Press Release

Ghai Construction Limited

March 24, 2021

Rating Reaffirmed

Total Bank Facilities Rated*	Rs.71.50 Cr. (Enhanced from Rs.51.50 Cr.)
Long Term Rating	ACUITE BBB/Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3+ (Reaffirmed)

** Refer Annexure for details*

Rating Rationale

Acuité has reaffirmed the long-term rating of **'ACUITE BBB' (read as ACUITE triple B)** and short term rating of **'ACUITE A3+' (read as ACUITE A three plus)** on the Rs.71.50 Cr bank facilities of Ghai Construction Limited (GCL). The outlook is **'Stable'**.

Rationale for Rating Reaffirmation

The rating reaffirmation factors in the comfort derived from the established track record of operations, experienced management, healthy financial risk profile, comfortable working capital management and adequate liquidity position of the company. The rating derived also reflects decline in the scale of operations in FY2020. Decline in the sales of operation of GCL is marked by operating income of Rs.93.15Cr in FY2020 as against Rs.99.79Cr in FY2019, thereby resulting a fall of 6.65 percent. This decline is on account of temporary stoppage of the ongoing projects during the last quarter of FY2020 also there was an issue in the land acquisition which subsequently led to delay in the initiation of the project. However, the operating margin has increased to 12.89 percent in FY2020 as against 9.96 percent in FY2019.

Further, the overall financial risk profile is healthy marked by moderate net worth, low gearing and comfortable debt coverage indicators.

About the Company

Ghai Construction Limited is a Pune, Maharashtra based company incorporated in the year 1995 as a public limited company by Mr. Prakash Singh Ghai, Mr. Amerjit Singh Ghai and Mr. Gurpreet Singh Ghai. The company is a government approved contractor enlisted as a 'Category-I' 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.

Analytical Approach

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

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

Incorporated in the year 1995 as a public limited company GCL has a long track record of operation of around three decades. The company is promoted by the Ghai family led by Mr.Prakash Singh Ghai, Mr.Amerjit Singh Ghai and Mr.Gurpreet Singh Ghai. The promoters have an experience of more than two decades in the aforementioned industry. The company is registered as Category-I contractor with CPWD and Class-A Contractor with PWD. The company is engaged in infrastructure construction like Roads, Highways, and Railway Tracks and Urban Infrastructure for various government authorities like RITES Limited, CPWD, PWD, etc. and also for non-government companies like L&T. 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.

Acuité believes that the company will benefit from its experienced management and long track of operation.

- **Healthy financial risk profile**

GCL's financial risk profile is healthy marked by moderate net worth, low gearing coupled with comfortable debt protection metrics and coverage indicators. The company's net worth stood at Rs.30.31Cr as on March 31, 2020 as against Rs.24.91Cr as on March 31, 2019. The net worth levels have seen improvement over the last three years through FY2020. This is on account of healthy accretion to reserves over the period. The company has followed conservative financial policy in the past, the same is reflected through its peak gearing and total outside liabilities to tangible net worth (TOL/TNW) of 0.56 times and 0.96 times, respectively as on March 31, 2018. The gearing continues to be low at around 0.42 times as on March 31, 2020. The total outside liabilities to tangible net worth (TOL/TNW) levels stood at 0.61 times as on March 31, 2020. The company on the other hand generated cash accruals of Rs.8.75Cr in FY2020 as against Rs.7.50Cr in FY2019.

The revenue of the company has declined by around 6.65 percent to Rs.93.15Cr in FY2020 from Rs.99.79Cr in FY2019. The decline in the operating income is due to temporary stoppage of the ongoing projects during the last quarter of FY2020. Moreover, there was an issue in the land acquisition which subsequently led to delay in the initiation of the project. The company has unexecuted order book of Rs.233.57 Cr as on January 31, 2021 which gives revenue visibility over the medium term. Moreover, the company has already clocked revenues of around Rs.50.13Cr (Est.) as on January 31, 2021. It is expected that the performance of the company will deteriorate in FY2021, due to temporary stoppages of the ongoing projects due to shortage of labors in view of Covid-19 pandemic. However, the operating income will improve from FY2022 onwards backed by healthy order book and strong execution capacity. EBITDA in absolute term is improving over the last three years through FY2020 and stood at Rs.12.01 Cr in FY2020 as against Rs.9.94 Cr in FY2019. The PAT of the company has increased to Rs.5.90 Cr in FY2020 from Rs.5.69 Cr in FY2019.

The company's operating margin is high and stable in the range of 10.00-13.00 percent for the last three years under the study. The company gets the benefit of price escalation clause in every project. The major expense for any infrastructure company is the raw material cost and the labor expense. The same is volatile in nature and can impact the profitability. However, GCL mitigates this risk by way of price escalation clause in all contracts till the validity of the tenure of the contract. This helps the company to maintain a stable operating margin of 12 percent on a continuous basis for last three years under the study. The operating margin and the PAT margin stood at 12.89 percent and 6.33 percent, respectively in FY2020.

The increase in the profitability level, coupled with moderate debt level, has led to comfortable debt protection measures. The NCA/TD and interest coverage ratio for FY2020 stands at 0.68 times and 6.30 times respectively as against 0.77 times and 6.91 times in FY2019, respectively. The debt service coverage ratio stood 5.19 times in FY2020 as against 5.58 times in FY2019. The Debt-EBITDA ratio stands at 0.98times in FY2020 against 0.86times in FY2019.

