

Arihant Constructions: Assigned

Facilities	Amount (Rs Crore)	Rating/Outlook
Cash Credit	7.20	SMERA BBB-/Stable (Assigned)
Bank Guarantee	2.70	SMERA BBB-/Stable (Assigned)
Proposed Bank Guarantee	5.10	SMERA BBB-/Stable (Assigned)

SMERA has assigned rating of '**SMERA BBB-**' (read as **SMERA triple B minus**) on the above mentioned bank facilities of Arihant Constructions (AC). The outlook is '**Stable**'.

The rating derives comfort from the established track record of operations, experienced promoters, diversified customer base (government and private sector) and healthy order book position. The rating is also supported by the healthy financial risk profile and efficient working capital management. However, the rating is constrained by the moderate scale of operations due to the tender based nature of business and the competitive and fragmented civil construction industry. The rating also factors in risks arising from the partnership constitution of the firm.

AC, established in 1983 as a partnership firm by Mr. Sachin Shah, Mr. Pramod Shah, Mr. Abhay Shah and others has been a player in the civil construction business for over three decades. The firm has executed several projects related to irrigation, water treatment solutions for the government (Pune Municipal Corporation, Pimpri Chinchwad Municipal Corporation, Malegaon Municipal Council among others) as well as the private sector and enjoys a diversified customer profile. Since most of the clients are government entities, the counterparty risk is significantly mitigated.

AC has a healthy order book position of Rs.75.93 crore as on August 2016 and long standing relationships with clients. The firm has a healthy financial risk profile marked by low gearing of 0.66 times as on 31 March 2016 (Provisional) as compared to 0.78 times in the previous year. The interest coverage ratio (ICR) stood at 5.66 times in FY2016 (Provisional) and 5.28 times in FY2015. The operating margins of the firm have remained stable at around 17.00 percent in FY2015-16 (Provisionals) and FY2014-15.

AC has exhibited efficient working capital management mainly on account of quick receipts from customers (30-60 days from work certification) and established relations of over three decades. The working capital cycle has been in the range of 30-40 days during the period under study (FY2012-13 to FY2015-16).

However, the operations of the firm are moderate despite its three decade long track record of operations. Further, the firm's performance is also susceptible to the tender based nature of activities and intense competition among players bidding for government contracts. Besides, AC is a partnership firm and is exposed to risk of withdrawal of capital.

Rating Sensitivity Factors

- Scaling up of operations while maintaining profit margins
- Timely completion of projects

Outlook: Stable

SMERA believes that AC will maintain a stable outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' if the firm registers higher-than-expected growth in revenues and net cash accruals while maintaining healthy debt protection metrics. Conversely, the outlook may be revised to 'Negative' in case the firm registers lower-than-expected growth in revenues and profitability or if the financial risk profile deteriorates due to higher than expected working capital requirements.

About the Firm

The Pune-based AC, a partnership firm established in 1983 is a Class-1 contractor for civil construction projects. The firm undertakes irrigation, water treatment and related projects for government, semi-government and private entities.

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