

Press Release

Adroit Associates

June 04, 2019

Rating Reaffirmed and Assigned



Total Bank Facilities Rated*	Rs. 29.95 Cr.
Long Term Rating	ACUITE BBB/ Outlook: Negative (Rating Reaffirmed and outlook revised)
Short Term Rating	ACUITE A3+ (Reaffirmed)

* Refer Annexure for details

Rating Rationale

Acuite has reaffirmed the long-term rating of '**ACUITE BBB**' (read as **ACUITE triple B**) and short-term rating to '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs. 20.00 crore bank facilities of Adroit Associates (AA). The outlook is revised from '**Stable**' to '**Negative**'.

Further, Acuite has assigned short-term rating of '**ACUITE A3+**' (read as **ACUITE A three plus**) to the Rs. 9.95 crore bank facilities of AA.

AA is Indore based proprietorship concern of Mr. Rajendra Purandare set up in 1987. AA is engaged in executing integrated water supply projects for complete cities and towns including water treatment plants, pumping stations, pipelines, sewage treatment plants and operation and maintenance of complete system. It undertakes turnkey EPC projects from various government departments, municipal bodies, and railways, industrial development corporations of both Madhya Pradesh and Chhattisgarh. Adroit Associates is a "A" Class contractor with eligibility to bid and participate in projects of unlimited value.

Analytical Group

Adroit Group includes three companies i.e. Adroit Associates (AA), Adroit Water Projects (P) Ltd (AWPPL) and Red Fox Ventures (RFV). Both these concerns are family owned concerns and act as arms for subcontracting. RFV is a proprietary concern of Mr. Jay Purandare and AWPPL is also a family owned company.

Analytical Approach

Acuite has consolidated the business and financial risk profiles of AA, AWPPL and RFV, herein referred as the Adroit Group to arrive at the rating. The consolidation is in view of the similarities in the lines of business, operational and financial synergies and common management. Extent of Consolidation: Full.

Key Rating Drivers

Strengths

• Established track record of operations and experienced management

The group is promoted by Mr. Rajendra Purandare who has an experience of almost 3 decades in the same line of business and holds a bachelor's degree in Mechanical Engineering. Mr. Jay Purandare, son of Mr. Rajendra Purandare; and daughter in law Ekta Purandare have pursued B. Tech in civil engineering from reputed institutions and have relevant qualification to manage and run the business. The group has strong and reputable track record for its project delivery and technical expertise in field of water infrastructure and possesses varied experience in all segments of water and sewage infrastructure related works. Its in house design capacity and electromechanical works expertise with manufacturing facility/work shop, brings down its projects cost considerably and gives it a competitive advantage.

• Favorable Government Policies

Drinking water supply and sanitation has become a prime focus for Government of India and Madhya Pradesh under schemes such as SMART city, AMRUT, Swachh Bharat Abhiyan and various development programs run by international development banks. Government of Madhya Pradesh and Chattisgarh have scaled up their outlays for integrated water supply projects for all urban areas and have a mission to cover all rural blocks and villages by 2030 by piped surface water supply schemes which forms a major and continuous business opportunity for the group. Owing to which, the group has been able to bag various reputable projects for water supply arrangements & sewage disposal like Simhastha Kumbh Mela 2016 and projects floated by Madhya Pradesh Jal Nigam and Asian Development Bank.

Weaknesses

• Working Capital Intensity

The working capital cycle of the group has deteriorated in FY2019 as compared to FY2018 marked by high GCA of 276 days in FY2019 (PY: 170 days). GCA has increased majorly on account of increase in receivable days to 126 in FY2019 (PY: 27 days). The build-up in debtors during the year-end is owing to majority of the revenue booking taking place during the last quarter i.e. ~57percent of the total revenue. Further due to delay in receivables, the suppliers were also stretched at 133 days in FY2019 (PY: 40 days).

• Modest scale of operations

The operations of adroit group are considered to be at moderate level considering the fact that they are in existence for such a long period. The operating income of the group stood at Rs. 30.04 crore (Provisional) for FY2019 as against Rs. 19.62 crore for FY2018 and Rs. 22.69 crore for FY2017. Also, the group has confirmed contracts in hand over Rs. 109.75 Crores as on 31 March, 2019 which shows its ability to scale up its operations manifold than the existing. The group is being ably backed by the next generation which opens avenues for further expansion.

Liquidity Position

The group has adequate liquidity marked by net cash accruals to its maturing debt obligations. The company generated cash accruals of Rs.1.41-3.05 crore during the four years through 2016-19 with no major debt obligations over the same period. The cash accruals of the company are estimated to remain around Rs.3.40-4.25 crore during 2020-22. The company's operations are working capital intensive as marked by gross current asset (GCA) days of 276 in FY 2019. The current ratio of the company stands moderate at 1.68 times as on March 31, 2019. Acuite believes that the liquidity of the company is likely to remain adequate over the medium term on account of moderate cash accrual and no major debt repayments over the near to medium term.

Outlook: Negative

Acuite believes that the group's outlook will remain negative over the medium term owing to deterioration in working capital cycle. The rating may be downgraded in case of further deterioration in working capital cycle and debt protection metrics. Conversely, the outlook may be revised to 'Stable' if the company manages to improve its working capital cycle and sustain its operating growth while maintaining profitability.

About the Rated Entity - Key Financials

	Unit	FY19 (Provisional)	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	30.04	19.62	22.69
EBITDA	Rs. Cr.	3.44	2.55	2.17
PAT	Rs. Cr.	3.01	2.36	2.07
EBITDA Margin	(%)	11.45	12.98	9.58
PAT Margin	(%)	10.02	12.05	9.11
ROCE	(%)	23.92	24.86	28.49
Total Debt/Tangible Net Worth	Times	2.30	0.99	1.67
PBDIT/Interest	Times	6.58	7.66	16.91
Total Debt/PBDIT	Times	2.60	1.70	2.45
Gross Current Assets (Days)	Days	276	170	163

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Entities in Infrastructure Sector- <https://www.acuite.in/view-rating-criteria-14.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Consolidation of Companies - <https://www.acuite.in/view-rating-criteria-22.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
17-May-2018	Cash Credit	Long Term	1.45	ACUITE BBB / Stable (Assigned)
	Bank guarantee/Letter of Guarantee	Long Term	8.50	ACUITE A3+ (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	5.00 (enhanced from Rs.1.50 crore)	ACUITE BBB/ Negative (Reaffirmed and outlook revised from Stable)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	15.00 (enhanced from Rs.8.45 crore)	ACUITE A3+ (Reaffirmed)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	6.05	ACUITE A3+ (Assigned)
Proposed Bank Facility	Not Applicable	Not Applicable	Not Applicable	3.90	ACUITE A3+ (Assigned)

Cash Credit Facility of Rs. 5.00 crore includes sublimit of letter of credit of Rs.0.50 crore

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About Acuite Ratings & Research:

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