



Rating Rationale

Amrutha Constructions Private Limited

08 Jul 2019

Brickwork Ratings upgrades ratings to 'BWR A-/A2+' for the enhanced bank loan facilities of Rs. 550.00 Crore of Amrutha Constructions Private Limited ['ACPL' or 'the company'], Bangalore, Karnataka

Particulars

Facilities	Amount (Rs. Crs)		Tenure	Ratings*	
	Previous	Present		Previous	Present
Fund Based ODBD Cash Credit	50.00 50.00	50.00 60.00	Long Term	BWR BBB+ <i>(Pronounced as BWR Triple B Plus)</i> Outlook: Stable	BWR A- <i>(Pronounced as BWR Single A Minus)</i> Outlook: Stable <i>Upgraded</i>
Non Fund Based Bank Guarantee Proposed Bank Guarantee	300.00 100.00	350.00 90.00	Short Term	BWR A2 <i>(Pronounced as BWR A Two)</i>	BWR A2+ <i>(Pronounced as BWR A Two Plus)</i> <i>Upgraded</i>
Total	500.00	Rs. 550.00 Crore (Rupees. Five Hundred and Fifty Crore Only)			

* Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Ratings upgraded

Rationale/Description of Key Rating Drivers/Rating sensitivities:

Brickwork Ratings has essentially relied upon the audited financials upto FY18, provisional financials of FY19, projected financials upto FY21, publicly available information and information/clarifications provided by the company's management.

The ratings upgrade factors the improved operational performance of the company. The ratings continue to factor the experience of the management experience in the Engineering, Procurement and Construction (EPC) industry, established operational track record, strong operational capabilities, long standing relationships with various government departments of Karnataka, Telangana, Andhra Pradesh and Kerala as well as with reputed private entities and moderate financial risk profile. However, the ratings remain constrained by the company's dependence on government contracts and tender based nature of business operations, geographical concentration of projects in Karnataka [i.e., ~93% of the outstanding orderbook] and working capital intensive nature of business operations.



Going forward, ACPL's ability to ensure satisfactory and timely execution of the ongoing projects within estimated costs, increase its scale of operations, improve its profitability, achieve geographical diversification, ensure effective and timely realization of receivables, strengthen its overall credit risk profile and efficiently manage its working capital would be the key rating sensitivities.

Analytical Approach

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 Outlook: Stable

Brickwork Ratings believes that **Amrutha Constructions Private Limited** [*'ACPL' or 'the company'*] business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The outlook may be revised to 'Positive' in case of successful and timely execution of the order book, leading to healthy cash accruals thereby reducing the company's reliance on external debt for bidding for new orders. The outlook may be revised to 'Negative' in case of increase in working capital cycle, inability of the company to successfully execute large - scale orders in a timely manner and/or weakening of liquidity or any unanticipated large debt-funded capital expenditure, leading to deterioration in the financial risk profile.

Key Rating drivers

Credit Strengths:

- **Experienced management and established track record:** ACPL has an established operational track record of around twelve years. ACPL has been developing its expertise in implementation of minor and major irrigation projects and construction of roads and highways. The key promoters have more than three decades of experience in EPC business.
- **Reputed Client base:** The company has established relationships with reputed companies as well as various government departments of Karnataka [*Karnataka Public Works Department, Cauvery Neeravari Nigama Limited, Krishna Bhagya Jala Nigam Ltd, Karnataka Neeravari Nigam Ltd, Karnataka Industrial Areas Development Board*], Telangana [*Telangana Public Works Department*], Andhra Pradesh [*Andhra Pradesh Public Works Department*] and Kerala [*Kerala Public Works Department, Kerala State Construction Corporation*].
- **Revenue growth and visibility & Capital structure:** ACPL's revenue has increased y-o-y over the last four years. Presently, the company is executing projects for various government of departments of Karnataka, Telangana, Andhra Pradesh. ACPL's revenue has improved to Rs. 913.97 crore for FY18 as against Rs. 675.03 crore for FY17. On a provisional basis, the



