

June 12, 2024

ABCI Infrastructures Pvt Ltd: [ICRA]A(Stable) assigned

Summary of rating action

Instrument*	Current Rated Amount (Rs. crore)	Rating Action
Issuer Rating	-	[ICRA]A(Stable) assigned
Total	-	

*Instrument details are provided in Annexure-I

Rationale

The assigned rating factors in the healthy revenue growth of ABCI Infrastructures Private Limited (ABCI) at a CAGR of ~18% during the last five years ending FY2024, supported by its healthy order booking and project execution. While new order additions remained moderate over the last two years, ABCI reported an outstanding order book position of ~Rs. 3,850 crore as on March 31, 2024, which provides near-term revenue visibility (with order book to operating income (OI) ratio of ~2.5 times of estimated OI in FY2024). The operating profit margins remained healthy in the range of ~18-24% during FY2020-FY2024, which is likely to remain steady at ~18-20% in the near term. Going forward, the company's ability to scale up its operations and achieve order book diversification, while maintaining the healthy profit margins will remain a key monitorable. ABCI's capital structure remains strong with low leverage (TOL/TNW) of ~0.2 times in FY2024. Its debt coverage indicators remain strong with interest cover of ~19.2 times in FY2024 (provisional). The liquidity position remains strong with unencumbered cash balance of over ~Rs. 400 crore as on March 31, 2024, along with adequate cushion available in its working capital lines. The rating considers the extensive experience of ABCI's promoters in the construction sector, its proven capabilities in executing projects, especially in the roads and railway segment and healthy financial risk profile with robust debt coverage metrics and strong liquidity.

The rating is, however, constrained by ABCI's revenue concentration in the northeast (NE) India with over 70% of outstanding order book from NE India. ICRA notes that there have been some instances of accidents (stone quarry collapse and steel girder collapse at an under-construction bridge), which exposes it to consequent legal risk as well as cash outflows towards compensation to employees/security deposit to the authorities. ICRA is given to understand that ABCI has taken comprehensive all risk insurance cover for the aforesaid projects, and hence no major financial impact is expected on the company. Nonetheless, any adverse outcome of the ongoing legal proceedings against the company could impact its financial flexibility and remains a key monitorable. ICRA also takes cognisance of an investigation and arrest carried out by the Central Bureau of Investigation (CBI) in January 2021, involving employees and a promoter of the company. While no material impact has been noted on ABCI's financial or operational profile thus far, any adverse outcome of the investigation impacting its credit profile or financial flexibility, going forward, will remain a key rating sensitivity. The rating notes the stiff competition in the construction sector, which could put pressure on the new order inflows and the company's exposure to sizeable contingent liabilities in the form of bank guarantees, mainly for contractual performance, mobilisation advance and retention money. Nonetheless, ICRA draws comfort from its execution track record and absence of invocation of guarantees in the past.

The Stable outlook on the long-term rating reflects ICRA's opinion that ABCI is likely to sustain healthy growth and maintain its profitability. Further, the outlook underlines ICRA's expectation that the company's working capital requirements and short-term fund requirements, would be funded in a manner that is able to durably maintain its debt protection metrics commensurate with the existing rating, while maintaining a strong liquidity.

Key rating drivers and their description

Credit strengths

Healthy order book position provides revenue visibility – ABCI has a healthy order book position, including addition of new projects aggregating ~Rs. 1,465 crore in FY2024, resulting in outstanding order book of Rs. 3,850 crore as on March 31, 2024 (up from Rs. 3,518 crore in March 2023), which translates into OB/OI of FY2024 of 2.5 times of FY2024 estimated revenues. The order book is executable over an average period of 3-4 years, thereby providing healthy near to medium term revenue visibility. ABCI has a reputed client profile, with majority of its orders being funded by the Central Government, World Bank or multi-lateral agencies. This is also reflected in the relatively shorter payment cycle of less than 50 days over the past four years. Some of its major client includes NHIDCL, NF Railways, BRO, PWD Departments of various NE states.

Healthy financial risk profile characterised by low gearing, strong debt coverage and strong liquidity position – ABCI's financial risk profile remains comfortable. Given the relatively modest working capital cycle, the company's reliance on outside funds is low and the coverage indicators remain healthy, as evident from TOL/TNW at 0.2 times (FY2023: 0.4 times) and interest cover of 19.2 times (FY2023: 20.3 times) as on March 31, 2024 (estimated). This is further supported by a strong liquidity position with free cash and investment balance of over Rs. 400 crore as on March 31, 2024. The management has no major plans for any debt-funded capex/investments and hence the leverage (TOL/TNW) is likely to remain below 0.3 times in the medium term.

