Press Release

Ghai Construction Limited

March 26, 2020

Rating Upgraded and Assigned

Total Bank Facilities Rated*	Rs. 51.50 Cr. (Enhanced from Rs.33.00 Crore)
Long Term Rating	ACUITE BBB /Stable (Upgraded)
Short Term Rating	ACUITE A3+ (Upgraded)

* *Refer Annexure for details*

Rating Rationale

Acuité has upgraded the long-term rating of **'ACUITE BBB' (read as ACUITE triple B)** from **'ACUITE BBB-' (read as ACUITE triple B minus)** and the short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** from **'ACUITE A3' (read as ACUITE A three)** on the Rs. 51.50 Crore bank facilities of Ghai Construction Limited (GCL). The outlook is **'Stable'**.

Founded by Prakash Singh Ghai, Amerjit Singh Ghai and Gurpreet Singh Ghai, Ghai Construction Limited (GCL) was incorporated in 1995 as a public limited company - unlisted based out of Pune, Maharashtra. GCL is a government-approved contractor enlisted as a 'Category 1' contractor with Central Public Works Department (CPWD) and Class 'A' contractor with the Public Works Department (PWD). GCL's business includes infrastructure constructions like Roads, Highways, Railway Tracks and Urban Infrastructure.

The upgrade is on account of improvement in business risk profile, healthy financial risk profile and improvement in working capital management. The improvement in the revenues are on account of healthy order book position and strong financial risk profile. The revenues have improved to Rs.99.79 Crore in FY2019 as against Rs.58.92 Crore in FY2018. Further, the revenue stood at Rs.76.00 Crore for 10MFY2020. This is mainly due to new orders received in last year and a healthy order book position of Rs.429 crore as on 31 January 2020. The financial risk profile of the company has remain healthy marked by gearing level (debt-to-equity ratio) which stood comfortable at 0.39 times as on March 31, 2019 as against 0.56 times as on March 31, 2018. This is mainly due to low external borrowings and healthy accreditation to reserves during the year. Further, the company's working capital continuous to remain comfortable marked by Gross Current Asset (GCA) of 74 days for FY2019 as against 114 days in the previous year.

Analytical Approach

Acuité has considered the standalone business and financial risk profile of GCL to arrive at the rating.

Key Rating Drivers

Strengths

• **Experienced management**

Pune, Maharashtra based Ghai Construction Limited was incorporated in 1995 as a public limited company. The company is engaged in infrastructure construction like Roads, Highways, Railway Tracks and Urban Infrastructure for various government authorities and non-government companies. The business of civil construction is promoted by Prakash Singh Ghai, Amerjit Singh Ghai and Gurpreet Singh Ghai. The promoters have an experience of over two decades in infrastructure construction business.

GCL has been associated with government bodies for over a decade. The company has been executing projects for PWD (Public Works Department), RITES limited, NHAI (National Highway Authority of India), Indian Railways, L&T (Larsen and Turbo), CPWD (Central Public Works Department) to name a few. The company has been able to establish long-standing relationship with its client owing to extensive experience of the promoters and timely execution of the project.

The vast experience of the management and long association with government agencies has resulted in healthy order book position of Rs.429 Crore as on 31 January, 2020 out of which work order to the tune of Rs.262 Crore is expected to be executed in the next 2 years, thereby giving healthy revenue visibility for near to medium term.

• **Healthy financial risk profile**

The company's financial risk profile is healthy marked by moderate net worth, low gearing and moderate coverage indicators. The net worth stood moderate at Rs. 24.91 Crore as on March 31, 2019 against Rs. 19.22 Crore as on March 31, 2018. The gearing of the company stood low at 0.39 times as on March 31, 2019 against 0.56 times as on March 31, 2018. This is mainly on account of low external debt and healthy accreditation to reserves during the year. The total debt of Rs. 9.70 Crore as on March 31, 2019 comprises long-term loans from bank worth Rs. 2.76 Crore and short-term working capital debt from the bank of Rs. 6.94 Crore. Low reliance over external borrowings has led to healthy coverage indicators marked by Interest Coverage Ratio (ICR) which stood at 6.91 times for FY2019 against 5.53 times for FY2018.

