

Press Release

May 17, 2017

Arvind & Rajan Constructions

Rating Assigned

Total Bank Facilities Rated *	Rs.8.30 Cr.
Long Term Rating	SMERA BB/ Outlook: Stable (Assigned)
Short Term Rating	SMERA A4+ (Assigned)

Refer Annexure for details

Rating Rationale

SMERA has assigned long term rating of '**SMERA BB**' (read as **SMERA double B**) and short term rating of '**SMERA A4+**' (read as **SMERA A four plus**) on the Rs.8.30 crore bank facilities of Arvind & Rajan Constructions (ARC).The outlook is '**Stable**'.

Established in 2009-Arvind and Rajan Constructions (ARC) is a Bangalore based proprietorship firm headed by Mr. Arvind Gopalakrishnan and is engaged in the business of construction of residential and commercial buildings work including civil, sanitary and electrical work.

Key Rating Drivers

Strengths

- **Experienced management**

The proprietor- Mr. Arvind Gopalakrishnan, a civil engineer from California State University has experience of more than nine years in the field of construction of commercial and residential buildings. Over the years, the firm has completed commercial space of over 20 lakhs sq feet and currently is in of the process executing nearly 12 lakhs sq feet in and around Bangalore.

- **Established relationship with reputed real estate developers**

The firm over the years have built a healthy relationship with reputed real estate developers namely Prestige Estates Projects Limited (PEPL) and Tanglin Developments Limited (TDL). The firm has a track record of bagging repetitive order from the real estate developers as evident from the completion of 3 projects for PEPL valuing approximately Rs 58 crs and a single project for TDL valuing Rs 25 crs since 2012.

Healthy Orders in Hand

Currently the firm is undertaking three projects for PEPL, TDL and Vaishnavi Infrastructure Pvt Ltd to construct commercial property in and around Bangalore. The value of the projects is around Rs 49 crs and is expected to get completed by FY 2018-19.

Moderate Financial Risk Profile

The moderate financial risk profile of the firm is marked by net worth base of Rs 6.95 crs in FY 2016. The interest coverage ratio stands comfortable at 4.96 times in FY 2016. The firm has a high gearing of 2.10 crs in FY 2016. The high gearing is on account of interest free unsecured loan of Rs 10.62 crs taken in FY 2016 from the relatives of the proprietor with no fixed repayment obligation.

Weaknesses

- **Modest scale of operations**

The scale of operations is modest with revenue of Rs 12.39 crs in FY 2016 as against Rs 15.69 crs in FY 2015. The firm has achieved revenue of ~ Rs 48 crores in FY 2016-17 (provisional) thereby registering a healthy y-o-y growth rate of 387 per cent in FY 2017.

- **Working capital intensive operations**

The firm's operations are working capital intensive in nature as reflected in gross current assets (GCA) of 793 days in 2015-16 as against 228 days in 2014-15. These high GCA days emanates from inventory holding period and collection period of 575 days and 48 days respectively in FY16. The firm's operations are expected to remain working capital intensive, as the firm is engaged into the construction of residential and commercial complex, where a certain level of inventory is held as work in progress.

Analytical Approach

For arriving at the rating, SMERA has considered the standalone business and financial risk profiles of ARC.

Outlook: Stable

SMERA believes ARC will maintain a stable business risk profile over the medium term. ARC will continue to benefit from the experienced management and established relationship with reputed real estate developers. The outlook may be revised to "Positive" in case the firm registers secures orders from new clients thereby achieving strong growth in scale of operations while executing the projects on time. The outlook may be revised to 'Negative' in case of deterioration in the firm's scale of operations and profitability or capital structure, or in case of further elongation of working capital cycle.

About the Rated Entity - Key Financials

For FY2016, ARC reported Profit after Tax (PAT) of Rs.0.26 cr on total operating income of Rs.12.39 cr as compared with PAT of Rs.0.11 cr on total operating income of Rs.15.69 cr in FY2015.

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.smera.in/criteria-default.htm>
- Infrastructure Entities - <https://www.smera.in/criteria-trading.htm>
- Financial Ratios And Adjustments - <https://www.smera.in/criteria-fin-ratios.htm>

Note on complexity levels of the rated instrument
<https://www.smera.in/criteria-complexity-levels.htm>
Rating History (Upto last three years)
Rating History for the last three years:

Name of Facilities	2017				2016		2015		2014	
	Scale	Date	Amount (Rs. Crore)	Rating with Outlook	Date	Rating	Date	Rating	Date	Rating
Cash Credit	LT	02 May 2017	2.50	SMERA BB/Stable (Rating Assigned)	-	-	-	-	-	-
Bank Guarantee	ST	02 May 2017	2.50	SMERA A4+ (Rating Assigned)	-	-	-	-	-	-
Proposed Term Loans	LT	02 May 2017	0.80	SMERA BB/Stable (Rating Assigned)	-	-	-	-	-	-
Proposed Bank Guarantee	ST	02 May 2017	2.50	SMERA A4+ (Rating 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	2.50	SMERA BB / Stable (Assigned)
Proposed Term Loans	Not Applicable	Not Applicable	Not Applicable	0.80	SMERA BB / Stable (Assigned)
Proposed Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA A4+ (Assigned)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	2.50	SMERA A4+ (Assigned)

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ABOUT SMERA

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