

August 06, 2020

Abhi Engineering Corporation Private Limited: Rating reaffirmed

Summary of rating action

Instrument*	Previous Rated Amount (Rs. crore)	Current Rated Amount (Rs. crore)	Rating Action
Fund based			
Cash Credit	16.00	16.00	[ICRA]BBB (Stable); Reaffirmed
Non fund based			
Bank Guarantee	51.00	51.00	[ICRA]A3+; Reaffirmed
Total	67.00	67.00	

*Instrument details are provided in Annexure-1

Rationale

The rating reaffirmation continues to favourably factor the extensive track record of Abhi Engineering Corporation Private Limited (AECPL) for more than a decade in the civil construction business, coupled with its technically-qualified management. ICRA also notes its steady growth in operating income over the last few years, driven by a healthy order inflow and timely execution of orders. The ratings also take into account the comfortable financial risk profile as indicated by healthy profitability and return indicators due to high technically customised project execution, comfortable capital structure led by limited dependency on external debt, and healthy coverage indicators. The ratings also factor in the reputed client base, which limits the counter-party risk to an extent. The ratings continue to draw comfort from the strong unexecuted order book position of AECPL, which stood at Rs. 628.09 crore as on March 31, 2020 (i.e., 2.57 times the FY2020 turnover), providing a revenue visibility in the near-to-medium-term. The unexecuted order book, nevertheless, poses a challenge with regards to timely execution because of the ongoing Covid-19 pandemic. Any longer-than-anticipated stretch in the restricted movements or workforce deployment, or the pace at which normal business activities resume, can severely impact AECPL's scale and profitability in the current year. Thus, ICRA will continue to closely monitor the developments related to the Covid-19 pandemic.

The ratings, however, are constrained by the working capital-intensive nature of AECPL's business, resulting from relatively higher receivable cycle as well as a significant amount of retention money, security deposits and earnest money deposits being blocked due to the nature of its business, leading to increased creditors funding. The ratings also continue to remain constrained by the exposure of the company's operations to geographical concentration risk with projects from the Vidarbha region of Maharashtra driving almost 90% of its revenues during 10M FY2020. Further, AECPL's top customer has been Maharashtra State Power Generation Company Limited (MSPGCL), accounting for 40-65% of the total revenues over the last three years. MSPGCL has contributed over 45% to the present unexecuted order book, posing a risk of high customer concentration. The ratings are further constrained by the susceptibility of AECPL's profitability to volatility in raw material prices, given the fixed-price nature of its contracts, although the risk is partly mitigated by a price escalation clause built into several contracts. Moreover, the ratings continue to remain constrained by the intense competition in the construction industry due to numerous organised and unorganised players and business procurement methods through the lowest bidding process (L1), which results in pressure on margins. ICRA further notes the high off-balance sheet exposure (bank guarantees of over Rs. 53.26 crore as on March 31, 2020) of AECPL. Also, AECPL has advanced a significant amount of funds to corporates during the last three years, whose recovery in a timely manner remains critical for the financial flexibility of the company.

The Stable outlook reflects ICRA's opinion that AECPL will continue to benefit from its established presence for more than a decade, as well as from the vast experience of its promoters.

Key rating drivers and their description

Credit strengths

Extensive experience of promoters with established track record in the civil construction industry; operational synergies from Group companies - AECPL has an established operational track record of more than a decade with demonstrated execution capabilities across civil construction works of thermal power plants, railways, roads, dry ports, etc. The extensive experience of the promoters with a successful track record of operations has led to healthy order inflows over the years. Moreover, to support the increase in scale of operations, the promoters have floated two other Group companies—AEC Metals and AEC Minerals, engaged in stone crushing activity. AECPL meets around 5-10% of its total raw material requirement from the Group companies which has enabled it to avail raw materials in timely manner and largely at competitive rates.

Established and reputed client base – The company has completed major civil works for MSPGCL, Nagpur Municipal Corporation (NMC), Public Work Department (PWD), NTPC Limited and other private and government players. It has also garnered repeat orders from these clients. Further, there have been regular additions of new clients to its customer profile, such as ISGEC Heavy Engineering Ltd., Maharashtra Airport Development Company Limited, Central Railways Mumbai, and WAPCOS Limited, over the last few years. Its established client profile coupled with YoY addition of new customers is AECPL's source of strength.

Strong order book position - The company's unexecuted order book position surged to Rs. 628.09 crore as on March 31, 2020. The order book/OI ratio stood healthy at ~2.57 times (FY2020 OI), which lends visibility for revenue generation in the near-to-medium-term. Nevertheless, it also poses a challenge for the execution of the same within the said timeline due to the ongoing pandemic, which may restrict operational capabilities to an extent.

