

Press Release

Armstrong (India) Construction

November 14, 2018

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 25.00 Cr. (Enhanced from Rs.10.00 crore)
Long Term Rating	ACUITE B+ / Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A4 (Reaffirmed and Assigned)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed long-term rating to '**ACUITE B+**' (read as **ACUITE B plus**) and the short term rating to '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.24.00 crore bank facilities. Further, Acuite has assigned short term rating to '**ACUITE A4**' (read as **ACUITE A four**) on the Rs.1.00 crore bank facilities of ARMSTRONG (INDIA) CONSTRUCTION (AIC). The outlook is '**Stable**'.

Mumbai based Armstrong (India) Construction is a proprietorship concern, promoted by Mr. Raju Solanki. The firm primarily operates as a civil contractor for the construction of roads, storm water drainage, sewerage projects and buildings. The firm caters to government entities like the BMC (Brihanmumbai Mahanagar Corporation) which is Mumbai's city municipal corporation. AIC is a registered class 1-A contractor with PWD and AA grade contractor with BMC.

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Armstrong (India) Construction to arrive at the rating.

Key Rating Drivers

Strengths

- **Experienced management**

AIC is engaged in civil construction for roads, storm water drainage, sewerage projects and buildings. The proprietor of the firm has experience of over two decades in the construction industry.

- **Moderate order book position**

The revenue of the firm has remained stagnant at Rs.19.40 crore in FY2018 from Rs.19.16 crore in FY2017. AIC has moderate order book position marked by orders in hand of Rs.57.51 crore as on September 2018 which gives the revenue visibility to the firm in the near to medium term. Being a civil contractor, the revenue of AIC depends on the number of successful bids and the tenders being released in the financial year.

Weaknesses

- **Average financial risk profile**

AIC has average financial risk profile marked by tangible net worth of Rs.16.87 crore as on 31 March, 2018 as against Rs.16.36 crore as on 31 March, 2017. The gearing (debt - equity) stood at 0.34 times as on 31 March, 2018 as against 0.17 times as on 31 March, 2017. The unsecured loans of Rs.11.69 crore are treated as Quasi Equity as they are subordinated to bank debt. The debt of Rs.5.69 crore mainly consists of term loans of Rs.2.44 crore and working capital borrowings of Rs.3.25 crore as on 31 March, 2018. Interest Coverage Ratio (ICR) stood at 2.80 times for FY2018 as against 2.53 times in FY2017. Debt Service Coverage Ratio (DSCR) stood at 2.62 times for FY2018 as against 2.37 times in FY2017. Total outside Liabilities/Tangible Net Worth (TOL/TNW) stood at 0.43 times as on 31 March, 2018 as against 0.29 times as on 31 March, 2017. Net Cash Accruals/Total Debt (NCA/TD) stood at 0.36 times for FY2018 as against 0.68 times for FY2017. Going forward, Acuite expects the financial risk

profile to improve marginally in the absence of major debt funded capex plans.

• **Competitive and fragmented industry**

The firm is engaged as a civil contractor. This particular sector is marked by the presence of several mid to big size players. The firm faces intense competition from other players in the sectors. Risk becomes more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent as the firm has been operating in this environment for last 24 years.

• **Dependence on Government for revenue booking**

The project portfolio of AIC is concentrated in the Municipal Corporation of Greater Mumbai (MCGM). Any change in geo-political environment would affect their projects at large. Furthermore, any changes in current policies of the state government with regard to change in budget allocation would impact AIC's revenue considerably. However, the firm has been dealing with government bodies for a long time and hence enjoys long term relations.

Outlook: Stable

Acuite believes that AIC will maintain a 'Stable' outlook over the medium term owing to its experienced management and steady flow of orders. The outlook may be revised to 'Positive' if the firm generates substantial revenues and operating margins while maintaining its financial risk profile. Conversely, the outlook may be revised to 'Negative' if the working capital cycle elongates or if the financial risk profile deteriorates.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	19.40	19.16	20.02
EBITDA	Rs. Cr.	3.06	2.86	2.86
PAT	Rs. Cr.	1.65	1.60	1.58
EBITDA Margin	(%)	15.77	14.95	14.27
PAT Margin	(%)	8.51	8.35	7.89
ROCE	(%)	13.43	15.66	17.16
Total Debt/Tangible Net Worth	Times	0.34	0.17	0.09
PBDIT/Interest	Times	2.80	2.53	2.51
Total Debt/PBDIT	Times	1.76	0.88	0.45
Gross Current Assets (Days)	Days	359	329	281

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-Sep-2017	Cash Credit	Long Term	2.00	ACUITE B+ (Indicative)
	Bank Guarantee	Short Term	8.00	ACUITE A4 (Indicative)
27-Jun-2016	Cash Credit	Long Term	2.00	ACUITE B+ /Stable (Assigned)
	Bank Guarantee	Short Term	8.00	ACUITE A4 (Assigned)

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr.)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	7.00 (Enhanced from Rs.2 Cr.)	ACUITE B+ / Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	17.00 (Enhanced from Rs. 8 Cr.)	ACUITE A4 (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	1.00	ACUITE A4 (Assigned)

Contacts

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About Acuité Ratings & Research:

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