



Press Release
ARIHANT CONSTRUCTIONS
January 22, 2025
Rating Reaffirmed

Product	Quantum (Rs. Cr)	Long Term Rating	Short Term Rating
Bank Loan Ratings	14.50	ACUITE BBB Stable Reaffirmed	-
Bank Loan Ratings	33.00	-	ACUITE A3+ Reaffirmed
Total Outstanding Quantum (Rs. Cr)	47.50	-	-
Total Withdrawn Quantum (Rs. Cr)	0.00	-	-

Rating Rationale

Acuite has reaffirmed its long-term rating at ‘**ACUITE BBB**’ (read as **ACUITE triple B**) and the short-term rating at ‘**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 reaffirmation

The rating reaffirmation reflects the firm’s experienced management, established track record of operations, and long-standing relationships with government authorities. The rating also takes into account the AC's moderate order book position, which reflects steady revenue visibility over the medium term. Furthermore, the financial risk profile remains moderate, with moderate net worth, low gearing, and above-average debt protection metrics. However, these strengths are partially offset by the working capital intensive nature of its operations, firm’s presence in a competitive and fragmented industry, coupled with tender-based nature of operations, and the risk of capital withdrawal given its constitution as a partnership firm.

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 Company

Arihant Constructions (AC) was a proprietary firm from 1983 to 1991. It was converted into a partnership firm on 1991 and is based out of Pune. The current 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.

Unsupported Rating

Not Applicable

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 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. The firm is currently engaged with clients including Maharashtra Jeevan Pradhikaran, Vidarbha Industrial Development Corporation, and Karnataka Power Corporation Ltd. 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. However, the revenue stagnated at Rs. 109.52 Cr. in FY2024 against Rs. 109.43 Cr. in FY2023. Also, the operating profit margin stood at 7.96% in FY2024 against 7.52% in FY2023.

Moderate Financial risk profile

The firm's financial risk profile is moderate marked by its moderate net worth, low gearing and above-average debt protection measures. The tangible net worth of the firm declined to Rs. 30.69 Cr. as on March 31, 2024, from Rs. 31.34 Cr. as on March 31, 2023, due to withdrawal of capital by the partners in the firm. The total debt of the firm stood at Rs. 8.77 Cr. as on March 31, 2024, as against Rs. 10.07 Cr. as on March 31, 2023. The gearing of the firm stood low at 0.29 times as on March 31, 2024, as compared to 0.32 times as on March 31, 2023. The Total outside Liabilities/Tangible Net Worth (TOL/TNW) of the firm stood at 0.66 times as on March 31, 2024, as against 0.96 times as on March 31, 2023. Further, the debt protection metrics of the firm stood above-average reflected by debt service coverage ratio of 3.39 times for FY24 as against 3.88 times for FY23. The interest coverage ratio stood at 5.51 times for FY24 as against 5.94 times for FY23. The debt to EBITDA of the firm stood at 0.98 times as on March 31, 2024, as against 1.20 times as on March 31, 2023.

Acuité believes that, going forward, the financial risk profile of the firm will improve and remain moderate over the medium term in the absence of major debt funded capex plan.

Weaknesses

Improved albeit intensive nature of working operations

The working capital management of the firm improved yet remained intensive in nature marked by Gross Current Assets (GCA) of 154 days in FY2024 as compared to 190 days in FY2023. The GCA days are driven primarily on account of high other current assets, mainly comprising of EMD deposits, other deposits and balances with tax authorities. The inventory holding period improved and stood at 64 days in FY2024 as compared to 97 days in FY2023. The debtor days improved and stood at 22 days in FY2024 as against 40 days in FY2023. The majority of the customers are governmental entities. Further, the creditor days stood at 34 days in FY2024 as compared to 57 days in FY2023. The average utilization of fund-based facilities stood at 55.46 per cent for the last six months ending December 2024.

Acuité believes that the working capital operations of the firm will remain at similar levels given the nature of the industry over the medium term.

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.

Inherent risk of capital withdrawal in a partnership firm

The firm is susceptible to the inherent risk of capital withdrawal given its constitution as a partnership. Any significant withdrawal from the partner's capital will have a negative bearing on the financial risk profile of the firm. In FY2024 there was some withdrawal of capital by the partners.

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.
- Any significant withdrawal of capital by the partners leading to negative bearing on the financial risk profile.

