



Press Release

AG Construction

December 21, 2023

Ratings

Facilities	Amount (Rs. crore)	Ratings	Rating Action	Complexity Indicator
Long Term Bank Facilities	33.02	IVR BBB-/ Stable (IVR Triple B Minus with Stable outlook)	Assigned	Simple
Short Term Bank Facilities	191.98	IVR A3 (IVR A Three)	Assigned	Simple
Total	225.00 (Rupees Two Hundred Twenty Five Crore only)			

Details of Facilities are in Annexure 1

Detailed Rationale

The ratings assigned to the bank facilities of AG Construction (AGC) derive strength from the experienced partners, healthy orderbook position with limited counter party credit risk, substantial improvement in revenue and comfortable financial risk profile; albeit moderate net worth base. The ratings are, however, constrained by decline in profitability margins, working capital intensive nature of operations, tender based nature of business, exposure to competitive segment and inherent risk in nature of business.

Key Rating Sensitivities:

Upward Factors

- Substantial improvement in the scale of operations and EBITDA margins
- Improvement in debt protection metrics
- Sustenance of the overall gearing.

Downward Factors

- A significant reduction in the scale of operations and profitability margins
- Deterioration in debt protection metrics and overall gearing
- Low orders inflow or delay in execution of projects.



Press Release

List of Key Rating Drivers with Detailed Description

Key Rating Strengths

Experienced partners with demonstrated execution capability in infrastructure sector

AGC's partners have a long track record of executing construction projects, majorly including roads, bridges, and other civil work on EPC basis. Mr. Aslam Khan, Mr. Arif Khan and Mr. Mohsin Khan partners are having more than two decades of experience in the civil construction business.

Healthy orderbook position with limited counter party credit risk

As on 01st April 2023, AGC has an unexecuted order book position Rs.1015.85 crore (2x of FY23 revenue) which is expected to execute over a period of next 2 years which provides medium term revenue visibility. AGC's entire orderbook consists of reputed government departments such as NHAI, NHIDCL, Executive Engineer Construction Central Railway etc. Nevertheless, timely commencement of execution of newly awarded projects with availability of requisite approvals shall remain crucial for the growth of AGC's scale of operation in the near term.

Substantial improvement in revenue

The operating income has substantially increased by ~58% to Rs.513.30 crore in FY23 against Rs.324.31 crore in FY22, mainly on account of executing additional road as well as irrigation projects during FY23. AGC has achieved revenue of Rs.218.07 crore during H1FY24 against Rs.114.65 crore in H1FY23, mainly on account of execution of projects of NHAI.

Comfortable financial risk profile; albeit moderate network base

The overall gearing ratio and TOL/TNW stood at 0.75x and 1.67x in FY23 (Prov.) with the improvement in tangible network as the same has increased to Rs.61.72 crore in FY23 (Prov.) (P.Y. – Rs.46.52 crore). The interest coverage and total debt/ GCA stood at 16.01x and 0.95x in FY23 (Prov.) (P.Y. – 9.94x and 0.88x). The financial risk profile is expected to remain comfortable with steady accretion to reserve, stable working capital cycle and the absence of any major debt-funded capex.



Press Release

Key Rating Weaknesses

Decline in profitability margins

EBITDA margins have declined to 10% in FY23 from 18% in FY21 due to higher proportion of low margin road project in the overall revenue. IVR expects EBITDA margins are likely to around FY23 levels through FY24-FY26 due to presence of higher orders in the overall unexecuted order book.

Working capital intensive nature of operations

AGC's operations are working capital intensive in nature marked by gross working capital cycle of 47 days at the end of FY23 as compared to 95 days in FY21. Generally, AGC receives payment from its counterparties in 30-45 days from the submission of bills. Creditors period have declined to 58 days (FY21: 68 days). AGC's average working capital utilization remained moderate and at 65% for 12 months ended September 30, 2023.

Tender based nature of business

The firm is mostly getting its orders through tenders floated by various government departments. As the infrastructure industry is highly fragmented due to the presence of many organized and unorganized players tender driven nature of business leads to volatility in revenue and profitability. Further, being in the infrastructure segment the firm is exposed to inherent risks associated in this industry like slowdown in new order inflows, risks of delays in execution etc.

Exposure to competitive segment and inherent risk in nature of business

The domestic infrastructure sector is highly fragmented, marked by the presence of many players with varied statures & capabilities. A boom in the infrastructure sector, a few years back, resulted in an increase in the number of players. While the competition is perceived to be healthy, a 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. AGC faces direct competition from various organized and unorganized players in the market.

Analytical Approach: Standalone



Press Release

Applicable Criteria:

[Policy on Default Recognition](#)

[Criteria of assigning Rating outlook](#)

[Rating Methodology for Infrastructure Companies](#)

[Financial Ratios & Interpretation \(Non-Financial Sector\)](#)

Liquidity: Adequate

AGC's liquidity is expected to remain adequate given the expected cash accruals in the range of Rs.50.81 crore to Rs.62.54 crore in the period of FY24 to FY26 as against the repayments of Rs.1.73 crore to Rs.2.38 crore. The free cash and cash equivalents balance stood at Rs.0.57 crore as on March 31, 2023, while average working capital utilisation for the 12 months ended September 2023 remained moderate at ~65% (funded) and ~40% (non funded). Current ratio stood at 1.31x as on March 31, 2023.