Financial risk profile characterised by healthy profit metrics and return indicators, comfortable capital structure and coverage indicators - AECPL's financial profile is marked by an increasing trend in turnover over the last five years and healthy profit margins due to the specialised work it undertakes. The OPM continued to remain healthy, albeit declining marginally to 15.96% during FY2020 from 16.32% in FY2019 due to increase in raw material consumption cost. Robust operating margin on a relatively lower capital employed has resulted in healthy return indicators as depicted by ROCE of 37.37% during FY2020, though it declined marginally from 39.20% in FY2019. As on March 31, 2020, the company's capital structure stood comfortable with gearing at 0.21 time, improving from 0.55 time as on March 31, 2019 primarily on account decrease in utilisation of working capital limits and reduction in term loans as per the scheduled repayment. Owing to healthy profitability, and limited dependency on external debt leading to lower interest cost, the interest coverage ratio, as represented by OPBDITA/I&F charges, improved to 13.30 times in FY2020 from 10.40 times in FY2019. Simultaneously, the DSCR improved marginally to 3.08 times as on March 31, 2020 from 3.05 times as on March 31, 2019.

Credit challenges

Pressure on operating income and profitability expected in the current fiscal owing to operational issues led by Covid-19 driven disruptions - The company has achieved a revenue of ~Rs. 43.14 crore for Q1 FY2021 and a total revenue of ~Rs. 60.00 crore till July 27, 2020, against a revenue of Rs. 76.64 crore realised during Q1 FY2020, owing to operational issues led by the Covid-19 pandemic. Any longer-than-anticipated stretch in the restricted movements or workforce deployment, or the pace at which normal business activities resume can adversely impact AECPL's scale and profitability in the current year, and will remain key monitorable.

Working capital intensive nature of business – Working capital intensity remains high owing to relatively high receivable position of the company. Further, a significant amount of retention money, security deposits and EMD is being blocked due to the nature of its business. Though the dependency on external debt has remained limited, it has resulted in an increase in dependence on creditor funding in the business.

Operations exposed to geographical and customer concentration risks – AECPL’s operations continue to remain exposed to the risk of high geographical concentration with orders worth Rs. 175.19 crore (i.e., ~90% of the total revenue during 10M FY2020) being executed in the Vidharbha region of Maharashtra. Further, MSPGCL, Central Railways Mumbai and NMC together drove almost 80% of the total unexecuted order book as on March 31, 2020, leading to high customer concentration risk. Moreover, the company’s operations are exposed to execution risks with respect to timely completion of projects as per contract terms to avoid any incidence of liquidated damages. Further, its cash flows are also exposed to market risk with respect to timely revenue bookings and receipt of advances from customers.

Vulnerability of profitability to raw material price fluctuations - The margins are primarily affected by any fluctuations in the prices of key raw materials like cement and steel. However, this risk is primarily mitigated by the price escalation clauses in most of its contracts.

Intense competition in the construction industry - AECPL faces stiff competition from numerous organised and unorganised players in the construction industry. In terms of qualifications required for the tenders floated and given the low complexity of work involved with low entry barriers, AECPL’s margins remain limited.

High off-balance sheet exposure - ICRA notes the high off-balance sheet exposure (bank guarantees of over Rs. 53.26 crore as on March 31, 2020) due to submission of security deposit/earnest money deposit, performance and other guarantees, reliance on mobilisation advances and security deposits from sub-contractors to fund the working-capital requirements. Moreover, any slowdown in such receipts may increase AECPL’s reliance on bank borrowings. The average non-fund based utilisation also remained high at 85% of the sanctioned limit during the last 19 months ending May 2020, and would require an enhancement in the same to bid for fresh, higher value orders.

Liquidity position - Adequate

The company had an outstanding long-term loan of ~Rs. 10.80 crore as on March 31, 2020, against the same, it is expected to have an annual payment of Rs. 7.02 crore during FY2021, followed by Rs. 3.31 crore in FY2022 and Rs. 0.48 crore in FY2023. The company is not expected to avail additional loans in the near term. Owing to healthy profitability and cash accruals, the coverage ratios are expected to remain comfortable. The liquidity profile of the company is expected to be adequate as indicated by average utilisation of ~53% of its sanctioned limit during the last 19 months ended May 2020, along with unutilised limits of almost Rs. 12.72 crore as on May 31, 2020, coupled with free cash of ~Rs. 2.14 crore.

Rating sensitivities

Positive triggers – An increase in scale of operations, coupled with the order book position supported by improved geographical diversification and sustained improvement in margins, resulting in improved cash flow generation could be positive triggers.

