY18 to 5.43% in FY19, mainly driven by decline in finance charges and increase in EBITDA level.Further, in 9MFY20, AIL achieved a PBT of Rs.8.84 crore on a total operating income of Rs.117.45 crore (AIL achieved a PBT of Rs.8.44 crore on a total operating income of Rs.124.25 crore in 9MFY19)whereas the EBIDTA margin and the PBT margin stood at 16.93% and 7.53% respectively(16.21% and 6.79% respectively in 9MFY19). Overall the financial performance is largely stable and range bound.

- **Continuous improvement in the capital structure**

The capital structure of the company witnessed continuous improvement over the last three fiscals. The long term debt equity ratio improved from 0.92x as on March 31, 2018 to 0.30x as on March 31, 2019 and the overall gearing ratio improved from 1.42x as on March 31, 2018 to 0.64x as on March 31, 2019. The improvement in the leverage ratios was on account of continuous reduction of debt due to scheduled repayments along with healthy accretion of profit to net worth.

- **Moderate debt protection metrics**

Given the debt funded capex done by AIL regularly towards its equipment/fleet base, the debt service coverage ratio remained below unity in FY17 and FY18. However, AIL serviced all its debt obligations by infusing unsecured loans as and when required and by optimising net working capital. Further, DSCR has improved in FY19 aided by lower term debt payments vis-à-vis gross cash accruals during the year. Other debt protection parameters like interest coverage ratio improved from 2.62x in FY18 to 3.16x in FY19 and total debt to GCA improved from 4.51x in FY18 to 2.14x in FY19. Further, TOL/TNW also remained satisfactory at 1.59as on March 31, 2019.

- **Government thrust on road infrastructure**

  India has the one of largest road network across the world, spanning over a total of 5.5 million km with gradual increase in road transportation over the years attributable to improvement in connectivity between cities, towns and villages in the country. The government, through a series of initiatives, is working on policies to attract significant investor interest. A total of 200,000 km national highways is expected to be completed by 2022. AIL being mainly in road construction likely to be benefitted in near to medium term the increased thrust of the government in developing the road infrastructure.

Key Rating Weaknesses

- **Moderately high working capital utilization**

  The operations of the company are highly working capital intensive as a large part of its working capital remained blocked in earnest money deposits, fixed deposit receipts issued against bank guarantees and retention money. In order to fund its working capital requirements, the company largely depends on bank borrowings. Accordingly, the average utilisation of bank borrowings remained moderately high at ~79% during the past 12 months ended May, 2020.
- **Operation in a highly fragmented segment with many unorganized players.**

  The domestic infrastructure/construction sector is highly crowded with presence of many players with varied statures & capabilities. Boom in the infrastructure sector, a few years back, resulted in increase in the number of players. While the competition is perceived to be healthy, significant price cut by few players during the bidding process is a matter of serious concern for the users with respect to quality of output.
- **Concentration risk**

  AIL's focus is limited to roads only (including construction, rehabilitation and up-gradation). Hence, the sectorial concentration risk is high. Further, the present order book is geographically skewed towards Chhattisgarh, Jharkhand and Maharashtra from various government departments also indicating a geographical concentration risk.

However, the company has adequate experience in order to execute projects in these states which provide comfort.

- **Susceptibility of operating margin to volatile input prices**
  Major raw materials used in civil construction activities are steel & cement and in road construction activities are stone, asphalt/bitumen and sand which are usually sourced from large players/dealers at proximate distances. The raw material & labour (including sub-contracting) cost forms the majority chunk of the total cost of sales for the last three years. As the raw material prices & labour (including sub-contracting) cost are volatile in nature, the profitability of the company is subject to fluctuation in raw material prices & labour (including sub-contracting) cost. However, the company has an in-built price variation clause for major raw materials like cement, bitumen & steel in majority of its contracts. Hence AIL is largely safeguarded from the adverse movement in the raw material prices. However, AIL is exposed to the risk of timely execution of projects.

Analytical Approach: Standalone

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity Position: Adequate

The liquidity position of the company is expected to remain adequate in the near to medium term driven by sufficient cushion in expected accruals in the range of ~Rs.18.65 crore to Rs.21.50 crore as compared to debt repayment obligation in the range of ~Rs.1.83 crore during FY20-22. Further, With a gearing of 0.64 times as of March 31, 2020, the company has sufficient gearing headroom. Moreover, the company has no major near term capex plan, which imparts comfort. Besides, its average of maximum bank limit utilisation remained moderate at ~79% in the last 12 months ended on May 2020 is also indicating an adequate liquidity buffer. The company also has adequate unutilised non fund based limits to support its operations in the near term.

About the Company

Amar Infrastructure Ltd (AIL) was initially formed as a partnership firm named, Amar Builders in 1987, with three partners Mr. Chaturbhuj Rathi, Mr. Narendra Rathi and Mr. Surendra Rathi (all brothers by relation). In 2009, the firm was converted into a limited company and rechristened to its present name. Currently, the company is engaged in the construction of roads and bridges, steel structural work, sanitary and water supply work. Its clientele includes government, quasi-government and private sector players

Financials (Standalone) **(Rs. crore)**

For the year ended* / As On	31-03-2018	31-03-2019
	Audited	Audited
Total Operating Income	174.68	196.13
EBITDA	26.85	27.80
PAT	7.34	10.81
Total Debt	73.66	39.92
Tangible Net worth	51.89	62.70
EBITDA Margin (%)	15.37	14.17
PAT Margin (%)	4.14	5.43
Overall Gearing Ratio (x)	1.42	0.64

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: Nil.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2020-21)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18
1.	Cash Credit	Long Term	25.00	IVR BBB /Stable Outlook	IVR BBB/ Positive Outlook (July 12, 2019)	-	-
2.	Bank Guarantee	Short Term	122.00	IVR A3+	IVR A3+ (July 12, 2019)	-	-

Note on complexity levels of the rated instrument: Infomerics has classified instruments rated by it on the basis of complexity and a note thereon is available at www.infomerics.com.

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About Infomerics:

Infomerics commenced rating & grading operations in April 2015 after having spent over 25 years in various segments of financial services. Infomerics is registered with the Securities and Exchange Board of India (SEBI) and accredited by Reserve Bank of India. It is gradually gaining prominence in domestic rating and/or grading space. Infomerics is striving for positioning itself as the most trusted & credible rating agency in the country and is gradually widening its product portfolio. Company's long experience in varied spectrum of financial services is helping it to fine-tune its product offerings to best suit the market.

Annexure 1: Details of Facilities

Name of Facility	Date of Issuance	Coupon Rate/ IRR	Maturity Date	Size of Facility (Rs. Crore)	Rating Assigned/ Outlook
Long Term Bank Facilities- Cash Credit	-	-	-	25.00	IVR BBB / Stable Outlook
Short Term Bank Facilities- Bank Guarantee	-	-	-	122.00	IVR A3+
Total				**147.00**	