

Press Release

Arwade Infrastructure Limited

March 22, 2021

Rating Reaffirmed



Total Bank Facilities Rated*	Rs.45.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Reaffirmed)
Short Term Rating	ACUITE A3 (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed its long-term rating of '**ACUITE BBB-**' (read as **ACUITE triple B minus**) and short-term rating of '**ACUITE A3**' (read as **ACUITE A three**) on the Rs.45.00 crore bank facilities of Arwade Infrastructure Ltd. The outlook is '**Stable.**'

The rating action takes into account experienced management, established track record of operations of over a decade, improved order book position, moderate financial risk profile and improvement in operating margin. The company's outstanding order book, as on February 28, 2020, stood at Rs.110 crore, which is likely to be executed in the near term. Besides, additional new orders of more than Rs.140 crore are expected in near to medium term. In FY20, AIL's revenue increased by 6.74per cent to Rs.101.09 crore and net profit grew by 11.84per cent to Rs.3.52 crore with a sharp expansion in operating margin. While the company's working capital cycle remained near around the year-ago level. However, the rating is constrained on account of working capital intensive nature of operations and high competitive industry.

About the company

Incorporated in 2009, Pune-based Arwade Infrastructure Ltd. (AIL) is engaged in industrial construction. The key business activities of AIL includes EPC work pertaining to heating, ventilation and air conditioning (HVAC), firefighting, transmission & distribution, electrical installations and civil work for industrial facilities. AIL is promoted by Mr. Subhash Arwade, Mrs. Soniya Arwade and Mr. Nitin Arwade.

Analytical Approach

Acuite has considered the standalone business and financial risk profile of AIL to arrive at the rating.

Key Rating Drivers

Strengths

- Experienced management and established track record of operations**

AIL undertakes civil contract works for industrial construction since 2009 and has good presence of over a decade in undertaking civil construction works for industrial & commercial space for corporates and Institutions. The established presence of the company has enabled it to maintain long-standing relationship with its customers, resulting in recurring flow of orders and suppliers. AIL is promoted by Mr. Subhash Arwade, Mrs. Soniya Arwade and Mr. Nitin Arwade. The management has over two decades of experience in construction, steel trading and infrastructure industry. Further, the experience of the management has helped AIL to diversify its business across various industries such as healthcare, chemicals and education, along with healthy order book position.

AIL's order book stood at over Rs.340 crore as on February 28, 2021 compared to nearly Rs.200 crore (approx.) a year back. Of this, orders worth Rs.93.74 crore has already been executed. Orders of Rs.110 crore would be executed in the near-to-medium term. Further, additional orders of more than Rs.140 crore are expected in the near term. The improved order book position offers good revenue visibility for the near to medium term.

Acuité believes that the established position of the company, along with experienced management, is expected to support the company to generate healthy revenue over the medium term.

- **Moderate financial risk profile**

AIL continues to have moderate financial risk profile marked by modest net worth, moderate gearing level and debt protection matrix. As on March 31, 2020, AIL's net worth stood at Rs.21.21 crore compared to Rs.17.80 crore as on March 31, 2019. This was on account of higher accretion to reserves led by increase in net profit.

The gearing (Debt -equity) of the company stood at 1.01 times as on March 31, 2020 compared to 0.79 times a year back. AIL's debt level increased to Rs.21.37 crore as on March 31, 2020 from Rs.14.11 crore a year back, this was on account of higher short-term debt utilization due to the Covid-19 led disruptions in the last few days of March 2020. Further, the company had also availed term debt for purchasing construction equipment. The total debt as on March 31, 2020 of Rs.21.37 Cr. comprises long-term debt of Rs.12.37 crore, short-term debt of Rs.8.11 crore and unsecured loans from directors/promoters Rs.0.89 crore.

A sharp improvement in operating profit has led to comfortable coverage indicators marked by interest coverage ratio of 3.21 times in FY2020 as against 3.53 times in FY2019. AIL's debt service coverage ratio (DSCR) has deteriorated to 1.96 times in FY20 from Rs.2.79 times in FY19. TOL/TNW stood at 2.78 times as on March 31, 2020 against 3.35 times as on March 31, 2019. Acuité believes the financial risk profile of AIL is likely to remain moderate on account of improvement in operating margin and in absence of any major debt-funded capex.

- **Improvement in operating profitability**

In FY20, AIL witnessed a sharp expansion in operating margin, which stood at 9.75 per cent compared to 7.54 per cent in FY19. This was mainly on account of an improvement in operating efficiency of the company. AIL, since past couple of years, has been investing in fixed assets to improve the overall productivity and cost efficiency. Employee cost and manufacturing cost, two key components of operating expenses (over 50 per cent of the company's total cost of sales), have moderated by over 170 basis points, as a percentage of operating revenue.

