Press Release

Aarneel Technocrafts Private Limited

March 25, 2021

Rating Assigned

Total Bank Facilities Rated*	Rs. 20.00 Cr.
Long Term Rating	ACUITE BBB-/ Outlook: Stable (Assigned)

** Refer Annexure for details*

Rating Rationale

Acuité has assigned the long-term rating of '**ACUITE BBB-**' **(read as ACUITE triple B minus)** on the Rs. 20.00 Cr bank facilities of Aarneel Technocrafts Private Limited. The outlook is **'Stable'**.

Aarneel Technocrafts Private Limited (ATPL) incorporated in the year 2011 was promoted by Mr. Piyush Jain and Mr. Samit Holkar and is engaged in the manufacturing of road furniture like road signages, light poles, shelters, fabricated fixtures, etc. The company is based out of Indore, MP with manufacturing facilities based out of same region.

Analytical Approach

Acuité has considered the standalone business and financial risk profiles of Aarneel Technocrafts Private Limited (ATPL) for arriving at the rating.

Key Rating Drivers

Strengths

- **Strong parentage; association with promoters of Dilip Buildcon Limited**
  ATPL was established as a proprietary concern by Mr. Samit Holkar and later acquired by Mr. Piyush Jain in 2011. Mr. Piyush Jain has an experience of more than a decade in the similar line of business and the idea behind acquisition of ATPL was to set up a backward integrated company for Dilip Buildcon Limited (DBL) which would manufacture road furniture items majorly for DBL.
  Dilip Buildcon Limited (DBL), based out of Bhopal was established in the year 1989 (reconstituted as private limited in 2006 & public limited in 2016) listed on BSE and NSE, promoted by Mr. Dilip Suryavanshi and his family is engaged in the construction business wherein it undertakes road construction on an EPC basis, and road development on a build-operate-transfer (BOT) basis. The promoters of DBL have vast experience in infrastructure industry for more than three decades now. The company is into a gamut of construction activities (roadways, EPC, railways, irrigation, etc.) and is present in 19 states in the country. The company holds an order book currently of about ~Rs.30,000 Cr of which Rs.9,000 Cr has been executed even during the pandemic in FY2020-21. It is widely recalled for completion of work before scheduled time and the company maintains a robust fleet of HEM equipment and vehicles (~13,000 equipment) with a vast employee base (~35,000 employees). Currently, ATPL is expected to under-go amalgamation process with a promoter owned entity of DBL. The amalgamation is expected to be completed by June, 2021.
  Acuité believes that with a vast experience and financial flexibility of the promoters of DBL, ATPL's business risk profile is expected to benefit largely post amalgamation.

- **Strong order book position supported with adequate capacity expansion**
  DBL has been procuring largely from ATPL since FY2019 and generally the orders in hand for ATPL is ~5 per cent of total order book position of DBL. ATPL manufactures an integrated line of products which are utilised all across the infrastructural construction industry and majorly in the road infrastructure segment which includes: road signages and safety board, octagonal poles of all sizes, arm brackets, metal beam crashers, pedestrian guard rail, etc. Currently, ATPL has a strong order book position of ~Rs.1,500 Cr. as on January, 2021 thus providing healthy revenue visibility in ATPL, for the medium term. ATPL currently has an order book of ~Rs.300 Cr, only from DBL, to be executed during one-year span. Further, to support and cater to incoming surge of orders, ATPL, with a conscious decision of expansion of capacity has already incurred capital expenditure through the last four years. It has undergone an exhaustive capital expenditure of ~Rs.66.2 Cr, cumulatively over the last four years (including FY2021) which has been funded completely by way of internal accruals and unsecured loans from DBL. The healthy order book size

coupled with capacity expansion has yielded its results by way of adequate operational traction over the last financial years for ATPL.
Acuité believes that company's healthy order book position coupled with adequate capacity additions ensures adequate operational traction over the medium term.

- **Efficiently managed working capital operations**
  ATPL's working capital operations are efficiently managed as observed from Gross Current Asset (GCA) days of 82 days as on March 31, 2020 against 83 days in previous year. The GCA days are majorly influenced by the prudently managed receivable period with a credit policy offered to customers for not more than 30 days and therefore, it is registered at 25 days in FY2020 against 46 days in FY2019. The company follows an inventory policy of 45 to 50 days which was recorded at 62 days in FY2020 against 25 days in FY2019; due to continuous capacity expansion in order to be cater to increased demand. Due to the increasing demand and increased inventory holding, the fund based working capital facility stood optimally utilised at 93 percent through last one year ending February 2021. Acuité believes that working capital operations of ATPL are expected to remain in the similar range on account of timely customer realization and prudent inventory management.

- **Average capital structure coupled with robust debt protection metrics**
  ATPL has reported an average capital structure characterized by average networth, average leverage metrics coupled with healthy debt protection metrics. Networth of ATPL stood at Rs.27.8 Cr as on March 31, 2020 against Rs.22.4 Cr as on March 31, 2019. Further, its total debt consisted of short-term debt and unsecured loans from DBL which was reported at Rs.34.1 Cr as on March 31, 2020. This, in turn, led to an average debt to equity ratio of 1.22 times as on March 31, 2020 against 1.46 times in the previous year. TOL/TNW stood average at 2.11 times as on March 31, 2020 against 2.13 times as on March 31, 2019. Further, ATPL had incurred a capital expenditure for its capacity additions, during FY2021, amounting to ~Rs.8 Cr which was funded through unsecured loans infused by DBL.
  Further, owing to moderate profitability levels at 8 percent to 15 percent, the company reported healthy debt protection metrics demonstrated from an ICR and DSCR of 4.23 times and 3.53 times, respectively, in FY2020 against 6.45 times and 4.94 times in previous year, respectively. The company also reported healthy cash accruals which led to a moderate NCA/TD ratio of 0.20 times as on March 31, 2020. Acuité believes that the financial risk profile of ATPL is expected to improve w.r.t. improving networth levels and no debt-funded capital expenditure entailed in the medium term.

