

**RATING RATIONALE**

**AGARWAL COMPANY**

**Brickwork Ratings upgrades the long term rating and reaffirms the short term rating for the Bank Loan Facilities of ₹ 26 Crores of Agarwal Company (AC or ‘the firm’)**

**Particulars:**

Facility**	Amount (₹ Cr)		Tenure	Rating*	
	Previous	Present		Previous (April, 2020)	Present
<b>Fund based</b>	<b>6.00</b>	<b>6.00</b>	<b>Long Term</b>	<b>BWR BB (Stable) Reaffirm Issuer Not Cooperating</b>	<b>BWR BB+ (Stable) Upgrade</b>
<b>Non Fund based</b>	<b>20.00</b>	<b>20.00</b>	<b>Short Term</b>	<b>BWR A4+ Reaffirm Issuer Not Cooperating</b>	<b>BWR A4+ Reaffirm</b>
<b>Total</b>	<b>26.00</b>	<b>26.00</b>	<b>INR Twenty Six Crores Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings

\*\* Details of Bank facilities is provided in Annexure-I

**RATING ACTION / OUTLOOK**

**BWR upgrades the Long Term Rating assigned as BWR BB+ with Stable Outlook and reaffirms the short term rating as BWR A4+**

The rating draws strength from the long track record of the promoters in executing civil construction works for various government agencies. The rating is further strengthened by the strong financial risk profile of the firm and a healthy work order position of Rs.190 Crores as on date which signifies revenue visibility in the short to medium term. The rating is, however, constrained by the risks related to tender based businesses and impact of Covid-19 pandemic on the general business environment in the country.

BWR believes that the business risk profile of “Agarwal Company” will be maintained over the medium term. The ‘stable’ outlook indicates a low likelihood of a rating change in the medium term. The Rating outlook may be revised to “Positive” in case there is significant improvement in revenues, profit margins of the firm going forward. The rating outlook may be revised to “Negative” if there is any deterioration in the financial risk profile including liquidity of the company.

## KEY RATING DRIVERS

### Credit Strengths:

- **Experienced promoter:** Partners of the firm, Mr. Manoj Agarwal & Mr. Vikas Agarwal, have been in the business for many years now and the former has an experience of close to 3 decades.
- **Decent work order in hand position:** The firm currently has work orders in hand worth of Rs.190 Crores which provides revenue visibility in the short to medium term.
- **Association with government tenders & projects:** The firm is a class A contractor registered with UP government and carries out real estate development & various other civil work mainly for the government agencies, thus minimizing the payment risk.
- **Moderate financial risk profile:** The firm has a moderate networth position which stood at Rs.7.46 Crores as on 31st March 2020(Provisionally) which is further supported by unsecured Loans of Rs.7.28 Crores. The gearing has been low year on year because of very limited fund based exposure. Analyzed gearing as on 31 March 2020 was at 0.84 times and overall gearing (TOL/TNW) was at 2.22 times. Debt coverage indicators were also strong as reflected in ISCR & DSCR of 3.47 times & 2.80 times for FY20.
- **Healthy profit margins:** The firm has been registering decent operating and net margins year on year. As per provisional FY20 financials, operating & net margin were 10.18 % & 6.90% respectively.

### Credit risks:

- **Constitution risk:** Withdrawal of capital by the partners for any personal contingency would adversely affect the capital structure of the firm.
- **Competition in the Industry:** Entry barriers in the industry are low on account of limited capital and technology requirement and also low differentiation in the end product leading to intense competition and limiting the pricing power resulting in low profitability.
- **Risk of tender-based business:** The firm is exposed to the risks associated with government tender based business and also the risk of delays in project completion.
- **Impact of COVID-19 pandemic:** The operations of the firm are exposed to the risks associated with the current COVID-19 situation in the country which has affected the entire country. Various government projects are on hold or have been delayed as the current focus of the government is on the fight against the coronavirus.

## ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

For arriving at its ratings, BWR has considered the standalone financials of the firm. BWR has applied its rating methodology as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

## RATING SENSITIVITIES

**Positive:** Ability of the firm to grow its topline in the short to medium term while maintaining the credit risk profile.

**Negative:** Any substantial fall in the firm’s revenue levels and delays in the servicing of bank facilities.

## LIQUIDITY POSITION : Adequate

The firm had cash & cash equivalents of Rs. 1.10 Crores as on 31st March 2020 as compared to Rs.3.45 Crores a year ago. In addition to these, the firm had Rs.14.61 Crores worth of FDRs in the bank as on 31st March 2020. It generated net cash accruals of Rs.6.06 Crores in FY20 as compared to Rs.6.10 Crores in FY19. There are no term loan obligations for the firm in the current fiscal. The debt coverage indicators of the firm, although declined from last year, are still at a healthy level in FY20 as reflected in ISCR & DSCR of 3.47 times & 2.80 times respectively. The firm’s current ratio has improved to 1.72 times in FY20 from 1.48 times in FY19.

The average utilization of the cash credit limit was <5% in the last 7 months i.e. Jan 2020 to July 2020. We believe that the firm’s liquidity position will remain adequate in the medium term which is supported by unutilized bank lines, absence of any term loan repayment obligations and a healthy level of cash & cash equivalents.

