

Rating Rationale

28 Aug 2020

ARROW CONSTRUCTIONS LTD

Brickwork Ratings downgrades the ratings for the bank loan facilities of Rs. 41.00 Crore of Arrow Constructions Ltd ('ACL' or 'the Company')

Particulars

Facilities#	Amount (Rs. Crs)		Tenure	Rating ¹	
	Previous	Present		Previous [^]	Present
Fund Based Cash Credit	8.00	9.00	Long Term	BWR BB+/Positive Reaffirmed	BWR C Downgrade
Non Fund Based Bank Guarantee/ILC ILC	16.02 1.00	32.00 -	Short Term	BWR A4+ Reaffirmed	BWR A4 Downgrade
Total	25.02	Rs. 41.00 Crore (Rupees Forty One Crores Only)			

[^] Not Reviewed the outstanding ratings of BWR BB+ (Stable)/A4+ on 10 th January 2019 and 14th February 2020.

1 Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Note: Details of Bank facilities are provided in Annexure I

Ratings Action/Outlook

BWR has downgraded the ratings of Arrow Constructions Ltd to BWR C/A4 in view of, BWR observed delay in servicing debt obligations, moderate scale of operations and profitability margins, presence in a highly competitive industry and tender nature of the business and working capital intensive nature of operations. However, the ratings are supported by the experienced promoters, moderate financial risk profile, reputed clientele and moderate order book position.

The 'Stable' outlook indicates a low likelihood of rating change over the medium term. BWR expects that **Arrow Constructions Ltd'** business risk profile will be maintained over the medium term. The outlook may be revised to 'Positive' if the company records significantly better-than-expected revenue and profitability and improved working capital management, resulting in better debt coverage metrics and liquidity profile. The outlook may be revised to 'Negative' if the company reports significantly lower than expected performance, resulting in lower than estimated coverage indicators, and a weaker liquidity position. Further, any major debt-funded expenditure resulting in deterioration in capital structure and debt coverage indicators and/or a sharp reversal in industry operating conditions may exert a downward pressure on the rating.

Key Rating Drivers

Credit Strengths:

- **Experienced promoters:** The promoters have more than a decade of experience in the civil construction industry. ACL has developed a long standing relationship with clients in various government departments in Karnataka, Andhra Pradesh and Telangana and gained significant experience in the tender bidding process which helps in continuous receipt of orders.
- **Moderate financial risk profile:** Financial risk profile is moderate with moderate capital structure and debt service coverage metrics. Tangible net worth, gearing, interest service coverage ratio and debt service coverage ratio were around Rs.21.73 Crs, 1.01 times, 2.67 times and 1.86 times respectively as on 31st March 2019.
- **Reputed clientele and moderate order book position:** Arrow Constructions Ltd (ACL) executes contracts primarily for established clients like State Government related buildings, hospitals and irrigation projects mainly Canals and Bridges. The company has moderate revenue visibility backed by an order book position of around 291 Crs, as of June ended 2020.

Credit Challenges:

- **Moderate revenue and profitability margins:** Revenue remains moderate though decreased revenue from Rs 78.40 Crs for FY17 to Rs.77.69 Crs in FY18 and to Rs.74.85 Crs in FY19. On a provisional basis, the company has reported the revenue of Rs. 99.83 Crs for FY20. Operating profit margin and net profit margin were moderate at 7.78% and 4.65 respectively for FY19.
- **Presence in a highly competitive industry and tender nature of the business:** The construction industry is highly fragmented with the presence of many organized and unorganized players. Further, the tender nature of business places pressure on the profitability of the company. Besides, the Coronavirus outbreak may also constrain/difficult to the execution of order book positions within the stipulated time and also difficult for the Governments to release the payments in time.

Analytical Approach and Applicable Rating Criteria

As it is a company, a standalone approach has been adopted and BWR has applied its rating methodology as detailed in the Rating Criteria detailed below (hyperlinks provided at the end of this rationale).

Rating Sensitivities

The ability of the company to increase revenues, improve its profitability margins, strengthen its credit risk profile and manage its working capital efficiently would remain the key rating sensitivities.

Positive:

- Sustained improvement in scale of operations with improved profitability margins, capital structure and improvement in the liquidity position.
- Specific credit metrics that could lead to an upgrade of ACL's rating include (1) Total Debt/Tangible net worth below 1.0 time on a continuous basis, (2) DSCR and ISCR greater than 3.0 times on a continuous basis.

Negative:

- Specific credit metrics that could lead to a downgrade if there is a decline in profitability margins, Total Debt/Tangible net worth exceeding 1.00 times and weakening in debt protection metrics with DSCR and ISCR declining below 1.00 times.
- The Covid 19 outbreak may also constrain the regular business also.

