



Press Release

Ghai Construction Private Limited (Erstwhile Ghai Construction Limited)

August 31, 2023

Rating Downgraded

Product	Qtm (Rs.Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	31.50	ACUITE BBB- Stable Downgraded	-
Bank Loan Ratings	40.00	-	ACUITE A3 Downgraded
Total Outstanding Quantum (Rs. Cr)	71.50	-	-

Rating Rationale

Acuite has downgraded the long-term rating to '**ACUITE BBB- (read as ACUITE Triple B Minus)**' from '**ACUITE BBB (read as ACUITE Triple B)**' and short-term rating to '**ACUITE A3 (read as ACUITE A Three)**' from '**ACUITE A3+ (read as ACUITE A Three Plus)**' on the Rs.71.50 Cr bank facilities of Ghai Construction Private Limited (Erstwhile Ghai Construction Limited) (GCPL). The outlook is '**Stable**'.

Rationale for rating Downgrade

The rating downgrade is on account of lower-than-expected performance of GCPL primarily due to delayed project execution. The company reported muted revenue growth and volatile profitability margins over the last three years. GCPL's operating income stood at Rs. 67.88 Cr in FY2023 (Prov.) as against Rs.71.44 Cr in FY2022 and Rs.67.50 Cr in FY2021 while the operating profitability margin fluctuated between 2.58-11.57 percent during the same period. However, the rating continues to draw comfort from established track record operations, experienced management, moderate financial risk profile and moderate working capital operations of the company.

About the Company

Ghai Construction Private Limited (Erstwhile Ghai Construction Limited) (GCPL) is a Pune, Maharashtra based company incorporated in the year 1995 as a public limited company. Now, the company is converted into private limited company as on July 01, 2021. The directors of the company are Mr. Prakash Singh Ghai, Mr. Amarjit Singh Ghai, Mr. Rajendersingh Ghai, Mr. Prabhkirat 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). GCPL's business includes infrastructure constructions like Roads, Highways, Railway Tracks and Urban Infrastructure.

Analytical Approach

Acuite has taken a standalone view of the business and financial risk profile of GCPL to arrive at the rating.

Key Rating Drivers

Strengths

>Established track record of operations and experienced management

Incorporated in the year 1995 as a public limited company and converted into private limited company in July, 2021, GCPL 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. Amarjit Singh Ghai, Mr. Rajendersingh Ghai, Mr. Prabhkirat 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. The Company has unexecuted healthy orders in hand worth Rs.384.18 crore as on March 31, 2023, which is expected to be executed in medium term. Also, the company has received new L1 orders of worth Rs.12 crore of southern Railways in FY23-24. This gives adequate revenue visibility over the medium term. Acuité believes that the company will benefit from its experienced management and long track of operation.

>Moderate financial risk profile

Financial risk profile of GCPL is moderate marked by moderate gearing (debt to equity ratio) & total outside liabilities to total net worth (TOL/TNW) and moderate debt protection metrics. The gearing stood at 0.36 times as on March 31, 2023 (Prov) as against 0.95 times as on March 31, 2022 and 0.47 times as on March 31, 2021. TOL/TNW stood at 0.41 times as on March 31, 2023 (Prov) as against 1.26 times as on March 31, 2022 and 0.69 times as on March 31, 2021. Tangible net worth of the company stood modest at Rs.54.75 crore as on March 31, 2023 (Prov) as against Rs.28.26 crore as on March 31, 2022 and Rs.31.54 crore as on March 31, 2021. Of the total debt of Rs.19.55 crore as on March 31, 2023 (Prov), long-term debt stood at Rs.1.52 crore, short-term debt stood at Rs.12.41 crore, unsecured loans stood at Rs.5.20 crore and CPLTD stood at Rs.0.41 crore. Debt protection metrics of interest coverage ratio stood moderate at 1.76 times in FY2023 (Prov) as against 0.93 times in FY2022 and 4.61 times in FY2021. NCA/total Debt stood at 0.18 times in FY2023 (Prov) as against 0 times in FY2022 and 0.41 times in FY2021. DSCR stood at 1.37 times in FY2023 (Prov) as against 0.56 times in FY2022 and 1.81 times in FY2021.

Acuité believes that the financial risk profile of the company is expected to remain moderate in the absence of any major debt funded capex in near to medium term.

>Moderate working capital operations

GCPL's working capital operations are moderate marked by Gross Current Asset days (GCA) of 133 days in FY2023 (Prov) as against 148 days in FY2022 and 93 days in FY2021. The high GCA days are majorly due to high inventory and creditors days in FY2022. The inventory days stood at 94 days in FY2023 (Prov) as against 74 days in FY2022 and 57 days in FY2021. The debtors' days stood at 26 days in FY2023 (Prov) as against 39 days in FY2022 and 19 days in FY2021. The creditors' days stood at 32 days in FY2023 (Prov) as against 66 days in FY2022 and 99 days in FY2021. However, fund-based limits remain utilized at ~72 percent for last 7 months ended July, 2023. The average utilization of non-fund-based limits is ~50 percent for last 7 months ended July, 2023.

