

Press Release
ARIHANT CONSTRUCTIONS
October 25, 2023
Rating Assigned and Reaffirmed



Product	Quantum (Rs. Cr)	Long Term Rating	Short Term
Bank Loan Ratings	9.50	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	15.00	-	ACUITE A3+ Assigned
Bank Loan Ratings	23.00	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	47.50	-	-

Rating Rationale

Acuite has reaffirmed the long-term rating of 'ACUITE BBB' (read as ACUITE triple B) and assigned and reaffirmed the short-term rating of 'ACUITE A3+' (read as ACUITE A three plus) on the Rs.47.50 Cr. bank facilities of Arihant Constructions (AC). The outlook is 'Stable'.

Rationale for rating

The rating considers the stable operating and financial performance of the firm marked by improving revenue, moderate order book position and above-average financial risk profile. The operating income of AC improved to Rs.109.23 Cr in FY2023 (prov) as against Rs.61.81 Cr in FY2022. It generated a revenue of Rs.56.62 Cr for 5MFY2024. The financial risk profile of the firm continues to be above-average marked by healthy coverage indicators and low gearing albeit moderate net worth. The rating also draws comfort from the experienced management, long track record of operations and long association with government authorities. However, the rating is constrained by working capital intensive operations and risks pertaining to competitive and fragmented industry. Going forward, AC's ability to sustain the improvement in its scale of operations while maintaining profitability will remain a key rating sensitivity.

About the Firm

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.

Standalone (Unsupported) Rating

None

Analytical Approach

Acuite has considered the standalone business and financial risk profiles of Arihant Constructions (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.

Improving scale of operations and moderate order book position.

The operating income of the firm stood at Rs.109.23 Cr in FY2023(prov.) as against Rs.61.81 crore in FY2022. The increased order book and post COVID-19 recovery, accelerated the growth in revenue by 76.73 percent in FY2023. The operating margin of the firm improved and stood at 8.26 percent in FY2023(prov.) as against 7.81 percent in the previous year FY2022 and 7.25 percent in FY2021. The PAT margins stood at 6.54 percent in FY2023(prov.) as against 6.14 percent in FY2022 and 5.50 percent in FY2021.

As on 31 August 2023, The firm having an unexecuted order book position of Rs.388.58 Cr. (includes L1 orders worth Rs.147.00 Cr) which estimated to be completed over the next 24-36 months. Thus, providing medium-term revenue visibility. The firm has achieved turnover of Rs.56.62 Cr for 5MFY2024 and estimates to achieve turnover of around Rs.130 – 135 Cr in FY2024.

Above - average financial risk profile

AC's financial risk profile is above -average marked by healthy coverage indicators and low gearing albeit moderate net worth. The net worth increased to Rs.31.31 crores as on March 31, 2023(prov.) as against Rs.24.94 crore as on March 31, 2022 and Rs.22.01 crores as on March 31, 2021. The firm's gearing stood low at 0.32 times as on March 31, 2023(prov.) as against 0.33 times in the March 31 2022. The total debt of Rs.10.07 crore as on March 31, 2023(prov.) consists of long term debt of Rs.0.77 crore, working capital borrowings of Rs.5.84 crore, USL from directors/promoters is Rs.2.94 crore and maturing portion of long term borrowings is Rs.0.52 crores. The debt protection metrics stood above-average with interest coverage ratio stood at 6.50 times in FY2023(prov.) as against 4.67 times in the previous year FY2022 and 5.01 times in FY2021. The DSCR stood at 5.66 times in FY2023(prov.) as against 3.30 times in FY2022 as against 4.24 in FY2021. The debt to EBITDA of the firm stood at 1.09 times as on March 31, 2023 (prov) as against 1.53 times as on March 31, 2022.

