

Press Release

Anoj Kumar Agarwala

March 04, 2019



Rating Downgraded and Reaffirmed

Total Bank Facilities Rated*	Rs. 22.00 Cr.
Long Term Rating	ACUITE BB- / Outlook: Stable (Downgraded from ACUITE BB+/Stable)
Short Term Rating	ACUITE A4+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuité has downgraded long-term rating of '**ACUITE BB-**' (**read as ACUITE double B minus**) from '**ACUITE BB+**' (**read as ACUITE double B plus**) and reaffirmed the short term rating of '**ACUITE A4+**' (**read as ACUITE A four plus**) to the Rs. 22.00 crore bank facilities of Anoj Kumar Agarwala (AKA). The outlook is '**Stable**'.

The rating revision is in view of deterioration of its business risk profile in EPC business, thereby moving into toll collection business. Further, the working capital operations are intensive marked by GCA days of 198 days in FY2018 from 208 days in FY2017 and 130 days in FY2016. GCA days are mainly dominated by high collection period of 101 days in FY2018 as against 81 days in FY2017.

Established in 1989, AKA is a Nagpur-based partnership firm is promoted by Mr. Anoj Kumar Agarwala, Ms. Anjana Agarwala and Mr. Abhishek Garg. The firm is engaged in EPC work for irrigations, canal and road projects and toll collection business. The firm undertakes project for Vidarbha Irrigation Development Corporation (VIDC), Madhya Pradesh Rural Road Development Authority (MPRRDA) and National Highway Authority of India (NHAI).

Analytical Approach

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

Key Rating Drivers

Strengths

- **Experienced management and established track record of operations**

AKA undertakes civil contractor works since 1989, thereby establishing long track record of operations in similar line of business. Promoters possess over three decades of experience in the civil construction work. The promoters are also supported by extremely strong management at the second tier with two to three decades of work experience. Acuité believes that AKA will benefit from experienced management which will help the firm to maintain long standing relations with its customer such as VIDC, MPRRDA and NHAI and suppliers.

- **Comfortable financial risk profile**

AKA's financial risk profile is comfortable marked by tangible net worth of Rs.19.01 crore as on 31 March, 2018 as against Rs.15.45 crore in the previous year. The improvement in net worth is on account of infusion of capital by the partners. The gearing stood comfortable at 0.10 times as on 31 March, 2018 as against 0.35 times in the previous year. The total debt of Rs.1.95 crore includes term loan from bank of Rs.0.46 crore and unsecured loan of Rs.1.49 crore. Interest Coverage Ratio (ICR) stood at 4.90 times in FY2018 as against 4.38 times in FY2017. The total outside liabilities to tangible net worth (TOL/TNW) stood at 0.29 times as on 31 March, 2018 as against 0.60 times in the previous year. The net cash accruals to total debt (NCA/TD) stood at 0.88 times in FY2018 compared to 0.33 times in FY2017.

Going forward, Acuité expects the firm to maintain its financial risk profile in the absence of major

debt funded capex plan.

Weaknesses

- **Working capital intensive operations**

AKA's operations are working capital intensive in nature marked by Gross Current Asset (GCA) days of 198 in FY2018 as against 208 in FY2017. This is on account of collection period of 101 days in FY2018 against 81 days in FY2017. Inventory holding stood at 32 days in FY2018 against 88 days in FY2017.

Acuité believes that the efficient working capital management will be crucial to the firm in order to maintain a stable credit profile.

- **Modest scale of operations and fluctuating margins**

AKA has modest scale of operations despite being in the business for more than three decades. The firm registered operating income of Rs.35.38 crore in FY2018 as against Rs.32.32 crore in FY2017 and Rs.42.08 crore in FY2016. The firm has booked revenue of Rs.19.32 crore for April to January, 2019. Further, the firm's operating margins have shown a fluctuating trend of 8.29 percent in FY2018 as against 9.80 percent in FY2017. PAT margins stood at 3.29 percent in FY2018 against 3.78 percent in FY2017 and 3.66 percent in FY2016.

Acuité believes that the firm's ability to register growth in revenue while maintaining adequate profitability will be key rating sensitivity factor.

Liquidity

AKA has moderate liquidity marked by net cash accruals to its maturing debt obligations. The firm generated cash accruals of Rs.1.72-2.12 crore during the last three years through 2017-18, while its maturing debt obligations were in the range of Rs.0.10-0.25 crore over the same period. The cash accruals of the firm are estimated to remain around Rs.2.00-2.20 crore during 2019-21. The working capital operations of AKA are intensive marked by gross current asset (GCA) days of 198 in FY 2018. The cash credit limit remains utilised at 60 percent during the last 6 months period ended November 2018. The firm maintains unencumbered cash and bank balances of Rs.1.52 crore as on March 31, 2018. The current ratio stands healthy at 5.77 times as on March 31, 2018.

Acuité believes that the liquidity of the AKA is likely to remain moderate over the medium term on account of healthy cash accrual and repayments over the medium term.

Outlook: Stable

Acuité believes that AKA will maintain 'Stable' outlook and continue to benefit from the experience of its promoters in the civil construction industry and comfortable financial risk profile. The outlook may be revised to 'Positive' in case of significant improvement in its revenues while maintaining the profitability and working capital operations. The outlook may be revised to 'Negative' in case of steep decline in revenues and profitability or working capital requirements, further deteriorating financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY18 (Actual)	FY17 (Actual)	FY16 (Actual)
Operating Income	Rs. Cr.	35.38	32.32	42.08
EBITDA	Rs. Cr.	2.93	3.17	3.79
PAT	Rs. Cr.	1.16	1.22	1.54
EBITDA Margin	(%)	8.29	9.80	9.01
PAT Margin	(%)	3.29	3.78	3.66
ROCE	(%)	11.39	14.04	18.51
Total Debt/Tangible Net Worth	Times	0.10	0.35	0.48
PBDIT/Interest	Times	4.90	4.38	4.42
Total Debt/PBDIT	Times	0.66	1.70	1.38
Gross Current Assets (Days)	Days	198	208	130

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

Acuité Ratings & Research Limited (erstwhile SMERA Ratings Limited)

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None

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/criteria-default.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
08-May-2018	Cash Credit	Long Term	6.00	ACUITE BB+ (Indicative)
	Bank Guarantee	Short Term	16.00	ACUITE A4+ (Indicative)
24-Feb-2017	Cash Credit	Long Term	6.00	ACUITE BB+ / Stable (Assigned)
	Bank Guarantee	Short Term	16.00	ACUITE A4+ (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	6.00	ACUITE BB- / Stable (Downgraded from ACUITE BB+/Stable)
Bank guarantee	Not Applicable	Not Applicable	Not Applicable	16.00	ACUITE A4+ (Reaffirmed)

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About Acuité Ratings & Research:

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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 Mumbai.

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