

Press Release

Arihant Constructions

February 25, 2021

Rating Reaffirmed



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

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) on the Rs.23.50 crore bank facilities of Arihant Constructions. The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation considers the comfort drawn on the long track record of operations and stable business risk profile with a comfortable order book position. Coupled with that, the company has healthy financial risk profile, adequate liquidity with moderate bank limit utilization. The firm achieved revenue of Rs. 84.69 crore in FY2020 as against Rs. 68.56 crore in FY2019; a growth of ~24.00 per cent. The firm has reported revenue of Rs. 40.53 crore for the period April-December, 20. Debt to EBITDA stood at 1.75 times in FY2020 against 2.48 times in the previous year. Gearing improved to 0.62 times as on March 31, 2020 from 1.00 times as on March 31, 2019. ICR improved to 5.15 times in FY2020 against 4.18 times in FY2019. The rating, however, remains constrained on account of volatile operating margin mainly due to nature of business.

About the Company

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

Acuite 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 of AC is healthy marked by moderate net worth, low gearing and healthy debt protection metrics. The tangible networth increased to Rs.19.38 crore as on 31 March, 2020 as against Rs. 15.65 crore as on 31 March, 2019 on account of accretion to reserves. The firm follows a conservative leverage policy as reflected by its peak gearing of 1.35 times as on March 31, 2017. The total debt of Rs.1012.06 crore includes working capital borrowings of Rs. 8.72 crore, unsecured loans from promoters of Rs. 3.18 crore and long term borrowings of Rs. 0.17 crore. Since the firm also receives support from

trade credit and mobilization advances, its dependence on the banking system for working capital limits is moderate. The gearing is expected to remain low in future due to expectations of healthy net worth. In FY2020, net cash accruals increased to Rs.5.56 crore as against Rs.4.79 crore in FY2019. The moderate profitability coupled with low gearing levels has resulted in healthy debt protection metrics, with interest coverage ratio (ICR) of 5.15 times and NCA/TD of 0.46 times for FY2020.

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. 260.91 crore from multiple Government entities as on January 31, 2021 to be executed by March 2022. For April to December 2020, the firm booked revenue of approximately Rs. 40.53 crore.

Weaknesses

- **Working capital intensive nature of operations**

The operations of AC are working capital intensive marked by Gross Current Assets (GCA) of 179 days in FY2020 and 260 days in FY2019. 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 63 days in FY2020 from 55 days in FY2019. The payable period has decreased to 54 days in FY2020 compared to 49 days in FY2019. The average bank limit utilisation stood comfortably at ~73.80 percent for the last six months ended December 2020.

- **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

- Significant growth in operating performance leading to overall improvement in financial risk profile.
- Stretched working capital cycle and deterioration in liquidity position.

Material Covenants

None

Liquidity Position: Adequate

AC's current ratio stood comfortable at 1.85 times as on 31 March, 2020. AC maintained unencumbered cash balances of Rs. 0.27 crores as on March 31, 2020. The net cash accruals stood at Rs. 5.56 crores in FY2020 and Rs. 4.79 crores in FY2019 against repayment obligation of Rs. 0.30 crores and Rs. 1.50 crores, respectively during the same period. Average utilization of cash credit limits stands comfortable at ~73.80 percent for the six month period ended December 2020. 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	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	84.69	68.56
PAT	Rs. Cr.	5.09	4.30
PAT Margin	(%)	6.02	6.27
Total Debt/Tangible Net Worth	Times	0.62	1.00
PBDIT/Interest	Times	5.15	4.18

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

Not Applicable

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/view-rating-criteria-55.htm>

Rating History (Upto last three years)

Date	Name of Instrument / Facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
22-Jan-2020	Cash Credit	Long Term	8.00	ACUITE BBB/Stable (Upgraded)
	Secured Overdraft	Long Term	1.50	ACUITE BBB/Stable (Upgraded)
	Bank guarantee	Long Term	14.00	ACUITE BBB/Stable (Upgraded)
14-Jan-2019	Cash Credit	Long Term	8.00	ACUITE BBB-/ Stable (Reaffirmed)
	Secured Overdraft	Long Term	3.50	ACUITE BBB-/ Stable (Assigned)
	Bank 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)
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	ACUITE BBB/ Stable (Reaffirmed)
Secured Overdraft	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB/ Stable (Reaffirmed)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BBB/ Stable (Reaffirmed)

Bank Guarantee of Rs.14.00 crore includes sublimit of counter bank guarantee and letter of credit to the extent of Rs. 0.153 crore and Rs. 3.00 crore respectively.

Contacts

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