Rating Rationale **4 Aug 2020**

AMRUTHA CONSTRUCTIONS PRIVATE LIMITED

Brickwork Ratings reaffirms ratings for the Bank Loan Facilities of Rs. 500.00 Crores of Amrutha Constructions Private Limited.

Particulars

Facilities	Amount (Rs. Cr)		Tenure	Ratings*	
	Previous	Present		Previous^ (08 Jul 2019)	Present
Fund Based Cash Credit ODBD Proposed CC/ODBD	 60.00 50.00 -	 - 50.00 50.00	Long term	BWR A-/Stable	**BWR A-/Stable Reaffirmed**
Non Fund Based Bank Guarantee Proposed BG	 350.00 90.00	 300.00 100.00	Short term	BWR A2+	**BWR A2+ Reaffirmed**
Total	**550.00**	**500.00**	**Rupees Five hundred Crores Only**		

* Please refer to BWR website www.brickworkratings.com/ for definition of the ratings; ^**Advisory for delay in Rating Review was published on 14 July 2020;** Details of bank facilities are provided in Annexure-I

Note: Besides the above mentioned facilities, the company has equipment/vehicle loans of Rs. 62.39 Cr (as on 31 March 2020) with various banks/NBFCs, which are not rated by BWR.

Rating Action/Outlook

The ratings continue to factor in the extensive experience of the promoters of Amrutha Constructions Private Limited (ACPL or the company) in the Engineering, Procurement and Construction (EPC) contract industry, established operational track record and demonstrated execution capabilities of ACPL. Brickwork Ratings (BWR) also notes the improved operational performance during FY20, medium-term revenue visibility through a healthy order book position, moderate financial risk profile, long standing relations with various government bodies and promoters' resourcefulness to support business operations. However, the ratings are constrained by the company's dependence on government contracts and geographically, sectorally and client-wise concentrated nature of unexecuted orders. Project execution risk, uncertainty inherent in the tender-based contract execution business, the vulnerability of profitability to margin-based competitive bidding and fluctuation in construction material prices and the working-capital-intensive nature of business operations continue to be rating constraints. As clients are mainly government bodies and public-sector entities, any delay in the release of payments and retention money withheld by clients can impact the company's cash flows.

BWR takes note of the potential impact of the Covid-19 pandemic on the business and financial profile of ACPL during FY21. With the commencement of the nationwide lockdown due to the current Covid-19 pandemic 24 March 2020 onwards, there has been a moderation in construction activities. Post the part-relaxation of the lockdown 21 April 2020 onwards, the company has resumed construction activities at its sites. Currently, operations are at 85-90% capacity and are expected to gradually reach targeted operational levels. The company has adequate liquidity to tide over any near-term cash flow disruptions, with spare lines of credit available for exigencies. The company has informed BWR that it has not opted for the Covid-19-related RBI moratorium package for the rated bank loan facilities, in view of the adequate liquidity position. Nevertheless, the timely scale-up of operations, steady progress across projects and efficient management of the company's working capital position remain key monitorables. As most projects are NABARD-funded or state budgeted, the impairment of debtors is not expected, and no orders/tenders were cancelled due to Covid. However, no new orders were bagged by the company since March 2020 due to the postponement of the bidding process in the wake of Covid-19. Revenue and profitability are expected to be impacted in FY21, given the lost workdays in Q1FY21 due to the lockdown and uncertain business environment owing to Covid-19. However, various government initiatives for promoting irrigation/water supply under schemes such as Jal Jeevan Mission and Pradhan Mantri Krishi Sinchai Yojana and the push for infrastructure development through the implementation of the National Infrastructure Pipeline and liquidity support by the RBI are seen as positives for the industry. BWR takes into account the possible delay in project execution by 1-2 months on average due to the Covid-19-induced lockdown and will continue to monitor the impact of the current pandemic on the company's credit profile.

BWR believes ACPL's business risk profile will be maintained over the medium term. The outlook may be revised to Positive if a sustained increase in the scale of operations, along with improved margins, a further improvement in the capital structure, an improved segment/geography-wise diversification and the timely realisation of receivables results in an improved financial risk profile. The outlook may be revised to Negative in case the company is unable to complete the projects without time and cost overruns, especially in view of the Covid-19 disruptions, a deterioration in the capital structure due to debt-financed capital expenditure and high utilisation of working capital funding, thus weakening the company's financial risk profile.

