



Press Release

Arihant Constructions

July 29, 2022

Rating Assigned and Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	23.50	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	3.00	-	ACUITE A3+ Assigned
Bank Loan Ratings	6.00	ACUITE BBB Stable Assigned	-
Total Outstanding Quantum (Rs. Cr)	32.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has assigned and reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating of '**ACUITE A3+**' (read as **ACUITE A 3 plus**) on the **Rs. 32.50 Cr.** bank facilities of Arihant Constructions (AC). The outlook is '**Stable**'.

Rationale for rating reaffirmation

The rating reaffirmation considers the comfort of the long track record of operations and stable business risk profile with a comfortable order book position. Coupled with that, the firm also has healthy financial risk profile. The firm's revenue stood at Rs.61.81 Cr in FY22(prov.) as against Rs. 60.37 crore in FY2021 and Rs. 84.69 Cr in FY2020. The revenue decline in FY21 was mainly because of slowdown in project execution due to Covid-19 induced lockdown and repercussions thereafter, like shortage of labour and raw material. AC reported EBITDA margin of 8.83 percent in FY2022(prov.) as against 7.25 percent in the previous year FY2021 and 7.51 percent in FY2020. The PAT margins stood at 6.69 percent in FY2022(prov.) as against 5.50 percent in FY2021 and 6.02 percent in FY2020. The rating, however, remains constrained on account of working capital intensive nature of operations and volatile operating margin mainly due to nature of business. AC's ability to improve its scale of operations while maintaining profitability will remain a key rating sensitivity.

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

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

AC's financial risk profile is healthy marked by healthy coverage indicators and low gearing albeit its moderate net worth. The net worth increased to Rs. 25.14 crores as on March 31, 2022(prov.) as against Rs. 22.01 crore as on March 31, 2021 and 19.38 as on March 31, 2020. The company's gearing stood low at 0.31 times as on March 31, 2022(prov.) as against 0.48 times in the March 31 2021 and 0.62 times March 31, 2020. The total debt of Rs. 7.73 crore as on March 31, 2022(prov.) consists of term loan obligations of Rs.1.60 crore, Rs.3.54 crore of working capital borrowings and Rs.2.59 crore of unsecured loans from directors or promoters. The interest coverage ratio stood at 4.95 times in FY2022(prov.) as against 5.01 times in the previous year 2021 and 5.15 times in FY2020. The DSCR stood at 3.50 times in FY2022(prov.) as against 4.24 times in FY2021 as against 4.19 in FY2020.

Acuité expects AC to maintain its healthy financial risk profile in absence of any major debt funded capex plan.

Comfortable order book position

AC has comfortable order book position with a confirmed pending order book of Rs. 139.59 Cr as on May 2022, and is selected as L1 bidder for orders worth Rs. 78.83 Cr, thus the total pending orderbook stood at Rs.218.42 crore as on May, 2022 providing a revenue visibility in medium term.

Weaknesses

Working capital intensive nature of operations

The operations of AC are working capital intensive reflected by Gross Current Assets (GCA) of 189 days as on March 31, 2022(Prov.) as against 238 days as on March 31, 2021 and 179 days as on March 31, 2020. 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 GCA days are driven by moderate inventory days and low debtor days. Inventory holding days increased to 125 days as on March 31, 2022(prov.) as against 99 days as on March 31, 2021 and 63 days as on March 31, 2020. The debtor days stood low at 14 days as on March 31, 2022(prov.) as against 13 days as on March 31, 2021 and 26 days as on March 31, 2020. The payable period has decreased to 35 days for FY2022(prov.) as against 59 days in FY2021 as against 72 days in FY2020.

Working capital requirement is funded through bank lines, the utilization of fund-based facilities ranged between 72 to 75 per cent for the last twelve months June 2022. Further, the

average bank limit utilization of its non-funded based facility range between 77 to 97 percent for the twelve months ended June 2022.

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

- 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

The company liquidity profile is adequate marked by net cash accruals against maturing debt obligations. AC generated cash accruals of Rs.4.58 crores during the period FY2021-22 as against debt obligations of Rs.0.48 crore for the same period.

The cash accruals of the company are estimated to remain in the range of around Rs.5.00-6.50 crore during FY2023-24 against repayment obligations ranging from Rs.0.60 crore to Rs.0.27 crore for the same period. The utilisation of fund-based facilities ranged between 72 to 75 per cent for the last twelve months June 2022. Further, the average bank limit utilisation of its non-funded based facility range between 77 to 97 percent for the twelve months ended June 2022. The current ratio stood at 3.11 times as on 31 March, 2022(prov.).

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

Key Financials

Particulars	Unit	FY 22 (Provisional)	FY 21 (Actual)
Operating Income	Rs. Cr.	61.81	60.37
PAT	Rs. Cr.	4.13	3.32
PAT Margin	(%)	6.69	5.50
Total Debt/Tangible Net Worth	Times	0.31	0.48
PBDIT/Interest	Times	4.95	5.01

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

Not Applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.htm>
- Infrastructure Sector: <https://www.acuite.in/view-rating-criteria-51.htm>

Note on complexity levels of the rated instrument

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

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
25 Feb 2021	Secured Overdraft	Long Term	1.50	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	8.00	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Long Term	14.00	ACUITE BBB Stable (Reaffirmed)
22 Jan 2020	Bank Guarantee	Long Term	14.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Secured Overdraft	Long Term	1.50	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
	Cash Credit	Long Term	8.00	ACUITE BBB Stable (Upgraded from ACUITE BBB- Stable)
14 Jan 2019	Cash Credit	Long Term	8.00	ACUITE BBB- Stable (Reaffirmed)
	Proposed Bank Facility	Long Term	5.10	ACUITE BBB- Stable (Withdrawn)
	Secured Overdraft	Long Term	3.50	ACUITE BBB- Stable (Assigned)
	Bank Guarantee	Long Term	12.00	ACUITE BBB- Stable (Reaffirmed)
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 Sep 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

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE A3+ Assigned
Yes Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	14.00	ACUITE BBB Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Bank Guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	2.00	ACUITE BBB Stable Assigned
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	3.00	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	5.00	ACUITE BBB Stable Reaffirmed
Yes Bank Ltd	Not Applicable	Overdraft	Not Applicable	Not Applicable	Not Applicable	1.50	ACUITE BBB Stable Reaffirmed
Not Applicable	Not Applicable	Proposed Long Term Bank Facility	Not Applicable	Not Applicable	Not Applicable	2.30	ACUITE BBB Stable Assigned
Yes Bank Ltd	Not Applicable	Working Capital Term Loan	Not available	Not available	Not available	1.70	ACUITE BBB Stable Assigned

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About Acuité Ratings & Research

Acuité is a full-service Credit Rating Agency registered with the Securities & Exchange Board of India (SEBI). The company received RBI Accreditation as an External Credit Assessment Institution (ECAI) for Bank Loan Ratings under BASEL-II norms in the year 2012. Acuité has assigned ratings to various securities, debt instruments and bank facilities of entities spread across the country and across a wide cross section of industries. It has its Registered and Head Office in Kanjurmarg, Mumbai.

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