company's revenue was ~Rs. 932 crore in FY19. The company has a healthy order book position of around Rs. 3265 crore to be completed over the next 2 years [*~Rs. 1376 crore (~42% of the outstanding orderbook) and ~Rs. 1889 crore (~58% of the outstanding orderbook) of projects to be executed in FY20 and FY21 respectively*], thereby providing medium term visibility. The company reported Profit After Tax of Rs. 39.67 crore for FY18 as against Rs. 24.24 crore for FY17. Profitability margins are modest with net profit margin of 4.34% for FY18 as against 3.59% for FY17.

- **Financial Risk Profile:** Tangible net worth was Rs. 136.60 crore as on 31st March 2018 as against Rs. 118.09 crore as on 31st March 2017. Capital structure was comfortable reflected by Total Debt/Tangible net worth of 1.06 times as on 31st March 2018 as against 1.15 times as on 31st March 2017. Debt servicing metrics were comfortable reflected by ISCR of 4.88 times as on 31st March 2018 as against 3.44 times as on 31st March 2017 and DSCR of 2.61 times as on 31st March 2018 as against 2.25 times as on 31st March 2017.

Credit Challenges:

- **Geographical & customer concentration:** ACPL's outstanding order book is exposed to client concentration risks as the order book is dominated by projects from Karnataka [*i.e., ~93% of the outstanding orderbook*] and has ~96% of outstanding orderbook in Irrigation segment and ~4% in construction of roads. The ability of the company to diversify its order book would be a key rating sensitivity.
- **Project implementation risk of ongoing projects:** The ratings are sensitive to project execution risk of the pending order book. Majority of the orders are from the irrigation segment and owing to the uncertainties in the implementation of the irrigation and construction projects, cost and time overruns are a possibility, leading to project execution risks. Further, more than ~93% of the company's orders are concentrated in Karnataka, leading to geographical concentration risk. The company's revenue is susceptible to changes in government regulations and economic conditions. Limited diversity in revenue will continue to make it susceptible to intense competition and cyclicity inherent in the construction industry.
- **Susceptibility to risks inherent in tender based business:** Since the majority of the revenue is tender based, the business will depend on the ability to bid tenders successfully. Also, the majority of orders are from government departments 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. Tender based operations limit pricing flexibility in an intensely competitive industry.



- **Industry-related risks:** ACPL, like any other construction company, is exposed to the risks inherent in the construction sector including slowdown in new order inflows, risks of delays in execution etc.
- **Profitability exposed to price variations in raw materials**– The company’s operations are vulnerable to price variations in key raw materials, however, the risk is largely mitigated in case of contracts that include an escalation clause.
- **High competitive intensity** - There is intense competition in irrigation and road construction segment given moderate complexity of the work involved. However, the competitive risk is partly mitigated by the company’s demonstrated track-record of gaining large size projects.

Liquidity - Adequate:

ACPL’s liquidity profile is adequate, as reflected in the fund-based working capital utilisation averaging at around 50% over the last 12 months, giving the company access to unutilised bank lines. Current ratio was adequate at 1.97 times as on 31st March 2018 as against 1.94 times as on 31st March 2017 and Net cash accruals to total debt were 0.36 times as on 31st March 2018 as against 0.25 times as on 31st March 2017. Cash & Cash equivalents were Rs. 11.68 crore as on 31st March 2018 as against Rs. 2.06 crore as on 31st March 2017. Cash accruals generated in FY18 were Rs. 53.98 crore and the company does not have any long term debt obligations to be serviced. Timely recovery of receivables and efficient utilisation of working capital facilities would facilitate sustainable overall growth of the company.

About the Company

Amrutha Constructions Private Limited, a family owned business, was incorporated in September 2006 at Bengaluru, Karnataka. ACPL is a closely held family business, formed by conversion of M/s. P.Venkateshwara Rao & Co., *[a proprietorship concern which was established in 1985]*. The company is engaged in implementation of various irrigation infrastructure projects as well as construction of roads, in the states of Karnataka, Telangana, Andhra Pradesh, Maharashtra, etc. The company is a Class - I contractor with various departments of Governments of Karnataka, Maharashtra and Gujarat and Special Class contractor with various departments of Governments of Andhra Pradesh and Telangana.