Liquidity Position

Adequate

The firm's liquidity position is adequate marked by generation of sufficient net cash accruals of Rs. 7.36 Cr. in FY2024 as against its maturing debt obligations of Rs. 1.02 Cr. in the same tenure. In addition, it is expected to generate sufficient cash accrual in the range of Rs. 6.47 – Rs.7.06 Cr. against its maturing repayment obligations in the range of Rs. 0.95 - Rs. 0.14 Cr. over the medium term. The cash and bank balances of the firm stood at Rs. 0.16 Cr as on March 31, 2024. The current ratio stood at 3.25 times as on March 31, 2024 as compared to 2.20 times as on March 31, 2023. Further, the working capital management of the firm is intensive in nature marked by Gross Current Assets (GCA) of 154 days as on 31st March 2024, however, the reliance on working capital limits remained moderate with average utilisation of fund-based limits at ~55.46% over the past six months ending December 2024.

Acuité believes that going forward the firm will maintain adequate liquidity position owing to steady accruals.

Outlook: Stable

Other Factors affecting Rating

None

Key Financials

Particulars	Unit	FY 24 (Actual)	FY 23 (Actual)
Operating Income	Rs. Cr.	109.52	109.43
PAT	Rs. Cr.	6.54	6.42
PAT Margin	(%)	5.97	5.87
Total Debt/Tangible Net Worth	Times	0.29	0.32
PBDIT/Interest	Times	5.51	5.94

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>
- Rating Process and Timeline: <https://www.acuite.in/view-rating-criteria-67.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, Acuité has categorized such instruments in three levels: Simple, Complex and Highly Complex. Acuité'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
25 Oct 2023	Bank Guarantee (BLR)	Short Term	3.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	20.00	ACUITE A3+ (Reaffirmed)
	Bank Guarantee (BLR)	Short Term	15.00	ACUITE A3+ (Assigned)
	Cash Credit	Long Term	4.50	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
29 Jul 2022	Bank Guarantee (BLR)	Short Term	3.00	ACUITE A3+ (Assigned)
	Bank Guarantee/Letter of Guarantee	Long Term	14.00	ACUITE BBB Stable (Reaffirmed)
	Bank Guarantee/Letter of Guarantee	Long Term	2.00	ACUITE BBB Stable (Assigned)
	Secured Overdraft	Long Term	1.50	ACUITE BBB Stable (Reaffirmed)
	Cash Credit	Long Term	3.00	ACUITE BBB Stable (Reaffirmed)
	Working Capital Term Loan	Long Term	1.70	ACUITE BBB Stable (Assigned)
	Cash Credit	Long Term	5.00	ACUITE BBB Stable (Reaffirmed)
	Proposed Long Term Bank Facility	Long Term	2.30	ACUITE BBB Stable (Assigned)

Annexure - Details of instruments rated

Lender's Name	ISIN	Facilities	Date Of Issuance	Coupon Rate	Maturity Date	Quantum (Rs. Cr.)	Complexity Level	Rating
HDFC Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	2.75	Simple	ACUITE A3+ Reaffirmed
Yes Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	20.00	Simple	ACUITE A3+ Reaffirmed
Yes Bank Ltd	Not avl. / Not appl.	Bank Guarantee (BLR)	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	10.25	Simple	ACUITE A3+ Reaffirmed
Yes Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	9.50	Simple	ACUITE BBB Stable Reaffirmed
HDFC Bank Ltd	Not avl. / Not appl.	Cash Credit	Not avl. / Not appl.	Not avl. / Not appl.	Not avl. / Not appl.	5.00	Simple	ACUITE BBB Stable Reaffirmed

Contacts

Mohit Jain Senior Vice President-Rating Operations	Contact details exclusively for investors and lenders
Kirti Berlia Associate Analyst-Rating Operations	Mob: +91 8591310146 Email ID: analyticalsupport@acuite.in

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.

Disclaimer: An Acuité rating does not constitute an audit of the rated entity and should not be treated as a recommendation or opinion that is intended to substitute for a financial adviser's or investor's independent assessment of whether to buy, sell or hold any security. Ratings assigned by Acuité are based on the data and information provided by the issuer and obtained from other reliable sources. Although reasonable care has been taken to ensure that the data and information is true, Acuité, in particular, makes no representation or warranty, expressed or implied with respect to the adequacy, accuracy or completeness of the information relied upon. Acuité is not responsible for any errors or omissions and especially states that it has no financial liability whatsoever for any direct, indirect or consequential loss of any kind, arising from the use of its ratings. Ratings assigned by Acuité are subject to a process of surveillance which may lead to a revision in ratings as and when the circumstances so warrant. Please visit our website (www.acuite.in) for the latest information on any instrument rated by Acuité. Please visit <https://www.acuite.in/faqs.htm> to refer FAQs on Credit Rating.

Note: None of the Directors on the Board of Acuité Ratings & Research Limited are members of any rating committee and therefore do not participate in discussions regarding the rating of any entity.