Acuité believes the financial risk profile of the company will continue to remain healthy on account of its healthy revenue growth backed by healthy order book, stable operating margins, healthy cash accruals and no major debt funded capex in near to medium term.

- **Working capital operation is efficient in nature**

GCL's working capital operation is efficient in nature as it is reflected by its gross current asset (GCA) days of around 58 days in FY2020 as against 74 days in FY2019. The debtor collection period improved to 17 days as on March 31, 2020 as against 53 days as on March 31, 2019. As on March 31, 2020 the accumulated receivables stood at Rs.4.32Cr However, this risk is mitigated as the accumulated receivables are mainly from the State Government and Central Government bodies leading to a low counterparty risk. As on March 31, 2020 the inventory period stood at 18 days which mainly consists of work in progress. The average bank limit utilization stood low at around 57.26 percent for six months ended January 31, 2021, while its peak utilization was high at around 96.50 percent during the same period. The Non-fund based utilization stood at around Rs.27.35Cr out of Rs.37.50Cr as on January, 2021 which signifies the company has sufficient fund to bid for new tenders.

Acuité expects the working capital management to remain moderate over the medium term on account of timely payment from the customers and to the suppliers.

Weaknesses

- **Tender Based nature of business**

The company deal with government organization and quotes for the contract on tender basis. Going forward the company's ability to successfully bid for greater number of large order will remain a key monitor able. However, the promoter's experience and relationship with the clients mitigates this factor to an extent.

- **Competitive and fragmented nature of industry**

The Company is engaged as civil contractor. The aforementioned industry is marked by the presence of several mid to big size players. The company faces competition from the other players in the sectors which can impact its profitability and operations going forward. Risk become more pronounced as tendering is based on minimum amount of biding of contracts. However, this risk is mitigated to an extent on account of extensive experience of the management in the industry for over two decades.

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.8.75Cr in FY2020, while its' maturing debt obligation were Rs.2.00Cr for the same period. The cash accrual of the company is estimated to remain around Rs.6.00Cr to Rs.10.00Cr during 2021-23 against repayment obligations of around Rs.1.00Cr to Rs.3.00Cr during the same period. The company's working capital operation is efficient in nature marked by the Gross Current Asset (GCA) days of 58 days in FY2020 as against 74 days in FY2019. The average bank limit utilization stood moderate at around 57.26 per cent for six months ended January, 2021. The company maintains unencumbered cash and bank balances of Rs.0.77Cr as on 31 March 2020. The current ratio of the group has improved to 1.34 times as on 31 March 2020 from 0.99 times as on March 31, 2019. Also, government is providing special impetus and relaxations due to COVID-19 outbreak to EPC projects which will further enhance the liquidity position of GCL.

Acuité believes that the liquidity of the company is likely to remain adequate over the medium term on account of adequate cash accruals to its maturing debt obligation.

Rating Sensitivities

- Significant and sustained growth in operating revenues while maintaining the profitability
- Any deterioration in the working capital cycle may impact the financial risk profile

Outlook: Stable

Acuité believes that the company will maintain a stable outlook over the medium term backed by its experienced management, established track record of operation in the aforementioned industry and healthy financial risk profile. The outlook may be revised to 'Positive', if the company registers higher than expected growth in its revenue while maintaining as sustained operating margins at its current levels along with efficient working capital management. Conversely, the outlook may be revised to 'Negative', if the company registers lower than expected growth in revenues and profitability or in case of deterioration in the company's financial risk profile or significant elongation in the working cycle.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	93.15	99.79
PAT	Rs. Cr.	5.90	5.69
PAT Margin	(%)	6.33	5.71
Total Debt/Tangible Net Worth	Times	0.42	0.39
PBDIT/Interest	Times	6.30	6.91

Status of non-cooperation with previous CRA (if applicable)

None

Any other information

None

Any Material Covenants

None

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/view-rating-criteria-55.htm

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
26-Mar-2020	Bank Guarantee	Short Term	25.00	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	8.00	ACUITE BBB / Stable (Upgraded from ACUITE BBB- / Stable)
	Bank Guarantee	Short Term	16.50	ACUITE A3+ (Upgraded from ACUITE A3)
	Cash Credit	Long Term	2.00	ACUITE BBB/Stable (Upgraded from ACUITE BBB- / Stable)
25-Apr-2019	Cash Credit	Long Term	8.00	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A3 (Reaffirmed)
09-Apr-2019	Term Loan	Long Term	5.00	ACUITE BBB- / Stable (Upgraded from ACUITE BB+)
	Bank Guarantee	Short Term	15.00	ACUITE A3 (Upgraded from ACUITE A4+)

*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 (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	6.00 (Enhanced from Rs.2.00Cr	ACUITE BBB/Stable (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB/Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	12.50 (Revised from Rs.16.50Cr)	ACUITE A3+ (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE A3+ (Reaffirmed)

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About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI), for Bank Loan Ratings under BASEL-II norms in the year 2012. Since then, it has assigned more than 8,616 credit ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Mumbai.