About the Company

AGC was initially established as a proprietorship firm in 1994 by founder Late Mr. Abdul Gaffur Khan who had started his career as a government contractor in Aurangabad & had completed many projects related to roads, buildings, dams, and canal works. The firm was converted into a partnership firm in 2004 and the business was transferred to his three sons - Mr. Aslam Khan, Mr. Arif Khan, and Mr. Mohsin Khan. AGC has executed many government projects in Maharashtra & Rajasthan and is currently executing road construction and development projects in Bikaner, Beed, Aurangabad and Sikkim. The firm is in the process to shift its entire business into a private limited company. The private limited is already incorporated on October 31, 2023, under the name 'AGC Infracon Private Limited'. All the partners of the firm will be directors in AGC Infracon Private Limited.

Financials (Standalone):

(Rs. crore)		
For the year ended / As On*	31-03-2022 (Audited)	31-03-2023 (Provisional)
Total Operating Income	324.31	513.30
EBITDA	43.92	51.33
PAT	31.36	39.05
Total Debt	35.38	46.27



Press Release

For the year ended / As On*	31-03-2022 (Audited)	31-03-2023 (Provisional)
Tangible Network	46.52	61.72
Ratios		
EBITDA Margin (%)	13.54	10.00
PAT Margin (%)	9.66	7.60
Overall Gearing Ratio (x)	0.76	0.75

*Classification as per Infomerics' standards

Status of non-cooperation with previous CRA:

Brickwork Rating has continued the ratings of AGC in the 'Issuer not cooperating' category vide its press release dated September 21, 2023, due to non-submission of the relevant information.

CRISIL ratings has continued the ratings of AGC in the 'Issuer not cooperating' category vide its press release dated October 26, 2023, due to non-submission of the relevant information.

ACUITE ratings has continued the ratings of AGC in the 'Issuer not cooperating' category vide its press release dated May 16, 2023, due to non-submission of the relevant information.

Any other information: Nil

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
1.	Long Term Bank Facilities – Cash Credit	Long Term	30.00	IVR BBB-/ Stable	-	-	-
2.	Long Term Bank Facilities – GECL/ ECLGS	Long Term	3.02	IVR BBB-/ Stable	-	-	-



Press Release

Sr. No.	Name of Instrument/Facilities	Current Ratings (Year 2023-24)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. crore)	Rating	Date(s) & Rating(s) assigned in 2022-23	Date(s) & Rating(s) assigned in 2021-22	Date(s) & Rating(s) assigned in 2020-21
3.	Short Term Bank Facilities – Overdraft	Short Term	5.00	IVR A3	-	-	-
4.	Short Term Bank Facilities – Bank Guarantee	Short Term	150.00	IVR A3	-	-	-
5.	Short Term Bank Facilities – Proposed Loans	Short Term	36.98	IVR A3	-	-	-

Name and Contact Details of the Rating Analyst:

Name: Amey Joshi
Tel: (022) 62396023
Email: amey.joshi@infomerics.com

About Infomerics:

Infomerics Valuation and Rating Private Limited (Infomerics) was founded in the year 1986 by a team of highly experienced and knowledgeable finance professionals. Subsequently, after obtaining Securities Exchange Board of India registration and RBI accreditation and the activities of the company are extended to External Credit Assessment Institution (ECAI).

Adhering to best International Practices and maintaining high degree of ethics, the team of knowledgeable analytical professionals deliver credible evaluation of rating.

Infomerics evaluates wide range of debt instruments which helps corporates open horizons to raise capital and provides investors enlightened investment opportunities. The transparent, robust and credible rating has gained the confidence of Investors and Banks.



Press Release

Infomerics has a pan India presence with Head Office in Delhi, branches in major cities and representatives in several locations.

For more information visit www.infomerics.com

Disclaimer: Infomerics ratings are based on information provided by the issuer on an 'as is where is' basis. Infomerics credit ratings are an opinion on the credit risk of the issue / issuer and not a recommendation to buy, hold or sell securities. Infomerics reserves the right to change or withdraw the credit ratings at any point in time. Infomerics ratings are opinions on financial statements based on information provided by the management and information obtained from sources believed by it to be accurate and reliable. The credit quality ratings are not recommendations to sanction, renew, disburse or recall the concerned bank facilities or to buy, sell or hold any security. We, however, do not guarantee the accuracy, adequacy or completeness of any information, which we accepted and presumed to be free from misstatement, whether due to error or fraud. We are not responsible for any errors or omissions or for the results obtained from the use of such information. Most entities whose bank facilities/instruments are rated by us have paid a credit rating fee, based on the amount and type of bank facilities/instruments. In case of partnership/proprietary concerns/Association of Persons (AOPs), the rating assigned by Infomerics is based on the capital deployed by the partners/proprietor/ AOPs and the financial strength 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 Bank Facilities – Cash Credit	-	-	-	30.00	IVR BBB-/ Stable
Long Term Bank Facilities – GECL/ ECLGS	-	-	Upto October 2027	3.02	IVR BBB-/ Stable
Short Term Bank Facilities – Overdraft	-	-	-	5.00	IVR A3
Short Term Bank Facilities – Bank Guarantee	-	-	-	150.00	IVR A3
Short Term Bank Facilities – Proposed Loans	-	-	-	36.98	IVR A3

Annexure 2: List of companies considered for consolidated analysis: Not applicable

Annexure 3: Facility wise lender details

<https://www.infomerics.com/admin/prfiles/len-AGConstruction-dec23.pdf>



Press Release

Annexure 4: Detailed explanation of covenants of the rated instrument/facilities: Not Applicable

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.