

Press Release

ARIHANT CONSTRUCTIONS

January 30, 2018

Rating Reaffirmed



Total Bank Facilities Rated*	Rs. 15.00 Cr.
Long Term Rating	SMERA BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

SMERA has reaffirmed long-term rating of '**SMERA BBB-**' (read as **SMERA BBB minus**) on the Rs. 15.00 crore bank facilities of ARIHANT CONSTRUCTIONS. The outlook is '**Stable**'.

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.

Key Rating Drivers

Strengths

- **Established track record of operations and experience management**

AC was established in 1983 as a partnership firm by Mr. Sachin Shah, Mr. Pramod Shah, Mr. Abhay Shah, Mr. Richee Shah and Mr. Sagar Shah. Hence has its presence in construction business for over three decades.

- **Long Association with government agencies**

AC has executed projects for Pune Municipal Corporation, Pimpri Chinchwad Municipal Corporation, Malegaon Municipal Council, Karmala Municipal Council and Shirur Municipal Corporation. All these departments, being a government entity, counter-party default risk remains minimal. Although, risk associated with delayed payment exist but due to good liasoning and promoter's extensive experience, AC managed to collect payments within 50-60 days from work certification. With the promoter's extensive industry experience, timely execution of projects, the company has been able to establish long-standing relationship with its client.

- **Healthy Order book position**

Arihant constructions have healthy order book position marked by current orders in hand of Rs. 225.00 crore as on December 2017.

- **Healthy financial risk profile**

AC has healthy financial risk profile. The company has low gearing of 0.95 times as on 31st March 2017 as compared to 0.79 times as on 31st March 2016. Total debt mainly consists of working capital borrowings. AC has healthy coverage indicators with interest coverage ratio (ICR) of 2.88 times in FY2017 and 2.57 times in FY2016. Further the operating margins of the firm stood healthy at 10.67 percent in FY2016-17.

- **Efficient working capital management and comfortable liquidity**

AC has exhibited efficient working capital management. This was mainly on account of quick payments received from customers due to established relations of over three decades. The company has cash & bank balance of Rs. 1.37 crore as on 31st March 2017. Net cash accruals stands at Rs. 2.59 crore in FY2016-17 as against CPLTD of Rs. 0.85 crore. Further the debtors stood at 42 days in FY2017 as compared to 44 days in FY2016. The creditor days stood at 74 days in FY2017 as compared to 50 days in FY2016.

Weaknesses

• Moderate scale of operations due to tender based nature of business

The operations of the AC are considered to be at moderate level despite the firm being in the construction business from last 33 years. The company has achieved operating income of Rs. 36.02 crore in FY 2016-17 as compared to Rs. 28.11 crore in FY 2015-16. Being a civil contractor, the revenue of AC depends on the number of successful bids and the tenders being released in the financial year.

• Competitive and fragmented industry

The company is engaged as civil contractor. The particular sector is marked by the presence of several mid to big size players. The company faces intense competition from the other players in the sectors. Risk become more pronounced as tendering is based on minimum amount of bidding of contracts. However, this risk is mitigated to an extent as management operating in this environment for last 33 years.

Analytical Approach

SMERA has considered standalone financial and business risk profile of the firm to arrive at the rating.

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 Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	36.02	28.11	34.27
EBITDA	Rs. Cr.	3.84	3.34	6.13
PAT	Rs. Cr.	2.14	1.69	4.66
EBITDA Margin	(%)	10.67	11.89	17.90
PAT Margin	(%)	5.94	6.01	13.60
ROCE	(%)	17.56	16.17	57.60
Total Debt/Tangible Net Worth	Times	0.95	0.79	0.62
PBDIT/Interest	Times	2.88	2.57	5.28
Total Debt/PBDIT	Times	2.78	2.19	1.24
Gross Current Assets (Days)	Days	251	226	223

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-infra.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
24-Sep-2016	Cash Credit	Long Term	INR 7.2	SMERA BBB- / Stable
	Bank Guarantee	Long Term	INR 2.7	SMERA BBB- / Stable
	Proposed Bank Guarantee	Long Term	INR 5.1	SMERA BBB- / Stable

*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	7.20	SMERA BBB- / Stable
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.70	SMERA BBB- / Stable
Proposed	Not Applicable	Not Applicable	Not Applicable	5.10	SMERA BBB- / Stable

Contacts

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