Press Release

Amar Infrastructure Limited

October 05, 2021

Ratings

Sl. No.	Instrument/Facility	Amount (Rs. Crore)	Ratings	Rating Action
1.	Long Term Bank Facilities	25.00	IVR BBB; Stable (IVR Triple B with Stable Outlook)	Reaffirmed
2.	Short Term Bank Facilities	122.00	IVR A3+ (IVR A Three Plus)	Reaffirmed
	Total	**147.00 (Rupees one hundred and forty seven crores only)**		

Details of Facilities are in Annexure 1.

Detailed Rationale

The reaffirmation of ratings assigned to the bank facilities of Amar Infrastructure Limited (AIL) continues to derive comfort from experienced management & long track record of the company in road construction segment with proven project execution capability, reputed clientele, strong order book reflecting satisfactory near to medium-term revenue visibility, its comfortable capital structure with satisfactory debt protection metrics and government thrust on road infrastructure. However, these rating strengths are partially offset by its presence in a highly fragmented segment with many unorganized players, concentration risk marked by geographical and sectorial concentration, susceptibility of operating margin to volatile input prices and working capital intensive nature of operation. The ratings also note moderation in its top line albeit improvement in its margin.

Key Rating Sensitivities:

Upward Factors:

- 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

<u>Downward factor:</u>

- Dip in operating income and/or profitability impacting the debt protection metrics
- Moderation in the capital structure with deterioration in overall gearing to below 1x

- Moderation in liquidity position with increase in working capital intensity

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. Chaturbhuj Rathi, Mr. Narendra Rathi and Mr. Surendra Rathi, 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. Further, 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

- **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.

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

AIL has a strong unexecuted order book of Rs.1080.97 crore as on August 31, 2021 with orders across 26 contracts which is about 6.78 times of its FY21 operating revenue (i.e. Rs.159.50 crore). The orders are expected to be completed within next one-three years, indicating a satisfactory near to medium term revenue visibility.

- **Stable financial risk profile marked by improvement in margins, gearing ratios and debt protection metrics**

AIL has maintained satisfactory EBITDA and PAT margin over the years. In FY21. The company witnessed improvement in its profit margins driven by execution of few high margin contracts and reduced interest outgo. The debt profile of the company comprised of term loans (on account of equipment finance), working capital borrowings and unsecured long-term loans. The capital structure of AIL was comfortable with overall gearing being below unity at 0.49x as on March 31, 2021 (Provisional) as compared to 0.52x as on March 31, 2020. The improvement in capital structure is driven by accretion of profit to reserves. The interest coverage has also been comfortable over the years and has shown an improving trend over FY19-FY21, aided by gradual increase in EBITDA.

Further, in 5MFY22, AIL reported EBITDA margin and PBT margin of 16.88% and 8.00% in 5MFY22 as compared to 16.00% and 5.50% in 5MFY21. Interest coverage also improved to 5.39x in 5MFY22 from 3.01x in 5MFY21.

- **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

- **Moderation in operating income**

The total operating income of the company declined by 30.76% in FY20 to Rs.132.93 crore (This includes revenue earned from joint venture with Dinesh Chandra R Agrawal Infracon (P) Limited. of Rs.35.00 crore) from Rs.196.13 crore in FY19 mainly due to delay in execution of contracts attributable to elections in Chhattisgarh. Further, lockdown restrictions in last few days of FY20 also impacted the performance of the company. However, in FY21 provisional, despite complete lockdown scenario in first two months, the company has reported revenue of Rs.159.50 crore, (up 16.68%% from FY20 revenue) including revenue earned from joint venture with Dinesh Chandra R Agrawal Infracon (P) Limited. of Rs.48.20 crore.

- **Presence 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 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 which protects its margin to an extent.

- **Working capital intensive nature of operation**

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 ~78% during the past 12 months ended July, 31, 2021.