The Debt / EBITDA stood at 0.86 times in FY2019 against 1.36 times in FY2018. This is mainly on account of increase in EBITDA in FY2019. The EBITDA margins stood at 9.96 per cent in FY2019 as against 12.24 per cent in the previous year. The decline in EBITDA margin is due to increase in raw material cost. Further, the net cash accruals of the company stood healthy at Rs.7.50 Crore in FY2019 as against no significant debt maturity obligation during the same period. This has reduced reliance on external debt to a large extent.

Acuité believes that the financial risk profile of the company will continue to improve in the near to medium term backed by healthy operating margins and healthy net cash accruals.

• **Comfortable working capital cycle**

GCL has comfortable working capital operations marked by GCA days of 74 days in FY2019 as against 114 days in FY2018. It was mainly due to reduction debtor days which stood comfortable at 53 days in FY2019 as against 81 day in FY2018. As a result, the average utilization of bank limits stood low at ~59 percent for the last six months ending January, 2020. Acuité believes that the working capital requirements will continue to remain moderate over the medium term on account of timely payment from the customers and to the suppliers.

Weaknesses

• **Competitive and fragmented industry**
The Company is engaged as civil contractor. The particular sector is marked by the presence of several mid to big size players. The company faces competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of biding of contracts. However, this risk is mitigated to an extent as management operating in this environment for last 25 years.

• **Tender based nature of business**
The company deals with government organizations and quotes for the contracts on tender basis. Going forward the company's ability to successfully bid for greater number of large orders remains to be seen. However, the promoters experience and relationship mitigates this factor to an extent.

Outlook: Stable

Acuité believes GCL will maintain a stable business risk profile in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics and timely completion of all the projects. Conversely, the outlook may be revised to 'Negative' in case the company registers lower-than-expected growth in revenues and profitability, or in case of deterioration in the company's financial risk profile or higher than expected working capital requirements.

Material Covenant
None

Rating sensitivity
- Any deterioration in working capital leading to liquidity pressure

- Elongation in execution of projects

Liquidity position: Adequate

The company has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.7.50 Crore in FY2019 as against no significant maturing debt obligation for the same period. The cash accruals of the company are estimated to be in the range of Rs.8.40-10.00 Crore during 2020-22 while its repayment obligation are estimated to be around Rs. 1.50 Crore each year for the same period. The company operates in comfortable working capital management as marked by gross current asset (GCA) days of 74 in FY 2019. The bank limit utilization stood at ~59 percent during the last six months period ended January 2020. The company maintains cash and bank balances of Rs.0.45 Crore as on March 31, 2019. Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of healthy cash accrual and no major repayments over the medium term.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	99.79	58.92
PAT	Rs. Cr.	5.69	3.56
PAT Margin	(%)	5.71	6.04
Total Debt/Tangible Net Worth	Times	0.39	0.56
PBDIT/Interest	Times	6.91	5.53

Any other information

Not Applicable

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Infrastructure Entities - https://www.acuite.in/view-rating-criteria-51.htm
- Financial Ratios And Adjustments -https://www.acuite.in/view-rating-criteria-53.htm

Note on complexity levels of the rated instrument

https://www.acuite.in/criteria-complexity-levels.htm

Rating History (Up to last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr)	Ratings/Outlook
25-April-2019	Cash Credit	Long Term	8.00	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A3 (Reaffirmed)
09-April-2019	Cash Credit	Long Term	5.00	ACUITE BBB-/Stable (Upgraded)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Upgraded)
04-April-2018	Cash Credit	Long Term	5.00	ACUITE BB+ (Indicative)
	Bank Guarantee	Short Term	15.00	ACUITE A4+ (Indicative)
23-January-2017	Cash Credit	Long Term	5.00	ACUITE BB+/Stable (Assigned)
	Bank Guarantee	Short Term	15.00	ACUITE A4+ (Assigned)

***Annexure – Details of instruments rated**

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	8.00	ACUITE BBB/Stable (Upgraded)
Cash Credit	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB/Stable (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3+ (Upgraded)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	16.50	ACUITE A3+ (Upgraded)

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About Acuité Ratings & Research:

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