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

Weaknesses

Working capital intensive nature of operations

The operations of AC are working capital intensive reflected by by Gross Current Assets (GCA) of 187 days as on March 31, 2023(Prov.) as against 220 days as on March 31, 2022. The GCA days are driven by high inventory days and large amount of funds that have to be maintained as security deposits and retention money with the Principal. Inventory holding days stood high at 98 days as on March 31, 2023(prov.) as against 124 days as on March 31, 2022. The debtor days increased to 39 days as on March 31, 2023(prov.) as against 14 days as on March 31, 2022 and 13 days as on March 31, 2021. The Creditors days increased to 57 days as on March 31,2023 (prov) as against 34 days as on March 31,2022. Due to the increased work in the last quarter of FY2023, the purchases have increased in the March month.

Futher, working capital requirement is funded through bank lines, the average utilization of fund based facilities stood at 60.21 per cent for the last nine months July 2023. Further, the average bank limit utilization of its non-funded based facility stood at 86.16 percent for the nine months ended July 2023.

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.
- Any deterioration in working capital cycle and liquidity profile the firm.
- Execution of key orders in hand without significant time or cost overruns.

All Covenants

None

Liquidity Position: Adequate

The firm liquidity profile is adequate marked by adequate net cash accruals against maturing debt obligations. AC generated cash accruals of Rs.7.80 Cr during the period FY2023 (prov) as against debt obligations of Rs.0.21 Cr for the same period. The cash accruals of the firm are estimated to remain in the range of around Rs.10.12-13.38 crore during FY2024-26 against repayment obligations ranging from Rs.0.43 -0.37crore for the same period. Unencumbered cash and bank balances stood at Rs.0.21 Cr as on March 31, 2023 (prov). The current ratio of the firm stood at 2.23 times as on March 31, 2023 (prov). The utilisation of fund-based facilities stood at 60.21 per cent for the last nine months July 2023. Further, the average bank limit utilization of its non-funded based facility stood at 86.16 percent for the nine months ended July 2023.

Outlook: Stable

Acuité believes that AC will continue to benefit over the medium on account of, experienced management, improving operating performance and moderate order book position. The outlook may be revised to 'Positive', in case of in case of timely execution of its unexecuted order book leading to higher than-expected revenues and profitability with improvement in financial risk profile. Conversely, the outlook may be revised to 'Negative' in case any significant stretch in its working capital management or larger-than-expected debt funded capital expenditure leading to deterioration of its financial risk profile and liquidity.

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 23 (Provisional)	FY 22 (Actual)
Operating Income	Rs. Cr.	109.23	61.81
PAT	Rs. Cr.	7.14	3.79
PAT Margin	(%)	6.54	6.14
Total Debt/Tangible Net Worth	Times	0.32	0.33
PBDIT/Interest	Times	6.50	4.67

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 Sector: <https://www.acuite.in/view-rating-criteria-51.htm>
- Application Of Financial Ratios And Adjustments: <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

In order to inform the investors about complexity of instruments, Acuite has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuite's categorisation of the instruments across the three categories is based on factors like variability of the returns to the investors, uncertainty in cash flow patterns, number of counterparties and general understanding of the instrument by the market. It has to be understood that complexity is different from credit risk and even an instrument categorized as 'Simple' can carry high levels of risk. For more details, please refer Rating Criteria "Complexity Level Of Financial Instruments" on www.acuite.in

Rating History

Date	Name of Instruments/Facilities	Term	Amount (Rs. Cr)	Rating/Outlook
29 Jul 2022	Bank Guarantee	Long Term	2.00	ACUITE BBB Stable (Assigned)
	Bank Guarantee	Short Term	3.00	ACUITE A3+ (Assigned)
	Proposed Bank Facility	Long Term	2.30	ACUITE BBB Stable (Assigned)
	Secured Overdraft	Long Term	1.50	ACUITE BBB Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	1.70	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	3.00	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee	Long Term	14.00	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
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)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Complexity Level	Quantum (Rs. Cr.)	Rating
HDFC Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	3.00	ACUITE A3+ Reaffirmed
Yes Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	20.00	ACUITE A3+ Reaffirmed
Yes Bank Ltd	Not Applicable	Bank Guarantee (BLR)	Not Applicable	Not Applicable	Not Applicable	Simple	15.00	ACUITE A3+ Assigned
Yes Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	4.50	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not Applicable	Cash Credit	Not Applicable	Not Applicable	Not Applicable	Simple	5.00	ACUITE BBB Stable Reaffirmed

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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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