Negative triggers – A rating downgrade could be triggered in case of delays in order execution or considerable decline in order inflow, adversely affecting the profitability metrics, or a stretch in working capital cycle weakening the liquidity profile.

Analytical approach

Analytical Approach	Comments
Applicable Rating Methodologies	Corporate Rating Methodology Rating Methodology for Construction Entities
Parent/Group Support	Not applicable
Consolidation/Standalone	The rating is based on standalone financial statements of the company

About the company

Promoted by the Vijaywargi family, AECPL commenced business in 2004 as a partnership firm. On September 18, 2013, it was converted to a private limited company under Part IX of The Companies Act, 1956, and began operations as a private limited company with effect from April 1, 2014. AECPL undertakes civil construction work for various sectors including thermal power plants, roads, railways, cement, etc. The company has various sites under operation primarily in Maharashtra's Vidarbha region, particularly Khaperkeda, Chandrapur, and Koradi. Its head office is in Nagpur, Maharashtra.

In FY2020, the company reported a net profit after tax of Rs. 21.65 crore on an operating income (OI) of Rs. 244.28 crore compared to a net profit after tax of Rs. 18.77 crore on an OI of Rs. 216.06 crore in the previous year.

Key financial indicators

	FY2019 (Audited)	FY2020 (Provi.)
Operating Income (Rs. crore)	216.06	244.28
PAT (Rs. crore)	18.77	21.65
OPBDIT/OI (%)	16.32%	15.96%
RoCE (%)	39.20%	37.37%
Total Outside Liabilities/Tangible Net Worth (times)	1.29	1.07
Total Debt/OPBDIT (times)	0.85	0.40
Interest Coverage (times)	10.40	13.30
DSCR	3.03	3.08

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Current Rating (FY2021)					Chronology of Rating History for the past 3 years				
Instrument	Type	Amount Rated	Amount Outstanding	Date & Rating in FY2021	Date & Rating in FY2020	Date & Rating in FY2019		Date & Rating in FY2018	-
		(Rs. crore)	(Rs Crore)	6 August 2020	4 th April 2019	4 th May 2018	5 th April 2018		
1	Cash Credit	Long term	16.00	-	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	[ICRA]BBB (Stable)	-
2	Bank Guarantee	Short term	51.00	-	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	[ICRA]A3+	-

Amount in Rs crore

Complexity level of the rated instrument

ICRA has classified various instruments based on their complexity as "Simple", "Complex" and "Highly Complex". The classification of instruments according to their complexity levels is available on the website [click here](#)

Annexure-1: Instrument details

ISIN No	Instrument Name	Date of Issuance / Sanction	Coupon Rate	Maturity Date	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Cash Credit	-	-		16.00	[ICRA]BBB(Stable)
NA	Bank Guarantee	-	-		51.00	[ICRA]A3+

Source: Abhi Engineering Corporation Private Limited

Annexure-2: List of entities considered for consolidated analysis – Not applicable

Analyst Contacts

Subrata Ray

+91 22 6114 3408

subrata@icraindia.com

Suprio Banerjee

+91 22 6114 3443

supriob@icraindia.com

Srinivas Menon

+91 22 6169 3354

srinivas.menon@icraindia.com

Nandan Shah

+91 22 61693353

nandan.shah@icraindia.com

Relationship Contact

Jayanta Chatterjee

+91 80 4332 6401

jayantac@icraindia.com

MEDIA AND PUBLIC RELATIONS CONTACT

Ms. Naznin Prodhani

Tel: +91 124 4545 860

communications@icraindia.com

Helpline for business queries:

+91-9354738909 (open Monday to Friday, from 9:30 am to 6 pm)

info@icraindia.com

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For more information, visit www.icra.in

ICRA Limited

Corporate Office

Building No. 8, 2nd Floor, Tower A; DLF Cyber City, Phase II; Gurgaon 122 002

Tel: +91 124 4545300

Email: info@icraindia.com

Website: www.icra.in

Registered Office

1105, Kailash Building, 11th Floor; 26 Kasturba Gandhi Marg; New Delhi 110001

Tel: +91 11 23357940-50

Branches

Mumbai + (91 22) 24331046/53/62/74/86/87

Chennai + (91 44) 2434 0043/9659/8080, 2433 0724/ 3293/3294,

Kolkata + (91 33) 2287 8839 /2287 6617/ 2283 1411/ 2280 0008,

Bangalore + (91 80) 2559 7401/4049

Ahmedabad+ (91 79) 2658 4924/5049/2008

Hyderabad + (91 40) 2373 5061/7251

Pune + (91 20) 2556 0194/ 6606 9999

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