

Press Release

Arihant Constructions

January 22, 2020



Rating Upgraded

Total Bank Facilities Rated*	Rs. 23.50 crore
Long Term Rating	ACUITE BBB/ Stable (Upgraded from BBB-/Stable)

* Refer Annexure for details

Rating Rationale

Acuité has upgraded long-term rating to '**ACUITE BBB**' (**read as ACUITE triple B**) from '**ACUITE BBB-**' (**read as ACUITE triple B minus**) on the Rs. 23.50 crore bank facilities of ARIHANT CONSTRUCTIONS (AC). The outlook is '**Stable**'.

The upgrade takes into account the improvement in the business and financial risk profile of AC. The firm achieved revenue of Rs. 68.56 crore in FY2019 as against Rs. 38.41 crore in FY2018; a growth of 78.50 per cent. The firm has reported revenue of ~Rs. 56.06 crore from for the period April-November, 2019. Debt to EBITDA stood at 1.71 times in FY2019 against 2.91 times in the previous year. Gearing improved to 0.53 times as on March 31, 2019 from 0.76 times as on March 31, 2018. ICR improved to 4.38 times in FY2019 against 2.82 times in FY2018. Acuité believes that the company will be able to sustain the business risk profile over the medium term on account of comfortable order book position.

Arihant Constructions (AC) was established in 1983 as a partnership firm based out of Pune. The partners are Mr. Sachin Shah, Mr. Pramod Shah, Mr. Abhay Shah, Mr. Richee Shah and Mr. Sagar Shah. The promoters have long experience in execution of infrastructure projects as Class-1 contractor. AC is engaged in the infrastructural construction business. AC primarily undertakes projects in the water supply and distribution value chain. The firm undertakes contracts from government, semi-government and private entities.

Analytical Approach

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

Key Rating Drivers

Strengths

- Experienced management, established track record of operations and long association with Government authorities**

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. It has presence in the infrastructural construction business for over three decades. AC primarily undertakes projects in the water supply and distribution value chain and has executed projects for Pune Municipal Corporation, Pimpri Chinchwad Municipal Corporation, Malegaon Municipal Council, Karmala Municipal Council and Shirur Municipal Corporation. All these are Government entities, therefore the counter-party default risk remains minimal. Although the risk of delay in realization of receivables exists, the long association of partners with Government authorities helps in mitigating this risk.

- Healthy financial risk profile**

The financial risk profile is healthy marked by moderate networth and healthy debt protection indicators. The net worth stood moderate at Rs. 20.49 crore as on 31 March, 2019 increasing from Rs. 16.68 crore as on 31 March, 2018. This includes Rs. 4.80 crores of unsecured loans from partners. The gearing improved to 0.53 times as on 31 March, 2019 from 0.76 times in the previous year. The total debt of Rs.10.77 crore includes working capital borrowings and long term borrowings of Rs. 10.30 crore and Rs. 0.47 crore respectively. The TOL/TNW also stood at 1.11 times as on 31 March, 2019 as against 1.34 times as on 31 March, 2018. The Interest Coverage Ratio improved to 4.18 times in FY2019 from 2.82 times in FY2018.

Acuité believes the company will be able to maintain the healthy financial risk profile in absence of any major debt funded capex plan.

- **Comfortable order book position**

AC has comfortable order book position marked by current orders in hand of Rs. 209.85 crore from multiple Government entities as on November 2019 to be executed by March 2021. For April to November 2019, the firm booked revenue of approximately Rs. 56.06 crore.

Weaknesses

- **Working capital intensive nature of operations**

The operations of AC are working capital intensive marked by Gross Current Assets (GCA) of 206 days in FY2019 and 345 days in FY2018. This is primarily on account of the large amount of funds that have to be maintained as security deposits and retention money with the Principal. The inventory holding period increased to 55 days in FY2019 from 48 days in FY2018. The payable period has decreased to 62 days in FY2019 compared to 172 days in FY2018. The average bank limit utilisation stood comfortably at ~67 percent for the last six months ended November 2019.

- **Competitive and fragmented industry**

The infrastructural construction sector is marked by the presence of several mid to big sized players. The firm faces intense competition from other players. Risk becomes more pronounced as tenders are based on the minimum amount of bidding of contracts. However, the risk is mitigated to an extent as the management has been operating in the industry for more than three decades.

Rating Sensitivities

- Substantial improvement in scale of operation (~Rs. 100.00-120.00 crores), while improving profitability over the medium term will be key rating sensitivity.
- Withdrawal of capital and deterioration of the financial risk profile will be key monitorable.

Material Covenants

None

Liquidity Position: Adequate

AC's current ratio stood comfortable at 2.17 times as on 31 March, 2019. AC maintained unencumbered cash balances of Rs. 2.18 crores as on March 31, 2019. The net cash accruals stood at Rs. 4.79 crores in FY2019 and Rs. 2.82 crores in FY2018 against repayment obligation of Rs. 1.50 crores and Rs. 0.47 crores respectively during the same period. Average utilization of cash credit limits stands comfortable at ~67 percent for the six month period ended November 2019. Acuité believes that the liquidity of the firm is likely to remain adequate over the medium term on account of adequate unutilized bank limits and no significant repayment obligations.

Outlook: Stable

Acuité believes that AC will maintain 'Stable' outlook in the medium term on account of its experienced management and comfortable order book position. The outlook may be revised to 'Positive' in case the firm registers higher than-expected growth in revenues and net cash accruals. Conversely, the outlook may be revised to 'Negative' in case of deterioration in the scale of operations, profitability and financial risk profile.

About the Rated Entity - Key Financials

	Unit	FY19 (Actual)	FY18 (Actual)
Operating Income	Rs. Cr.	68.56	38.41
PAT	Rs. Cr.	4.30	2.35
PAT Margin	(%)	6.27	6.11
Total Debt/Tangible Net Worth	Times	0.53	0.76
PBDIT/Interest	Times	4.18	2.82

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

Not applicable

Any other information

Acuité is yet to receive the latest No Default Statement (NDS) from the rated entity, despite repeated requests and follow-ups.

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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
14-Jan-2019	Cash Credit	Long Term	8.00	ACUITE BBB- / Stable (Reaffirmed)
	Overdraft	Long Term	3.50	ACUITE BBB- / Stable (Assigned)
	Bank guarantee/Letter of Guarantee	Long Term	12.00	ACUITE BBB- / Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	5.10	ACUITE BBB- (Withdrawn)
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)

*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	ACUITE BBB/ Stable (upgraded from BBB-/Stable)
Overdraft	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB/ Stable (upgraded from BBB-/Stable)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BBB/ Stable (upgraded from BBB-/Stable)

Contacts

Analytical	Rating Desk
Aditya Gupta Head - Corporate and Infrastructure Sector Ratings Tel: 022-49294041 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in
Parth Pandit Rating Analyst – Rating Operations Tel: 022-49294032 parth.pandit@acuite.in	

About Acuité Ratings & Research:

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