Extensive experience of promoters in construction sector and ABCI's established track record of strong project execution capabilities – The company was incorporated by Mr. Budhmal Baid and Mr. Jodhraj Baid, having more than three decades of experience in the civil construction business. The vast experience of ABCI's promoters and established track record of project execution support its business profile.

Credit challenges

Geographical concentration of revenues – ABCI has a moderately diversified segmental presence, with roads, tunnels, railways, bridges, etc, being the major areas of operations. While it operates pan India, the NE states contribute to ~73% of the order book leading to high geographical concentration. Going forward, the geographical concentration is expected to continue as NE India will remain a major thrust area for the company and increasing competition in the region would limit ABCI's business growth and profitability.

Stiff competition from other established players has slowed down order inflows in recent years – ABCI procures all its orders through the bidding process. Due to tender-based order procurement, the company faces stiff competition, which limits its pricing flexibility and exerts pressure on revenues/margins. The company has remained prudent by bidding for orders, which meets its margin threshold requirements, leading to healthy profitability. However, the new order booking remains low.

Liquidity position: Strong

ABCI's liquidity position is strong, given the unencumbered cash balance of over ~Rs. 400 crore as on March 31, 2024 and adequate buffer available in its working capital lines. The average working capital utilisation stood at 30-40% during the last one year ending February 2024. The company's principal repayment obligation of Rs. 30-35 crore in FY2025 can be comfortably met from its cash flow from operations.

Rating sensitivities

Positive factors – The rating could be upgraded in case of healthy diversification of its business profile, along with significant scale up in the revenues, while maintaining its profitability, strong liquidity and robust debt protection metrics.

Negative factors – The rating could be downgraded, if there is a slowdown in order execution or weakening of earnings or elongation in cash conversion cycle adversely affects its liquidity profile/ debt protection metrics. Further any significant debt-funded capex/ investments in development projects could also exert pressure on the rating. Additionally, any adverse outcome of the ongoing CBI investigation, affecting the company's financial flexibility may trigger a rating downgrade.

Analytical approach

Analytical Approach	Comments
Applicable rating methodologies	Corporate Credit Rating Methodology Rating Methodology - Construction
Parent/Group support	Not Applicable
Consolidation/Standalone	Standalone

About the company

Incorporated in 1993, ABCI constructs roads, bridges, tunnels and buildings for Indian Railways and Government entities. The company has specialised skills and experience in tunnelling, road construction, fabrication of steel bridges, etc. At present, it has pan-India operations, though a majority of it is concentrated across six NE states (Assam, Mizoram, Manipur, Tripura, Nagaland and Arunachal Pradesh). The company has a strong clientele in the form of various Central Government agencies like National Highways Authority of India (NHAI), Indian Railways, Border Road Organisation (BRO), Airport Authority of India (AAI), National Building Construction Company (NBCC), Engineering Projects (India) Ltd.

Key financial indicators (audited)

	FY2022	FY2023
Operating income	1,300.5	1,804.9
PAT	138.3	236.6
OPBDIT/OI	18.1%	19.8%
PAT/OI	10.6%	13.1%
Total outside liabilities/Tangible net worth (times)	0.5	0.4
Total debt/OPBDIT (times)	0.5	0.3
Interest coverage (times)	14.6	20.3

Source: Company, ICRA Research; All ratios as per ICRA's calculations; Amount in Rs. crore; PAT: Profit after tax; OPBDIT: Operating profit before depreciation, interest, taxes and amortisation

Status of non-cooperation with previous CRA: Not applicable

Any other information: None

Rating history for past three years

Instrument	Type	Current rating (FY2025)		Chronology of rating history for the past 3 years			
		Amount rated (Rs. crore)	Amount outstanding as on March 31, 2024 (Rs. crore)	Date & rating in FY2025 Jun 12, 2024	Date & rating in FY2024	Date & rating in FY2023	Date & rating in FY2022
1 Issuer rating	Long term	-	-	[ICRA]A(Stable)	-	-	-

Complexity level of the rated instruments

Instrument	Complexity Indicator
Issuer rating	NA

The Complexity Indicator refers to the ease with which the returns associated with the rated instrument could be estimated. It does not indicate the risk related to the timely payments on the instrument, which is rather indicated by the instrument's credit rating. It also does not indicate the complexity associated with analysing an entity's financial, business, industry risks or complexity related to the structural, transactional or legal aspects. Details on the complexity levels of the instruments are available on ICRA's website: [Click Here](#)

Annexure I: Instrument details

ISIN	Instrument Name	Date of Issuance	Coupon Rate	Maturity	Amount Rated (Rs. crore)	Current Rating and Outlook
NA	Issuer rating	NA	NA	NA	-	[ICRA]A(Stable)

Source: Company

Annexure II: List of entities considered for consolidated analysis – NA

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