Analytical Approach: Consolidated. For arriving at the rating, Infomerics has combined the financial profiles of Amar Infrastructure Limited and its Joint Venture with Dinesh Chandra R

Agrawal Infracon (P) Limited. In this Joint Venture, Dinesh Chandra R Agrawal Infracon (P) Limited has profit sharing percentage of 4%, while AIL has profit sharing percentage of 96%. The purpose of entering into this joint venture by AIL is to bid for larger value projects by combining their expertise and resources. This enable AIL to benefit from the credibility and financial stability of Dinesh Chandra R Agrawal Infracon (P) Limited. Here AIL is completing the order under joint venture contract with Dinesh Chandra R Agarwal through its own resources and expertise, giving just 4% of profit sharing to former. (**List of the companies are in Annexure 3**)

Applicable Criteria:

Rating Methodology for Infrastructure Companies

Financial Ratios & Interpretation (Non-financial Sector)

Liquidity: 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.20.88 crore to Rs.27.43 crore as compared to debt repayment obligation in the range of ~Rs.0.77-0.75 crore during FY22-FY24. Further, with a gearing of 0.49 times as of March 31, 2021, the company has sufficient gearing headroom. Moreover, the company has no major near term capex plan, which imparts comfort. Besides, its average bank limit utilisation remained moderate at ~78% in the last 12 months ended on July 2021 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). The company was mainly engaged in civil construction work until 2000-01, and later diversified into manufacturing of channel sleeper for Indian Railways. With the formation of Chhattisgarh state, it entered into the field of road construction.

Financials: Combined

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Combined	Combined
Total Operating Income	132.93	159.50

For the year ended* / As On	31-03-2020	31-03-2021
EBITDA	20.51	24.85
PAT	7.79	13.02
Total Debt	39.49	43.54
Tangible Net worth	76.59	88.15
EBITDA Margin (%)	15.43	15.58
PAT Margin (%)	5.65	8.09
Overall Gearing Ratio (x)	0.52	0.49

*****_Classification as per Infomerics' standards._

Financials: Standalone

(Rs. crore)

For the year ended* / As On	31-03-2020	31-03-2021
	Audited	**Provisional**
Total Operating Income	97.93	111.30
EBITDA	15.76	18.09
PAT	3.88	6.22
Total Debt	39.49	43.54
Tangible Net worth	66.58	72.80
EBITDA Margin (%)	16.09	16.25
PAT Margin (%)	3.78	5.51
Overall Gearing Ratio (x)	0.59	0.60

**Classification as per Infomerics' standards.*

Status of non-cooperation with previous CRA: India Ratings has moved the company to Issuer Not Cooperating category vide its press release dated July 10, 2020.

Any other information: AIL used to prepare combined Balance sheet and Profit and Loss Statement which used to include standalone as well as joint venture revenue from Dinesh Chandra R Agarwal Infracon (P) Limited i.e. AIL DRA Joint Venture, Durg. Since, FY20, management has started preparing two segregated accounts, one for Joint venture orders and second for standalone.

Rating History for last three years:

Sr. No.	Name of Instrument/Facilities	Current Rating (Year 2021-22)			Rating History for the past 3 years		
		Type	Amount outstanding (Rs. Crore)	Ratings	Date(s) & Rating(s) assigned in 2020-21	Date(s) & Rating(s) assigned in 2019-20	Date(s) & Rating(s) assigned in 2018-19
1.	Cash Credit	Long Term	21.00	IVR BBB; Stable	IVR BBB; Stable (July 10, 2020)	IVR BBB; Positive (July 12, 2019)	
2.	Term Loan	Long Term	4.00	IVR BBB; Stable	-		
3.	Bank Guarantee	Short Term	122.00	IVR A3+	IVR A3+ (July 10, 2020)	IVR A3+ (July 12, 2019)	

Name and Contact Details of the Rating Analyst:

Name: Ms. Nidhi Sukhani Tel: (033) 46022266 Email: nsukhani@infomerics.com	Name: Mr. Avik Podder Tel: (033) 46022266 Email: apodder@infomerics.com

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.

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 Fund Based Limits - Cash Credit	-	-	-	21.00	IVR BBB; Stable
Long Term Fund Based Limits – Term Loan	-	-	July 2024	4.00	IVR BBB; Stable
Short Term Non-fund Based Limits-Bank Guarantee	-	-	-	122.00	IVR A3+

Annexure 2: Facility wise lender details

https://www.infomerics.com/admin/prfiles/Amar-Infra-lenders-oct21.pdf

Annexure 3:

Name of the Company	Consolidation Approach	Partnership Ratio
Amar Infrastructure Limited	Full consolidation	96%
AIL DRA Joint Venture	Full consolidation	4%

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

Annexure 5: Complexity level of the rated Instruments/Facilities

Sr No.	Instrument	Complexity Indicator
1.	Cash Credit	Simple
2.	Term Loan	Simple
3.	Bank Guarantee	Simple

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.