

Press Release

Arihant Constructions

January 14, 2019

Rating Reaffirmed, Assigned and Withdrawn



Total Bank Facilities Rated*	Rs. 23.50 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has reaffirmed long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.20.00 crore bank facilities of Arihant Constructions (AC). The outlook is '**Stable**'.

Also, Acuité has assigned long term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.3.50 crore bank facilities of AC. The outlook is '**Stable**'.

Further, Acuité has withdrawn long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) to the Rs.5.10 crore bank facilities of AC.

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.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of AC to arrive at the rating.

Key Rating Drivers

Strengths

- Established track record of operations and experienced 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. The promoters also gained experience from the handling the operations of the firm.

- Healthy financial risk profile**

The net worth stood healthy at Rs.12.78 crore as on 31 March, 2018 as against Rs.9.66 crore as on 31 March, 2017. The gearing continued to remain at comfortable levels at 0.76 times as on 31 March, 2018 as against 0.95 times in the previous year. The total debt of Rs.12.69 crore includes working capital borrowings and long term borrowings of Rs.10.68 crore and Rs.2.01 crore, respectively. Interest Coverage Ratio (ICR) stood comfortable at 2.80 times in FY2018. TOL/TNW stood at 1.34 times as on 31 March, 2018 as against 1.38 times as on 31 March, 2017.

- 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 promoters' extensive experience, timely execution of projects, the company has been able to establish long-standing relationship with its client.

Weaknesses

- Moderate scale of operations due to tender based nature of business**

The operations of 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. 38.21 crore in FY 2018 as compared to Rs. 36.02 crore in FY 2017. 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 more than three decades.

Outlook: Stable

Acuite 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	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	38.21	36.02	28.11
EBITDA	Rs. Cr.	4.03	3.84	3.34
PAT	Rs. Cr.	2.34	2.14	1.69
EBITDA Margin	(%)	10.54	10.67	11.89
PAT Margin	(%)	6.13	5.94	6.01
ROCE	(%)	15.00	17.57	16.17
Total Debt/Tangible Net Worth	Times	0.76	0.95	0.79
PBDIT/Interest	Times	2.80	2.88	2.57
Total Debt/PBDIT	Times	2.90	2.78	2.19
Gross Current Assets (Days)	Days	347	251	226

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

None

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
30-Jan-2018	Cash Credit	Long Term	7.20	ACUITE BBB- / Stable (Reaffirmed)
	Bank Guarantee	Long Term	2.70	ACUITE BBB- / Stable (Reaffirmed)
	Proposed Bank Guarantee	Long Term	5.10	ACUITE BBB- / Stable (Reaffirmed)
24-Sept-2016	Cash Credit	Long Term	7.20	ACUITE BBB- / Stable (Assigned)
	Bank Guarantee	Long Term	2.70	ACUITE BBB- / Stable (Assigned)
	Proposed Bank Guarantee	Long Term	5.10	ACUITE BBB- / Stable (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	8.00 (Enhanced from Rs.7.20 cr.)	ACUITE BBB- / Stable (Reaffirmed)
Overdraft	Not Applicable	Not Applicable	Not Applicable	3.50	ACUITE BBB- / Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	12.00 (Enhanced from Rs.2.70 cr.)	ACUITE BBB- / Stable (Reaffirmed)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	5.10	ACUITE BBB- (Withdrawn)

Contacts

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About Acuité Ratings & Research:

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