Acuité believes that the working capital operations are expected to improve over the medium term

Weaknesses

>Muted revenue growth and fluctuating profitability margins

GCPL reported muted revenue growth and volatile profitability margins over the last three years. The company's operating income stood at Rs. 67.88 Cr in FY2023 (Prov.) as against Rs.71.44 Cr in FY2022 and Rs.67.50 Cr in FY2021 while the operating profitability margin fluctuated between 2.58-11.57 percent during the same period. The company's unexecuted orderbook position which stood at Rs.424.22 Cr as on March 31, 2022 stood at Rs. 384.18 Cr as on March 31, 2023. The company received has orders worth Rs. 32.14 Cr during FY2023 and was selected as L1 bidder for another project valuing Rs. 12 Cr in Q1FY2024. However, the company's ability to monetize the healthy orderbook over the medium term will remain a key rating monitorable. Furthermore, the fluctuations in profitability margins are primarily on account of fluctuating steel prices. The company's ability to pass on the raw material prices increase in order to maintain its profitability margins will also remain a key rating monitorable.

>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 bidding 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.

Rating Sensitivities

- Improvement in revenue with sustainability of the profitability margins.
- Any deterioration of its financial risk profile and liquidity position.
- Any elongation of the working capital cycle leading to deterioration in debt protection metrics.

All Covenants

Not Applicable

Liquidity Position

Adequate

GCPL's liquidity position is adequate marked by moderate net cash accruals against repayment obligations. The company generated cash accruals of Rs.3.60 crore in FY2023 (Prov) against the repayment obligations of Rs.0.41 crore, further, going forward in FY2024 to FY2025 the cash accruals are expected to be in the range of Rs.5.47 crore-Rs.7.13 crore against repayment obligations in the range of Rs.0.23 crore for the same term. Unencumbered cash and bank balances stood at Rs.3.53 crore as on March 31, 2023 (Prov) as against Rs.0.53 crore as on March 31, 2022 with a current ratio of 1.83 times in the FY2023 (Prov) as against 1.29 times in FY2022. Liquid investments stood at Rs.0.05 crore as on March 31, 2023 (Prov). Further, the gross current asset days of the company stood at 133 days. The average fund based limit utilisation stood at ~72 percent for last 7 months ended July 2023, while for the non-fund based limits utilisation stood at ~50 percent for last 7 months ended July 2023.

Acuité believes that liquidity profile is expected to remain adequate on account of adequate cash accruals against moderate repayment obligations.

Outlook: Stable

Acuité believes that GCPL will maintain a 'Stable' outlook over the medium term owing to its experienced management and long track record of operations. The outlook may be revised to 'Positive' if the company demonstrates substantial and sustained growth in its revenues from the current levels while maintaining its margins. Conversely, the outlook may be revised to 'Negative' in case the company registers lower than expected growth in revenues and profitability or deterioration in its working capital management or larger-than-expected debt-funded capex leading to deterioration in its financial risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	67.88	71.44
PAT	Rs. Cr.	1.23	(3.28)
PAT Margin	(%)	1.81	(4.58)
Total Debt/Tangible Net Worth	Times	0.36	0.95
PBDIT/Interest	Times	1.76	0.93

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

Care vide its press release dated 10th Apr 2023, had downgraded the company to CARE B+A4; Issuer Not Cooperating

ICRA vide its press release dated 27th Oct 2022, had rated the company to ICRA B+/stable/A4; Issuer Not Cooperating.

Any other information

None

Applicable Criteria

- Default Recognition :- <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in.

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
17 Jun 2022	Cash Credit	Long Term	8.00	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	12.50	ACUITE A3+ (Reaffirmed)
	Cash Credit	Long Term	6.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	15.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A3+ (Reaffirmed)
24 Mar 2021	Secured Overdraft	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Short Term	25.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	15.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee	Short Term	12.50	ACUITE A3+ (Reaffirmed)
	Secured Overdraft	Long Term	6.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BBB Stable (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
Union Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	25.00	ACUITE A3 Downgraded
State Bank of India	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A3 Downgraded
Union Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	8.00	ACUITE BBB- Stable Downgraded
State Bank of India	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB- Stable Downgraded
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	Simple	18.50	ACUITE BBB- Stable Downgraded

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & 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. Acuité has assigned 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 Kanjurmarg, Mumbai.

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