

Press Release

Arya Capital Management Private Limited

December 07, 2018



Rating Assigned

Total Facilities rated*	Rs. 300.00 Cr. (Non- Convertible Debenture)
Long Term Rating	ACUITE B-/ Outlook: Stable

* Refer Annexure for details

Rating Rationale

Acuité has assigned its long term rating of '**ACUITE B-**' (**read as ACUITE B minus**) to the Rs. 300.00 crore non-convertible debenture (NCD) issue of Arya Capital management Private Limited (ACMPL). The outlook assigned is '**Stable**'.

ACMPL was incorporated in 2007 and is promoted by Mr. Arjun Dhawan. ACMPL is member of promoter Group Company of Hindustan Construction Company (HCC). Mr. Arjun Dhawan is a wholetime director and Group CEO on the Board of Directors of HCC Ltd. ACMPL currently holds 0.11% stake in HCC. HCC has recently announced a rights issue of equity shares primarily for funding the working capital requirements of HCC. The proceeds of the proposed NCD issue are to be deployed for subscribing to the said rights issue of HCC.

Analytical Approach:

Acuité has considered standalone business and financial risk profile of ACMPL to arrive at the rating

Key Rating Drivers

Strengths

Experienced Management

ACMPL is promoted by Mr. Arjun Dhawan who is the son-in-law of Mr. Ajit Gulabchand Chairman and Managing Director of Hindustan Construction Company Ltd (HCC) an Engineering & Construction business with a turnover of over Rs. 10,132 Cr. Mr. Arjun Dhawan holds 98 per cent stake in the ACMPL and is a whole-time Director of HCC. Mr. Dhawan has a Bachelor's degree in Mathematics & Economics from Middlebury College and holds an MBA from Harvard Business School. Mr. Dhawan began his career as an Investment Banker in the Leveraged Finance Groups of Donaldson, Lufkin & Jenrette and Credit Suisse First Boston. Mr. Ajit Gulabchand is a graduate of Mumbai University and has previously served as Chief Executive Officer of Indian Hume Pipe Co. Ltd. (IHPC) and as Managing Director of Ravalgaon Sugar Farm Ltd. (RSFL).

Supported by promoter group

ACMPL is member of promoter Group Company of HCC; HCC is one of the large construction companies in India and is engaged in construction activities which include roads, bridges, ports, power stations, water supply and irrigation projects. The company's construction capabilities include solutions for construction of projects in various complex industries including hydel power, water solution systems, nuclear power and process plants and transportation. HCC however has established its presence as a key infrastructure player through its established track record of execution of several marquee infrastructure projects such as Bandra-Worli Sea Link (Mumbai), Mumbai Pune Expressway, Delhi Faridabad Skyway and the government's continuing focus on infrastructure development. The Government of India has implemented various infrastructure policies which include projects like Dedicated Freight Corridors, Metro rail projects already underway in most major cities. GoI's push with Smart Cities Mission and AMRUT likely to provide revenue visibility to players like HCC.

HCC's unexecuted order book stands healthy at Rs. 19,114.00 crore as on September 30, 2018.

Acuité believes that the support from HCC's promoters and improvement in HCC's business and financial performance on the back of continued traction in the domestic infrastructure segment and successful restructuring of HCC's debt will be key rating sensitivity factor.

Weaknesses

Susceptibility to the timely and successful revival of HCC

HCC is currently witnessing financial stress and there are on-going delays in servicing of its debts availed from various banks and institutions. HCC is facing litigations from various lenders and operational creditors. The promoters of HCC are in negotiations with the various lenders and stakeholders to recast its debt and revive the company. The timely and successful resolution of its issues with various lenders, creditors and other counterparties will be critical for its long term viability. In the event of an inordinate delay in the resolution of the debt issues of HCC or some of the lenders preferring alternative legal options, the company's revival plans could be impacted. This in turn will impact the company's financial performance and consequently the promoter's financial flexibility. These strengths are partially offset by the exposure of HCC to inherent risk of operation in the infrastructure segment. Since the standalone credit profile of ACMPL is extremely modest, the dependence on HCC for redemption of the issue either to direct financial support or refinancing will be high. Hence the improvement in performance of HCC will be a major factor.

Acuité believes that a significant and sustainable improvement in HCC's operational and financial performance will be a key rating sensitivity factor for the proposed issue.

Liquidity Position

ACMPL's cash flow is dependent on HCC for redemption of the issue either by direct financial support or refinancing. Further, the liquidity of ACMPL on a standalone basis is subdued.

Outlook -Stable

Acuité believes that ACMPL will maintain a stable credit profile on the back of its experienced management, established presence of HCC in the infrastructure sector and the increasing infrastructure spending in the economy. The outlook may be revised to 'Positive' in case of sufficiently higher than expected growth in accruals and a further strengthening in business risk profile. Conversely, the outlook may be revised to 'Negative' in case of slowdown in the flow of orders and significant buildup in receivables.

About the rated entity- Key financials

	Unit	FY18 (Actual)	FY17 (Actual)
Operating Income	Rs. Cr.	0.95	1.96
EBITDA	Rs. Cr.	0.02	0.18
PAT	Rs. Cr.	0.02	0.16
EBITDA Margin	(%)	2.54	9.36
PAT Margin	(%)	1.73	8.01
ROCE	(%)	0.70	20.15
Total Debt/Tangible Net Worth	Times	(37.50)	(12.85)
PBDIT/Interest	Times	-	-
Total Debt/PBDIT	Times	173.03	10.41
Gross Current Assets (Days)	Days	1,840	308

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

None

Any other information

None

Applicable Criteria

- Default Recognition - <https://www.acuite.in/view-rating-criteria-17.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) for instruments rated:

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
Non-convertible debentures	NA	NA	NA	300.00	ACUITE B-/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Head – Corporate and infrastructure Rating Tel: 022-671411191 aditya.gupta@acuite.in	Varsha Bist Manager - Rating Desk Tel: 022-67141160 rating.desk@acuite.in
Sanket Kotkar Analyst - Rating Operations Tel: 022-67141147 sanket.kotkar@acuiteratings.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.