## FIRM’S PROFILE

Agarwal Company (AC) is a partnership firm which was established in 1980 with its registered office in Lucknow, Uttar Pradesh. The partners of the firm are Mr. Manoj Agarwal and Mr. Vikas Agarwal. AC is a class “A” contractor registered with development authorities in Uttar Pradesh and undertakes projects related to civil construction and structural work for public infrastructure and residential buildings.

## KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY20	FY19
Result Type		Provisional	Audited
Operating Income	₹ Crores	80.45	74.08
EBITDA	₹ Crores	8.19	7.45
PAT	₹ Crores	5.55	5.59
Tangible Net worth (Analyzed)	₹ Crores	11.10	8.59
Total Debt / Tangible Net worth (Analyzed)	Times	0.84	1.08
TOL/TNW	Times	2.22	2.77
Current Ratio	Times	1.72	1.48

**KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : NA**

**NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY :**

CRISIL has revised the Issuer Not Cooperating rating of the firm to CRISIL B (stable) / A4 dated 27 August 2020.

**RATING HISTORY FOR THE PREVIOUS THREE YEARS [including withdrawal and suspended]**

Instrument / Facilities	Current Rating (Sept 2020)			Rating History			
	Tenure (Long Term/ Short Term)	Amount (₹ Cr)	Rating	08Apr2020	19Mar2019	2018	2017
Fund Based	Long Term	6.00	<b>BWR BB+ (Stable) Upgrade</b>	<b>BWR BB (Stable) Reaffirm Issuer Not Cooperating</b>	<b>BWR BB (Stable) Reaffirmed</b>	-	-
Non fund Based	Short Term	20.00	<b>BWR A4+ Reaffirm</b>	<b>BWR A4+ Reaffirm Issuer Not Cooperating</b>	<b>BWR A4+ Reaffirmed</b>		
Total		<b>26.00</b>	<b>INR Twenty Six Crores Only</b>				

**Note:** Initial rating was done on 12th August 2014 with an assigned rating of BWR BB (Stable) / A4+.

**COMPLEXITY LEVELS OF THE INSTRUMENTS**

For more information, visit [www.brickworkratings.com/download/ComplexityLevels.pdf](http://www.brickworkratings.com/download/ComplexityLevels.pdf)

**Hyperlink/Reference to applicable Criteria**

- [General Criteria](#)
- [Approach to Financial Ratios](#)

Analytical Contacts	Investor and Media Relations
<p><b>Raushan Kedia</b> Rating Analyst Board: +91 11 2341 2232 raushan.k@brickworkratings.com</p> <p><b>Satvinder Kumar Gakhar</b> Associate Director - Ratings Board: +91 11 2341 2232 satvinder.g@brickworkratings.com</p>	<p><b>Liena Thakur</b> Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com</p>

**Agarwal Company**

**ANNEXURE I**

**Details of Bank Facilities rated by BWR**

Sl. No.	Name of the Bank	Type of Facilities	Long Term (₹ Cr)	Short Term (₹ Cr)	Total (₹ Cr)
1	Punjab National Bank	Overdraft	6	-	6
2		Bank Guarantee	-	20	20
<b>TOTAL</b>			<b>6</b>	<b>20</b>	<b>26</b>

**Total Rupees Twenty Six Crores only.**



**For print and digital media** The Rating Rationale is sent to you for the sole purpose of dissemination through your print, digital or electronic media. While it may be used by you acknowledging credit to BWR, please do not change the wordings in the rationale to avoid conveying a meaning different from what was intended by BWR. BWR alone has the sole right of sharing (both direct and indirect) its rationales for consideration or otherwise through any print or electronic or digital media.

**About Brickwork Ratings** : Brickwork Ratings (BWR), a Securities and Exchange Board of India [SEBI] registered Credit Rating Agency and accredited by Reserve Bank of India [RBI], offers credit ratings of Bank Loan, Non- convertible / convertible / partially convertible debentures and other capital market instruments and bonds, Commercial Paper, perpetual bonds, asset-backed and mortgage-backed securities, partial guarantees and other structured / credit enhanced debt instruments, Security Receipts, Securitisation Products, Municipal Bonds, etc. BWR has rated over 11,400 medium and large corporates and financial institutions' instruments. BWR has also rated NGOs, Educational Institutions, Hospitals, Real Estate Developers, Urban Local Bodies and Municipal Corporations. BWR has Canara Bank, a leading public sector bank, as one of the promoters and strategic partners. BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

**DISCLAIMER** Brickwork Ratings (BWR) has assigned the rating based on the information obtained from the issuer and other reliable sources, which are deemed to be accurate. BWR has taken considerable steps to avoid any data distortion; however, it does not examine the precision or completeness of the information obtained. And hence, the information in this report is presented "as is" without any express or implied warranty of any kind. BWR does not make any representation in respect to the truth or accuracy of any such information. The rating assigned by BWR should be treated as an opinion rather than a recommendation to buy, sell or hold the rated instrument and BWR shall not be liable for any losses incurred by users from any use of this report or its contents. BWR has the right to change, suspend or withdraw the ratings at any time for any reasons.