Rating Rationale

Aarneel Technocrafts Pvt.Ltd.

27/Sep/2018

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹10.00 Crores of Aarneel Technocrafts Pvt.Ltd.

Particulars

Fund Based Facility	Amount (₹ Crs)	Tenure	Rating*
OCC	10.00	Long Term	BWR BB+ (Pronounced as BWR Double BB+) Outlook : Stable
Total	10.00	INR Ten Crores Only.	

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

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial statements of the Entity upto FY18, publicly available information and information/clarifications provided by the Entity's management.

The rating draws strength from the experience of the company's promoters in this business, it's business linkage with a well established road construction company- Dilip Buildcon Ltd which have enabled it to increase its scale of operations due to steady inflow of orders, increasing revenues, moderate current ratio and working capital cycle etc. The ratings are, however constrained by high client concentration risk given its dependence on a single customer (DBL) for its revenue, volatility in raw material prices which has resulted in low profit margins for the company, low net worth, and high reliance on DBL for its funding requirements.

Going forward, the ability of the Company to accelerate its scale of operations, increase its profit margins,, efficiently manage its working capital and cash flows for timely servicing of interest/debt obligations and strengthening of overall financial risk profile shall be the key rating sensitivities.

Key Rating Drivers

<u>Credit Strengths:</u>

- **Business experience of the promoter and established clientele relationship**
  The promoters of the company - Mr. Samit Holkar (BE-Mechanical) aged 45 years and Mr. Piyush Jain (MBA-Finance) aged 36 years have reasonable amount of experience in the industry and has established strong business relationship with Dilip Buildcon Ltd which have resulted in steady inflow of orders and funding support over the years.

- **Healthy growth in Operating Revenues**
  Total Operating Income (TOI) has shown increasing trend since last 3 years. TOI increased to ₹92.50 crs/- in FY18 from ₹30.13 crs/- in FY16 recording CAGR of 45.33%. Growth is observed on account of high inflow of orders from Dilip Buildcon Ltd. Aarneel Technocrafts Pvt Ltd (ATPL) has healthy order book of around ₹195 crs/- which provides revenue visibility for the current fiscal.

- **Moderate Current Ratio and Working Capital Cycle**
  The company has moderate current ratio of 1.32x in FY18 improving from 1.13x in FY17. The company has moderate working capital cycle of 38 days in FY18.

- **Moderate Net Worth and coverage ratios**
  Tangible Net Worth (TNW) of the company stood at ₹1.95 crs/- as on FY18 as against ₹ -0.45 crs/ as at FY17 on account of plough back of profits. TNW Analysed includes non-interest bearing Unsecured Loan availed from Dilip Buildcon Ltd . TNW Analysed stood at ₹12.05 crs/- in FY18 as against ₹7.68 crs/- in FY17. Upward trend is observed in TNW and TNW analysed since FY16 Interest Service Coverage Ratio (ISCR) stood at comfortable level of 6.63x as at FY18 as against 42.13x as at FY17 even though decline in ISCR is observed due to low interest outgo in FY17. Debt Service Coverage (DSCR) improved marginally to 1.36x in FY18 from 1.07x in FY17.

<u>Credit Risks</u>

- **High Client Concentration Risk**
  Aarneel Technocrafts Pvt Ltd (ATPL) is exposed to high client concentration risk as it dependent on a single customer - Dilip Buildcon Ltd (DBL) for its revenues and funding support to execute its orders. The business of DBL is tender based which also carries inherent risk for ATPL.

- **Low Profitability Margins**
  Profitability margins are low on account of volatility in raw material prices. However Operating Profit Margin (OPM) and Net Profit Margin (NPM) have improved in FY18 as compared to FY17. OPM stood at 4.10% as at FY18 as against 3.05% as at FY17. NPM improved to 2.60% as at FY18 from 1.05% as at FY17.

- **Leveraged Capital Structure**
  ATPL has highly leverage capital structure. Gearing ratio stood high at 13.38x as at FY18 due to high reliance on working capital loan and unsecured loan taken taken from Dilip Buildcon Ltd . Although Gearing Analyzed stood at 1.33x as at FY18 as non-interest bearing Unsecured Loan from Dilip Buildcon Ltd is taken as Quasi Equity.

Analytical Approach

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

Rating Outlook: *Stable*

BWR believes the **Aarneel Technocrafts Pvt.Ltd.** business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term. The rating outlook may be revised to 'Positive' in case the revenues and profit show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and profit margins show lower than expected figures.

About the Company

Aarneel Technocrafts Pvt Ltd (ATPL) is incorporated in 2011 by Samit Holkar and Piyush Jain having its manufacturing facility at Pithampur Industrial area at Indore (Madhya Pradesh). ATPL is engaged in manufacturing of road signages, street light poles and other fixtures that are installed on roads. ATPL manufactures road safety equipments only for Dilip Buildcon Ltd- established player in road construction sector and ATPL's 100% manufacturing capacity is utilized by Dilip Buildcon Ltd.

Company's Financial Performance

Aarneel Technocrafts Pvt Ltd (ATPL) has reported TOI of ₹92.50 crs/- and PAT of ₹2.40 crs/- in FY18 as against ₹51.03 crs/- and ₹0.54 crs/- respectively in FY17. Total Debt amounted to ₹26.12 crs/- while TNW stood at ₹1.95 crs/- and TNW analyzed stood at ₹12.05 crs/- as on 31-March- 2018. ISCR stood comfortable at 6.63x, Gearing stood high at 13.38x and Gearing Analyzed stood at 1.333x while DSCR stood at 1.36x as on 31-March- 2018.

Rating History for the last three years

S.No	Instrument /Facility	Current Rating (September 2018)			Rating History		
		Type (Long Term/ Short Term)	Amount (₹ Crs)	Rating	2017	2016	2015
1.	**Fund Based**	Long Term	10.00	**BWR BB+ (Outlook: Stable)**			
	Total		**10.00**	**INR Ten Crores Only**			

Annexure I- Key Financial Indicators

Key Parameters	**Units**	**2018**	**2017**
Result Type		**(Audited)**	**(Audited)**
Operating Revenue	₹ Cr	92.49	51.03
EBITDA	₹ Cr	3.80	1.56
PAT	₹ Cr	2.40	0.54
Tangible Net worth	₹ Cr	1.95	-0.45
Tangible Net worth (Analysed)	₹ Cr	12.05	7.68
Total Debt/Tangible Net worth	Times	13.38	-49.17
Total Debt/Tangible Net worth (Analysed)	Times	1.33	1.83
Current Ratio	Times	1.32	1.13

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Infrastructure Sector
- Short Term Debt

For any other criteria obtain hyperlinks from website

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Note on complexity levels of the rated instrument:
BWR complexity levels are meant for educating investors. The BWR complexity levels are available at www.brickworkratings.com/download/ComplexityLevels.pdf Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been accredited by RBI and empaneled by NSIC, offers Bank Loan, NCD, Commercial Paper, MSME ratings and grading services. NABARD has empaneled Brickwork for MFI and NGO grading. BWR is accredited by IREDA & the Ministry of New and Renewable Energy (MNRE), Government of India. Brickwork Ratings has Canara Bank, a Nationalized Bank, as its promoter and strategic partner.

BWR has its corporate office in Bengaluru and a country-wide presence with its offices in Ahmedabad, Chandigarh, Chennai, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 10,00,000 Cr. In addition, BWR has rated over 6300 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹24,440 Cr have been rated.

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