Key Rating drivers

Credit Strengths:

- **Experienced management and established track record:** The main promoters of ACPL, a closely held family business, have over 3 decades of experience in the EPC business. ACPL, with an established operational track record of around twelve years, is registered as a Class-I contractor with various departments of the governments of Karnataka, Maharashtra and Gujarat and Special Class contractor with various departments of the governments of Andhra Pradesh and Telangana. The company has expertise in the construction of lift irrigation schemes, minor irrigation tanks, barrages, bridge-cum-barrage, canals, aqueducts, and other structures/works on canals and in infrastructure projects including national highways, layouts including industrial layouts, commercial buildings and IT parks, among others. Thus, the company has demonstrated its project execution capability in the sector and has been able to win repeat orders from various government agencies based on its track record.
- **Reputed client base:** All current projects under execution by the company have been bagged from various state government agencies. Around 94% of the projects under execution are Karnataka government sponsored projects and the majority of the irrigation segment projects are NABARD-funded. Key clients include Karnataka PWD (KPWD), Karnataka Industrial Areas Development Board (KIADB), National Highway Authority of India (NHAI), Cauvery Neeravari Nigama Limited (CNNL), Krishna Bhagya Jala Nigam Ltd (KBJNL), Karnataka Neeravari Nigam Ltd (KNNL) Minor Irrigation Division-Karnataka, Irrigation Department- Telangana, Bengaluru Development Authority (BDA) and Bruhat Bengaluru Mahanagara Palike (BBMP). The company has been associated with these clients for a long time, and the successful execution of the projects has also helped it in getting repeat orders. Due to reputed client profiles, the company has low counterparty credit risk although at times, there can be delays in the realisation of some bills.
- **Revenue visibility through healthy order book:** The company had orders worth Rs. 3096 Cr as on 31 March 2020, to be completed within the next 2 years. The order book continues to be strong, but

concentrated both geographically and sectorally. Karnataka alone accounts for ~94% of the overall unexecuted orders, and in terms of sectors, irrigation-based orders, along with drinking water projects, accounted for ~66% (FY20 - 84%) of the unexecuted order book. Due to the pandemic, new tenders were not called for since March 2020. Almost all the orders are from government bodies, which minimises counterparty risk.

- **Moderate financial risk profile:** Contract receipts increased marginally from Rs. 956.59 Cr in FY19 to Rs. 969.09 Cr in FY20 (P). Operating profit increased from Rs. 92.41 Cr to Rs. 94.65 Cr and net profit from Rs. 41.71 Cr to Rs. 44.66 Cr over the same period. The earlier projected revenue and profitability for FY20 were not achieved as the company could not raise bills of ~Rs. 140 Cr for the completed works as work completion certificates were not received from the government authorities due to the Covid-19-induced lockdown. Total debt increased from Rs. 135.85 Cr as on 31 March 2019 to Rs. 139.37 Cr as on 31 March 2020 (P), primarily due to an increase in unsecured loans from promoters. The tangible net worth (TNW) increased from Rs. 173.81 Cr as on 31 March 2019 to Rs. 215.69 Cr as on 31 March 2020 (P) due to the accretion of net profit. The gearing continued to be comfortable at 0.65 times as on 31 March 2020 (P). The ISCR and DSCR were comfortable at 5.50 times and 2.82 times, respectively, as on 31 March 2020 (P). The net and operating profit margins for FY20 remained at almost the same level of 4.61% and 9.77%, respectively, compared with 4.36% and 9.66% for FY19, respectively. Profitability margins remain relatively moderate as the company derives the majority of revenue (~85% in FY20) from the irrigation segment, which is characterised by an elongated work window and relatively lower margins. Furthermore, high depreciation charges on its relatively large fleet pull down the margin at the net level. ***[P → Provisional]***

Credit Challenges:

- **Geographical, segmental and customer concentration:** Karnataka state alone accounts for ~94% of the overall unexecuted orders. This makes a substantial portion of the company's operations vulnerable to social, political, economic and environmental changes in the state. However, as more than 50% of the under-execution-irrigation-projects are NABARD-funded, the cash flow risk is mitigated to some extent. The current composition of the projects under execution is skewed towards the irrigation segment, which accounts for ~66% (~84% for FY20) of the total unexecuted order book. However, the government's policy focus on irrigation/water supply is seen as a positive for the company. The top five projects constitute ~66% of the total unexecuted order book. This exposes the company to customer concentration risk. These projects are in the initial stage of implementation, and the billing has already started.
- **Working-capital-intensive nature of operations:** The company's operations are working-capital-intensive due to the high cost of construction material, high labour cost, advance to suppliers and delays in getting payments from government departments, among others. However, the company has been able to improve marginally on this front by being able to lower the days receivables from 69 days as on 31 March 2019 to 65 days as on 31 March 2020 (P). The days payables also slightly contracted from 192 days as on 31 March 2019 to 179 days as on 31 March 2020 (P). The adequate net cash accruals help the company minimise its dependence on external working capital funding with the utilisation level at ~50% and the utilisation of non-fund-based facilities at ~75-80%. ***[P → Provisional]***
- **Execution risk:** The company's operations are susceptible to many external factors such as timely clearances from various regulatory bodies, the handover of sites, the mobilisation of funds, the change in governments policies and directives, cost escalation due to departmental delays, labour unrest and climatic vagaries. The effect of any of these could be substantial on the company's timeline of the completion of projects, working capital utilisation level and overall profitability. The onset of Covid-19 has added an unprecedented execution risk for EPC contractors in general and the

company in particular. The company has been able to check the shortage of labourers to a large extent during the lockdown by providing for their food, shelter and other essential needs. However, the lockdown led to the loss of man-days of work, which will eventually lead to a delay in project execution and billing and a probable cost escalation. Although most of the company's contracts have a provision for Force Majeure and cost escalation due to unforeseen circumstances, approvals from various departments may take some time.

- **Susceptibility of profitability to volatility in raw material prices:** The company has limited control over the prices of raw materials such as cement and steel used by it during the project execution. The current contracts of the company are a mix of fixed price and those with a price escalation provision. In the case of the fixed-price contracts, the company has to bear the cost escalation of raw materials, which affects its profitability. In the current scenario of the complete breakdown of the supply chain due to the Covid-19-induced lockdown, the company may have to face supply constraints and elevated raw material prices for some time.
- **Industry competition:** Although the company has a long track record of over three decades, it is exposed to competition and is susceptible to risks inherent in tender-based business. Since all of the operations are tender-based, the business depends on the ability to bid for tenders successfully. Additionally, all orders are from government agencies, resulting in high dependence on timely clearances for tenders and payments. Revenue and profitability are expected to remain susceptible to risks inherent in tender-based operations and a competitive landscape.

Analytical Approach And Applicable Rating Criteria

For arriving at its ratings, Brickwork Ratings has applied its rating methodology as detailed in the Rating criteria below (hyperlinks provided at the end of this rationale).

Rating Sensitivities

Positive:

- An improvement in the scale of operations and profitability on a sustained basis with the timely completion and delivery of projects
- Geographical and sectoral diversification of operations
- Specific credit metrics that could lead to an upgrade include TOL/TNW less than 1.25 times on a sustained basis.

Negative:

- Delays in the execution of ongoing orders, a reduction in fresh order inflows or a stretch in the receivables cycle of the company
- Specific credit metrics that could lead to a downgrade include TOL/TNW higher than 2.50 times and current ratio below 1 on a sustained basis.

Liquidity Position: Adequate

ACPL's liquidity position is adequate, as marked by the strong EBITDA, net cash accruals and cash and cash equivalents, timely cash realisations, a low working capital loan utilisation level with spare lines of credit available and comparatively low debt service obligations for FY21. The EBITDA on 31 March 2020 (P) (Rs. 94.65 Cr) comfortably covers the interest and finance charges. Net cash accrual at ~Rs. 62 Cr for FY20 (P) is adequate for long-term debt repayments of ~Rs. 9 Cr for FY21. Cash and cash equivalents were at ~Rs. 11 Cr as on 31 March 2020 (P). The current ratio was adequate at 2.09 times as on 31 March 2020 (P). The company's average working capital loan utilisation level in the past 6 months is ~50% and the utilisation of non-fund based facilities is ~75-80%, giving the company spare lines of credit for exigencies. The trade receivables position (~Rs. 179 Cr) almost matched the trade payables

(~Rs. 176 Cr) as on 31 March 2020 (P). The cash conversion cycle was (111) days as on 31 March 2020 (P) due to high days payables and low days inventory. The company has informed that it has not availed the Covid-19-related RBI Moratorium Package for the rated bank loan facilities, in view of the sufficient liquidity position.

