

# Infomerics Valuation And Rating Pvt. Ltd.

Press Release

## Amar Infrastructure Ltd

July 12, 2019

### Ratings

Instrument / Facility	Amount (Rs. crore)	Ratings	Rating Action
Long Term Facilities -Cash Credit	25	IVR BBB/Positive (IVR Triple B with Positive Outlook)	Assigned
Short Term Bank Facilities- Bank Guarantee	122	IVR A3+ (IVR A Three Plus)	Assigned
<b>Total</b>	<b>147</b>		

Details of Facilities are in Annexure 1

### Detailed Rationale

The aforesaid ratings assigned to 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 improvement in scale of operation 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. Steady flow of orders & timely execution of the same, containment of operating costs in the wake of increasing competition, improvement in gearing ratios and efficient working capital management are the key rating sensitivities. The outlook is positive due to expected improvement in revenue and cash accruals in near to medium term.

### List of Key Rating Drivers with Detailed Description

#### Key Rating Strengths

#### Experienced promoters

AIL has a track record of more than three decades in the construction sector. The company is promoted by Mr. Chaturbhuji Rath, Mr. Narendra Rath and Mr. Surendra Rath, 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. The promoters have supported the

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business by infusing unsecured loans (as on March 31, 2019 outstanding unsecured loan was Rs.4.17 crore) and have demonstrated positive commitments towards the business.

### **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, the company has established a strong business relationship with various government departments as well as private clients.

### **Strong order book reflecting satisfactory medium-term revenue visibility**

AIL has an unexecuted order book of ~Rs.940 crore as on March 31, 2019 with orders across 14 contracts which is about 4.62 times of its FY19 (provisional) operating revenue (i.e. Rs.203.38 crore). Further, orders aggregating to ~Rs.350 crore are from funded projects by Asian development Bank, where the payment mechanism is relatively secured. The orders are expected to be completed within the next one-three years, indicating a satisfactory near to medium term revenue visibility.

### **Improvement in scale of operation over the years**

AIL has achieved continuous growth, despite slackness in the infrastructure/ construction industry in the recent past. AIL's total operating income registered a CAGR of ~15% during FY17-FY19 with a y-o-y growth of about 15% in FY19 (Prov.), mainly driven by increased order inflow and higher execution of orders. The EBITDA margin and the PAT margin though remained range bound have been satisfactory over the years, mainly due to the relatively high margin road contracts.

### **Improvement in the capital structure**

The capital structure of the company witnessed continuous improvement over the last three account closing dates. The long term debt equity ratio improved from 1.25x as on March 31, 2017 to 0.56x as on March 31, 2019 and the overall gearing ratio improved from 1.78x as on

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March 31, 2017 to 0.91x as on March 31, 2019 (provisional). The improvement in the leverage ratios was on account of continuous reduction in debt due to scheduled repayments along with healthy accretion of profit to net worth.

### **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. AIL being mainly in road construction is likely to be benefitted in the near to medium term due to the increased thrust of the government in developing road infrastructure.

### **Key Rating Weaknesses**

#### **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 with orders from various government departments, indicating a geographical concentration risk. However, the company has adequate experience to execute projects in these states which imparts 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

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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

### **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 optimizing its net working capital. Further, DSCR has improved in FY19 (Prov.) 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 2.29x in FY17 to 3.33x in FY19 and total debt to GCA improved from 4.30x in FY17 to 2.02x in FY19 respectively. Further, TOL/TNW also remained satisfactory at 2.23x as on March 31, 2019 (Prov.).

### **High working capital utilization**

The operations of the company are highly working capital intensive as a large part of its working capital remains 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 high at ~96% during the past 12 months ended April, 2019.

**Analytical Approach:** Standalone.

### **Applicable Criteria:**

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

### **Liquidity**

Adequate liquidity as indicated by the comfortable current ratio at 1.58x as on March 31, 2019 (Prov.), sufficient cushion in accruals vis-à-vis repayment obligations and modest cash and bank balance of Rs.6.14 Crore (as on March 31, 2019 (Prov.)). Further, the company has no near-term capex plan which imparts comfort. However, its bank limits are highly utilized to

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the extent of ~96% on an average during the past 12 months ended on April, 2019 indicating limited cushion.

### 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):**

For the year ended* / As On	(Rs. crore)	
	31-03-2018	31-03-2019
	Audited	Provisional
Total Operating Income	174.68	203.38
EBITDA	26.85	29.65
PAT	7.34	8.44
Total Debt	73.66	54.80
Tangible Net worth	51.89	60.33
EBITDA Margin (%)	15.37	14.58
PAT Margin (%)	4.14	4.15
Overall Gearing Ratio (x)	1.42	0.91

\*Classification as per Infomerics' standards.

### **Status of non-cooperation with previous CRA:**

Brickwork has moved the rating of AIL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated March 23, 2019.

Ind-Ra has moved the rating of AIL into the Issuer Non-Cooperating category as the company did not co-operate in the rating procedure despite repeated follow ups as per the Press Release dated October 9, 2018.

**Any other information:** Nil

### **Rating History for last three years:**

Sr.	Name	of	Current Rating (Year 2019-20)	Rating History for the past 3 years
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## Infomerics Valuation And Rating Pvt. Ltd.

No.	Instrument/Facilities	Type	Amount outstanding (Rs. Crore)	Rating	Date(s) & Rating(s) assigned in 2018-19	Date(s) & Rating(s) assigned in 2017-18	Date(s) & Rating(s) assigned in 2016-17
1.	Long Term Fund Based Limits - Cash Credit	Long Term	25	IVR BBB/ Positive Outlook	-	-	-
2.	Short Term Non-Fund Based Limits - BG	Short Term	122	IVR A3+	-	-	-

**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](http://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.

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of the firm at present. The rating may undergo change in case of withdrawal of capital or the unsecured loans brought in by the partners/proprietor/ AOPs in addition to the financial performance and other relevant factors.

### 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 Fund Based Limits–Cash Credit	-	-	-	25	IVR BBB/ Positive Outlook
Short Term Non-Fund Based Limits–BG	-	-	-	122	IVR A3+