Weaknesses

- **Revenue concentration risk; major dependency on one client**
  ATPL is highly dependent on DBL with ~88 percent (Rs. 94.2 Cr; during 11MFY2021) of ATPL's revenue. ATPL also caters to other players in the industry with a revenue contribution of ~12 percent during FY2021. Going forward, ATPL's major customer is likely to be DBL but the revenue contribution is expected to remain in the range of 60 to 70 percent and remaining will be from open market from various locations. Any adverse impact on the credit profile of DBL will entail a negative biased towards the rating.

- **Uneven operating performance over the last three years**
  ATPL's operating performance involving revenue and profitability remained uneven over the last three years from FY2018 to FY2020. It reported revenue of Rs.135 Cr in FY2020 against Rs.217.8 Cr in FY2019 and Rs.92.5 Cr in FY2018. In FY2019, the revenue saw an exceptional upside on account of surge of orders from DBL. Further, the revenue profile moderated and stood at Rs.135 Cr with an impact in the last two months of FY2020 on account of covid – 19. Similarly, operating profitability in the company has also under gone variation in the last three years and stood at 8.3 percent in FY2020 against 15.9 percent in FY2019 and 4.4 percent in FY2018. The same was recorded exceptionally high in FY2019 on account of comparatively low prices of raw materials such as coiled steel strips, rolls, etc. from present date, also coupled with the fact that due to surge in the orders the plant was running at dual shifts with same employee base. Going forward, the sustenance in operating performance is expected to remain a key rating monitorable.

Rating Sensitivities

- Timely completion of amalgamation process
- Unexpected debt funded capital expenditure plans which may weigh down the overall financial risk profile and liquidity
- Improvement in operations while sustaining the profitability margins

Liquidity: Adequate

ATPL has adequate liquidity demonstrated from the adequate net cash accruals against no repayment obligations. The cash accruals stood in the range of Rs.3.3 Cr to Rs.21.2 Cr for the last three years against nil repayment obligations. Going forward, the accruals are expected to improve and be in the range of Rs.8.6 Cr to Rs.14.3 Cr, against minimal obligations of Rs.2.1 Cr to Rs.3 Cr for the same period. These repayment obligations are expected to arise from proposed refinancing plans taken up by ATPL, wherein the company plans to borrow up to Rs.30 Cr term debt from banks to replace the existing unsecured loans by Dilip Buildcon Limited. This is a step towards reducing the reliance of funding requirements from DBL. Further, ATPL's working capital bank lines were utilised optimally at 93 percent through last twelve months ending February, 2021 on account growing inventory holding period to cater to continuous incoming orders. The cash and bank balances were recorded at Rs.0.14 Cr as on March 31, 2020 with a low current ratio of 0.83 times in the same period. The same is expected to improve going forward.

Outlook: Stable

Acuité believes that ATPL will maintain a 'Stable' outlook and continue to benefit over the medium term with respect to the extensive experience of management and association with reputed group company and its healthy order book position. The outlook may be revised to 'Positive', in case of higher-than-expected revenues and sustained profitability while noteworthy improvement in working capital management and overall liquidity. Conversely, the outlook may be revised to 'Negative' in case ATPL registers lower-than-expected decline in revenues and profitability, any significant stretch in its working capital management or any unexpected debt-funded capital expenditure weighing down the overall capital structure and leading to deterioration of its liquidity.

About the Rated Entity - Key Financials

	Unit	FY20 (Actual)	FY19 (Actual)
Operating Income	Rs. Cr.	135.18	217.85
PAT	Rs. Cr.	5.45	20.03
PAT Margin	(%)	4.03	9.20
Total Debt/Tangible Net Worth	Times	1.22	1.46
PBDIT/Interest	Times	4.23	6.45

Status of non-cooperation with previous CRA
Not Applicable

Any other information
Not Applicable

Any Material Covenants
None

Applicable Criteria

- Default Recognition - https://www.acuite.in/view-rating-criteria-52.htm
- Financial Ratios and Adjustments - https://www.acuite.in/view-rating-criteria-53.htm
- Manufacturing Entities - https://www.acuite.in/view-rating-criteria-59.htm

Note on complexity levels of the rated instrument
https://www.acuite.in/view-rating-criteria-55.htm

Rating History (Upto last three years)
Not Applicable

*Annexure – Details of instruments rated

Name of Facility (ies)	Date of Issuance	Coupon Rate	Maturity Date	Size of the Issue (Rs. Cr)	Ratings/Outlook
Cash Credit	Not Applicable	Not Applicable	Not Applicable	10.00	ACUITE BBB-/Stable (Assigned)
Term Loan	Dec, 2020	7.50%	Nov, 2024	1.75	ACUITE BBB-/Stable (Assigned)
Proposed	Not Applicable	Not Applicable	Not Applicable	8.25	ACUITE BBB-/Stable (Assigned)

Contacts

Analytical	Rating Desk
Aditya Gupta Vice President – Rating Operations Tel: 022-49294041 aditya.gupta@acuite.in Sagarikaa Mukherjee Analyst - Rating Operations Tel: 022-49294033 sagarikaa.mukherjee@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 8,000 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.