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.

Financial Performance

Key Financial Indicators:

Particulars		31 Mar 2017	31 Mar 2018
		Audited	Audited
Net Revenue	Rs. Cr	675.03	913.97
EBITDA	Rs. Cr	62.67	87.03
Profit After Tax	Rs. Cr	24.24	39.67
Tangible Net Worth	Rs. Cr	118.09	136.60
Total Debt : Tangible Net Worth	Times	1.15	1.06
Current Ratio	Times	1.94	1.97

On a provisional basis, the company has achieved revenue of ~Rs. 932 crore in FY19.

Rating History for the last three years

Sl. No.	Facilities	Current Rating (2019)			Rating History		
		Type	Amount (Rs. Cr)	Rating	2018 ¹ [Apr 5, 2018]	2017 ² [Apr 17, 2017]	2016 ³ [Feb 17, 2016]
1	ODBD	Long Term	50.00	BWR A- (Pronounced as BWR Single A Minus) Outlook: Stable Upgraded	BWR BBB+ (Pronounced as BWR Triple B Plus) Outlook: Stable Upgraded	BWR BBB (Pronounced as BWR Triple B) Outlook: Stable Reaffirmed	BWR BBB (Pronounced as BWR Triple B) Outlook: Stable Upgraded
2	Cash Credit		60.00				
3	Bank Guarantee	Short Term	350.00	BWR A2+ (Pronounced as BWR A Two Plus) Upgraded	BWR A2 (Pronounced as BWR A Two) Upgraded	BWR A3 (Pronounced as BWR A Three) Reaffirmed	BWR A3 (Pronounced as BWR A Three) Upgraded
4	Proposed Bank Guarantee		90.00				
Total		Rs. 550.00 Crore (Rupees Five Hundred and Fifty Crore Only)					

1 Amount Rated: Rs. 500.00 Crore; 2 Amount Rated: Rs. 300.00 Crore; 3 Amount Rated: Rs. 250.00 Crore

Note: ACPL's bank loan facilities of Rs. 60.00 crore were initially rated at "BWR BB/A4" with 'Stable' Outlook on 26th September 2013. Subsequently the ratings were upgraded to "BWR BBB-/A3" with 'Stable' Outlook on 15th September 2014 for the bank loan facilities of Rs. 110.00 crore.

Status of Non-Cooperation with other CRA: Not Applicable

Any other information: Not Applicable



Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Infrastructure Companies](#)
- [Approach to Financial Ratios](#)
- [Short Term Debt](#)

Analytical Contacts	Investor Contacts
<p>Rajee R Senior Director - Ratings B: +91 80 4040 9940 analyst@brickworkratings.com</p> <p>Sunil Kumar E Senior Ratings Analyst B: +91 402331 0161/2331 0071 sunilkumar.e@brickworkratings.com</p>	<p>Satish Nair Director - Global Market Development & Investor Relations M: +91 7738875550 B: +91 22 6745 6666 satish.n@brickworkratings.com</p>
Phone: 1-860-425-2742	

Annexure I
Bank Loan Facilities

Bank	Facilities	Tenure	Amount (Rs. Crs)
Canara Bank	Fund Based ODBD	Long Term	50.00
	Non Fund Based Bank Guarantee	Short Term	200.00
Vijaya Bank	Fund Based ODBD	Long Term	50.00
	Non Fund Based Bank Guarantee	Short Term	100.00
Oriental Bank of Commerce	Fund Based ODBD	Long Term	10.00
	Non Fund Based Bank Guarantee	Short Term	50.00
Indian Bank	Non Fund Based Proposed Bank Guarantee	Short Term	90.00
Total			550.00



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Note on complexity levels of the rated instrument:

BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a leading public sector bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

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