Acuité believes that, structural improvement in operating efficiency would support the operating profitability, thus resulting in expected improvement in financial risk profile. AIL's EBITDA margin is expected to improve further to around 10-10.3per cent level during FY21-FY23.

In the last two years, AIL's revenue grew at a compounded annual growth rate of over 21 per cent in the last two years ending March 31, 2020 and net profit margin remained in the range of 3 to 4.25per cent during FY18 to FY20.

Weaknesses

- **Working capital intensive operations**

AIL operates in a working capital intensive nature of operations marked by Gross Current Asset (GCA) days of 197 in FY20 as against 210 days in FY19. GCA days has slightly improved on account of improvement in debtor days, which stood at 44 for FY20 compared to 72 for FY19. Inventory days has remained at 87 days for FY2020 against 75 days in the previous year due to Covid-19-led disruptions during the last few days of March 2020. Further, the average bank limit utilization in the last nine months through February 2021 was below 20per cent and bank guarantee utilization as of February 2021 stood at ~67per cent. Going ahead, Acuité believes efficiently managing working capital will remain critical for maintaining healthy credit profile.

- **High competitive intensity**

AIL is engaged in industrial construction and undertakes civil construction works for industrial & commercial space for corporates and Institutions. This segment is marked by the presence of several mid to big size players with limited entry barriers, resulting in intense competition.

Rating Sensitivities

- Lower-than-expected orders and moderation in operating margin
- Elongation of working capital cycle

Material Covenants

No major covenants

Liquidity Position: Adequate

AIL has adequate liquidity marked by healthy net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.5.65 crore for FY20 while its maturing debt obligations were Rs.1.43 crore for the same period. The cash accruals of the company are estimated to remain in the range of around Rs.5 crore to Rs.8 crore during 2021-23 period against Rs.2.84 crore to Rs.4.86 crore of repayment obligations during the same period. Despite the company's working capital intensive operations as marked by GCA days of 197 as on 31 March, 2020, the average bank limit utilization stood low at ~20 percent in the last nine months ended February, 21. The company maintained unencumbered cash and bank balances of Rs.0.07 crore as on 31, March, 20. The current ratio stood moderate at 1.34 times as on 31 March, 20. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of sufficient cash accruals to its maturing debt obligation.

Outlook: Stable

Acuite believes that AIL will maintain a 'Stable' outlook over the medium term on account of its experienced management, improved order book position and improved operating profitability. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenue and operating margin. Conversely, the outlook may be revised to 'Negative' in case of lower-than-expected growth in revenue and profitability, resulting in deterioration in the financial risk profile and liquidity position.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	101.09	94.70
PAT	Rs. Cr.	3.52	3.14
PAT Margin	(%)	3.48	3.32
Total Debt/Tangible Net Worth	Times	1.01	0.79
PBDIT/Interest	Times	3.21	3.53

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

CARE vide its press release dated November 13, 2020 has mentioned AIL's long-term rating as 'BB/Stable Issuer Not Cooperating' and short-term rating as 'A4 Issuer Not Cooperating' dated November 13, 2020.

Any other information

Not applicable

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-52.htm>
- Entities in Service Sector - <https://www.acuite.in/view-rating-criteria-50.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-51.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-53.htm>

Note on complexity levels of the rated instrument

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

Rating History (Upto last three years)

Date	Name of Instrument/facilities	Term	Amount (Rs. Cr.)	Ratings/Outlook
18-Feb-2020	Cash Credit	Long Term	11.00*	ACUITE BBB-/Stable (Reaffirmed)

	Bank Guarantee	Short Term	34.00	ACUITE A3 (Reaffirmed)
04-Dec-2018	Cash Credit	Long Term	11.00*	ACUITE BBB-/Stable (Reaffirmed)
	Bank Guarantee	Short Term	34.00	ACUITE A3 (Reaffirmed)
20-Dec-2017	Cash Credit	Long Term	6.00	ACUITE BBB-/Stable (Assigned)
	Proposed Bank Facility	Long Term	2.00	ACUITE BBB-/Stable (Assigned)
	Bank Guarantee	Short Term	20.00	ACUITE A3 (Assigned)

*Including LC sub-limit of Rs.4.00 crore

*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	11.00*	ACUITE BBB-/ Stable (Reaffirmed)
Bank Guarantee	Not Applicable	Not Applicable	Not Applicable	34.00	ACUITE A3 (Reaffirmed)

*Including LC sub-limit of Rs.4.00 crore

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President- Corporate and Infrastructure Sector Tel: 022-49294041 aditya.gupta@acuite.in Shreepad Aute Senior Analyst - Rating Operations Tel: 022-49294000 shreepad.aute@acuite.in	Varsha Bist Senior Manager - Rating Desk Tel: 022-49294011 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited is a full-service Credit Rating Agency registered with the Securities and 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. Since then, it has assigned more than 6,000 credit 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 Mumbai.

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