About the Company

Amrutha Constructions Private Limited (ACPL), Bangalore, was established as a proprietorship firm under the name of P. Venkateswara Rao & Co. in 1988 and was converted into a private limited company in 2006. The company has its branches in Sindhanur and Gulbarga. ACPL, engaged in the EPC contract business, is registered as a Class-I contractor with various departments of the governments of Karnataka, Maharashtra and Gujarat and Special Class contractor with various departments of the governments of Andhra Pradesh and Telangana. ACPL receives orders through a competitive bidding process and bids primarily for projects funded through a mix of central government, state government and global development funding agencies. The company has a major presence in irrigation, water supply, infrastructure and road construction.

Shri. P Venkateshwar Rao is the managing director. Other directors are Smt. P Amrutha, Smt. P Padmavathi, Smt. P Amala, Shri. M Shrinivasa and Smt. P Amulya. The company is a family-owned business.

Financial Performance

Particulars		31 Mar 2018	31 Mar 2019
		Audited	Audited
Net Revenue	Rs. Cr	913.97	956.59
EBITDA	Rs. Cr	87.03	92.41
Profit After Tax	Rs. Cr	39.67	41.71
Tangible Net Worth	Rs. Cr	136.60	173.81
Total Debt : Tangible Net Worth	Times	1.06	0.78
Current Ratio	Times	1.97	1.74

On a provisional basis, the Company has reported revenue of around ~Rs. 969 Cr and net profit of ~Rs. 45 Cr for FY20.

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA - NA

Rating History for the previous three years [including withdrawal and suspended]

Sl. No.	Facilities	Current Rating (Aug 2020)			Rating History		
		Type	Amount (Rs. Cr)	Rating	2019[1] [08 Jul 2019]	2018[2] [05 Apr 2018]	2017[3] [17 Apr 2017]
1	ODBD	Long Term	50.00	**BWR A-/Stable Reaffirmed**	**BWR A-/ Stable**	**BWR BBB+/Stable**	**BWR BBB/Stable**
2	Proposed CC/ODBD		50.00				
3	Bank Guarantee	Short Term	300.00	**BWR A2+ Reaffirmed**	**BWR A2+**	**BWR A2**	**BWR A3**
4	Proposed BG		100.00				
Total			**500.00**	**Rupees Five Hundred Crore Only**			

1 Amount Rated: Rs. 550.00 Crore; 2 Amount Rated: Rs. 500.00 Crore; 3 Amount Rated: Rs. 300.00 Crore

Note: ACPL's bank loan facilities of Rs. 60.00 crore were initially rated at BWR BB/Stable/A4 on 26 Sep 2013. Subsequently the ratings were upgraded to BWR BBB-/Stable/A3 on 15 Sep 2014 for the bank loan facilities of Rs. 110.00 crore and later to BWR BBB/Stable/A3 on 17 Feb 2016 for the bank loan facilities of Rs. 250.00 crore.

Complexity Levels of the Instruments

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Infrastructure Companies
- Short Term Debt

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ANNEXURE I : Details of Bank Facilities rated by BWR

Sl No	Name of the Bank	Name of Facilities	Long Term (Rs. Crs)	Short Term (Rs. Crs)	Total (Rs. Crs)
1.	Canara Bank	ODBD	50.00	-	50.00
		Bank Guarantee	-	300.00	300.00
		Proposed CC/ODBD	50.00	-	50.00
		Proposed BG	-	100.00	100.00
Total -Rupees Five Hundred Crore Only			**100.00**	**400.00**	**500.00**

Note: 1. During the previous rating BWR had rated the facilities availed under consortium arrangement with Canara Bank as the lead bank and Vijaya Bank and OBC as other member banks. Now the company banks exclusively with Canara Bank.
2. Besides the above mentioned facilities, the company has equipment/vehicle loans of Rs. 62.39 Cr (as on 31 Mar 2020) with various banks/NBFCs which are not rated by BWR.