

Press Release

Ajay Protech Private Limited

June 25, 2018

Rating Assigned



Total Bank Facilities Rated*	Rs. 40.00 Cr.
Long Term Rating	ACUITE BBB- / Outlook: Stable
Short Term Rating	ACUITE A3

* Refer Annexure for details

Rating Rationale

Acuite has assigned 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.40.00 crore bank facilities of Ajay Protech Private Limited. The outlook is '**Stable**'.

Ajay Protech Private Limited (APPL) based in Mehsana (Gujarat) was established as a partnership firm in 1977 by Mr. Amratlal Patel and Mr. Chandresh Patel. Later in 2011, it was converted to a private limited company and is registered as an AA-class and Special Category Bridge-I contractors with Government of Gujarat. The company is engaged in EPC (Engineering, Procuring and Construction) of roads and bridges including rail over bridges and flyovers all across India.

Key Rating Drivers

Strengths

- **Established track record of operations and experienced management**

The Directors have more than four decades of experience in the civil construction industry. The company was established in 1977, thereby, establishing track record of four decades. AAPL has executed projects for Public Works Department, for Government of Gujarat, Madhya Pradesh, Maharashtra and Rajasthan. Acuite believes that the established track record of operations will help to sustain the existing business profile over the medium term.

- **Healthy order book position with strong revenue visibility**

APPL has healthy unexecuted order book position of Rs.307.96 crore which gives future visibility of revenues over the near to medium term. These orders are geographically diversified in the state of Gujarat, Madhya Pradesh, Maharashtra and Bihar. Being into civil construction industry since 1977, APPL has established long standing relationship with the government departments.

- **Growing scale of operations with healthy operating margins**

APPL has registered improvement in the scale of operations during the period FY2015 to FY2017 under the study. The operating income stood at Rs.168.12 crore in FY2017 as against Rs.123.76 crore in FY2016. Further, the company has registered revenue of Rs.191.56 crore in FY2018 (Provisional). The operating margins of APPL are healthy at 12.59 percent in FY2017 as against 13.57 percent in FY2016. The reason for decline in margin is due to increase in raw material cost in FY2017 over FY2016. The net profitability margin stood at 3.00 percent in FY2017 as against 2.54 percent in FY2016. Acuite believes that APPL will maintain the scale of operations over the medium term on account of healthy order book position.

- **Moderate financial risk profile**

The financial risk profile of AAPL is moderate marked by moderate coverage indicators. The tangible net worth stood at Rs.36.58 crore as on 31 March, 2017 (which includes unsecured loans of Rs.15.18 crore considered as quasi equity) as against Rs.26.07 crore as on 31 March, 2016. The gearing (debt/equity) stood at 0.82 times as on 31 March, 2017 as against 1.21 times as on 31 March, 2016. The total debt of Rs.29.92 crore outstanding as on 31 March, 2017 comprises secured term loan from the bank of Rs.18.64 crore, Rs.7.85 crore as working

capital borrowing from the bank and Rs.3.44 crore as unsecured loans from relatives. Interest Coverage Ratio stood at 2.93 times in FY2017 as against 3.39 times in FY2016. The debt service coverage ratio stood below average at 2.76 times in FY2017 as against 3.06 times in FY2016. The net cash accruals are healthy at Rs.13.24 crore in FY2017 as against Rs.10.26 crore in FY2016. Total outside liabilities to tangible net worth ratio stood at 2.68 times as on 31 March, 2017 as against 2.60 times as on 31 March, 2016. Acuite believes that the company will maintain its financial risk profile on the back of healthy net cash accruals generation over the medium term.

Weaknesses

• Working capital intensive operations

The operations of APPL are working capital intensive marked by Gross Current Assets of 133 days in FY2017 as against 124 days in FY2016. This is majorly on account of high receivable days of 79 in FY2017 as against 74 days in FY2016. The receivables are from the government entities where the payment terms are around 90 days. Although, risk associated with delayed payment exists but due to good liaisons and promoter's extensive experience. APPL has managed to collect payments within 90 to 100 days from work certification. The average bank limit utilisation stood at 90-95 percent for the last six months ended May 2018. The company has cash and bank balance of Rs.4.67 crore as on 31 March, 2017. Acuite believes that being into civil construction industry, the operations of the company will remain working capital intensive over the medium term.

• Competitive and fragmented industry

The civil construction sector is marked by the presence of several mid to big sized players. The company 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 in the business for more than four decades.

Analytical Approach

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

Outlook: Stable

Acuite believes that AAPL will maintain a 'Stable' outlook in the medium term on account of its experienced management. The outlook may be revised to 'Positive' in case the company registers higher-than-expected growth in revenue and net cash accruals while maintaining healthy debt protection metrics. Conversely the outlook may be revised to 'Negative' in case of lower-than- expected growth in revenue and profitability, deterioration in the financial risk profile or higher than expected working capital requirements.

About the Rated Entity - Key Financials

	Unit	FY17 (Actual)	FY16 (Actual)	FY15 (Actual)
Operating Income	Rs. Cr.	168.12	123.76	104.39
EBITDA	Rs. Cr.	21.17	16.79	11.51
PAT	Rs. Cr.	5.05	3.15	1.15
EBITDA Margin	(%)	12.59	13.57	11.03
PAT Margin	(%)	3.00	2.54	1.10
ROCE	(%)	22.33	19.18	29.74
Total Debt/Tangible Net Worth	Times	0.82	1.21	1.21
PBDIT/Interest	Times	2.93	3.39	2.49
Total Debt/PBDIT	Times	1.36	1.87	2.07
Gross Current Assets (Days)	Days	133	124	115

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

CARE, vide its press release dated February 28, 2018 had denoted the rating of Ajay Protech Private Limited as 'CARE BB/Stable/CARE A4; ISSUER NOT COOPERATING' on account of lack of adequate information required for monitoring of ratings. The earlier rating, however, stood at 'CARE BB+/Stable/CARE A4+' vide its press release dated January 17, 2017.

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/criteria-default.htm>
- Financial Ratios And Adjustments - <https://www.acuite.in/view-rating-criteria-20.htm>
- Infrastructure Entities - <https://www.acuite.in/view-rating-criteria-14.htm>

Note on complexity levels of the rated instrument

<https://www.acuite.in/criteria-complexity-levels.htm>

Rating History (Upto last three years)

Not Applicable

*Annexure – Details of instruments rated

Name of the Facilities	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Crore)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	15.00	ACUITE BBB- / Stable (Assigned)
Bank guarantee/Letter of Guarantee	Not Applicable	Not Applicable	Not Applicable	25.00	ACUITE A3 (Assigned)

Contacts

Analytical	Rating Desk
Suman Chowdhury President - Rating Operations Tel: 022-67141107 suman.chowdhury@acuite.in Namita Palve Analyst - Rating Operations Tel: 022-67141129 namita.palve@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in

About Acuité Ratings & Research:

Acuité Ratings & Research Limited (erstwhile SMERA Ratings 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.

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. Acuité ratings 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. Acuité ratings 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.*