Liquidity Position: Stressed

- The company's high working limit utilisation stood at around 100% in Karur Vysya Bank and 90+% in HDFC Bank Ltd. The company has debt repayment obligations of Rs.5.27 Crs as against cash accruals of Rs.4.34 Crs, as on 31 Mar 2019, which gives tight liquidity position of the company. BWR observed delay in servicing debt obligations. Though, the current ratio was adequate at 1.21 times as on 31st March 2019.

About the Company

Arrow Construction Ltd (ACL) was incorporated in December 1995 as a public company, with its registered office at Hyderabad, Telangana. Mr. ACL is engaged in the construction of buildings, hospitals and irrigation projects mainly Canals and Bridges. The company executes the projects (Both building works and irrigation works) majorly for Government projects on tender basis. The company is a special class contractor registration in Andhra Pradesh and Telangana. Both were expired in June 2020 and November 2019 respectively and the renewal is under process. The company is a special class contractor registration in Karnataka also. The validity is till October 2020. The company has ongoing projects with a total value of around Rs. 291 Crs. as on 30 June 2020 to be executed in Karnataka, Andhra Pradesh and Telangana, which is likely to be executed by the next 12-24 months.

Mr. Vijaya Kumar, Mr. DVKV Prasad and S V Prabhakar are the directors of the company.

Key Financial Indicators

Key Parameters	Units	31 Mar 2018	31 Mar 2019
Result Type		Audited	Audited
Operating Revenue	Rs. Cr	77.69	74.85
EBITDA	Rs. Cr	3.24	5.82
Profit After Tax	Rs. Cr	3.24	3.48
Tangible Net Worth	Rs. Cr	18.25	21.73
Total Debt/Tangible Net Worth	Times	0.70	1.01
Current Ratio	Times	1.45	1.21

Key Covenants of the facility rated: The terms of sanction include standard covenants normally stipulated for such facilities.

Status of non-cooperation with previous CRA – India ratings & Research has reaffirmed the ratings of IND BB/Stable/A4+ and continues to Issuer Not Cooperating* category on 02/02/18 for the bank loan facilities of Rs.10.00 Crs.

Rating History for the last three years (Including Withdrawn/Suspended)

Sl. No	Facilities	Current Rating (2020)			Rating History		
		Type	Amount (Rs. Cr)	Rating	2019 [Feb 13, 2019]	2018	2017 [Oct, 2017]
1	Fund Based Cash Credit	Long Term	9.00	BWR C Downgrade	BWR BB+ Positive Reaffirmed	-	BWR BB+ Stable Assigned
2 3	Non Fund Based Bank Guarantee ILC	Short Term	32.00 -	BWR A4 Downgrade	BWR A4+ Reaffirmed	-	BWR A4+ Assigned
Total		Rs. 41.00 Crore (Rupees Forty One Crores Only)					

^ Not Reviewed the outstanding ratings of BWR BB+ (Stable)/A4+ on 10 th January 2019 and 14th February 2020



Existing Rating From any other CRA: India ratings & Research has reaffirmed the ratings of IND BB/Stable/A4+ and continues to Issuer Not Cooperating* category on 02/02/18 for the bank loan facilities of Rs.10.00 Crs.

Complexity Levels of the Instruments:

For more information, visit www.brickworkratings.com/download/ComplexityLevels.pdf

Hyperlink/Reference to applicable Criteria

- [General Criteria](#)
- [Approach to Financial Ratios](#)
- [Infrastructure Sector](#)
- [Short Term Debt](#)

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Arrow Constructions Ltd

Annexure I: Details of Bank Facilities rated

Sl. No.	Name of the Bank	Type of Facilities	Long Term (Rs. Cr)	Short Term (Rs. Cr)	Total (Rs. Cr)
1.	HDFC Bank Ltd , Hills Branch, Hyderabad, Telangana.	Cash Credit [^]	7.00	-	7.00
		Bank Guarantee ^{^^}	-	17.00	17.00
		ILC ^{^^^}	-	(2.00)	(2.00)
2	Karur Vysya Bank, S R Nagar Branch, Hyderabad, Telangana.	CCBD	2.00	-	2.00
		BG/ILC ^{^^^^}	-	15.00	15.00
TOTAL - Rupees Forty One Crores Only					41.00

[^] CC/OD

^{^^} Bond Guarantee of Rs.2.00 Crs, Financial Guarantee of Rs.2.00 and Performance Bank Guarantee of Rs.13.00 Crs.

^{^^^} ILC is sublimit and enhanced from Rs.1.00 Crs to Rs.2.00 Crs (HDFC Bank Ltd)

^{^^^^} Previously ILC was rated separately. Present BG and ILC limits are interchangeably and enhanced from Rs.8.00 Crs to Rs.15.00 Crs (KVB)

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