

## Rating Rationale

### Brickwork Ratings assigns ‘BWR BB’ and ‘BWR A4’ for the Bank Loan Facilities of ₹15.21 Crores of Advance Rail Controls Private Limited.

Brickwork Ratings (BWR) has assigned the following **Ratings**<sup>1</sup> for the Bank Loan facilities of ₹ 15.21 Crores of Advance Rail Controls Private Limited (‘ARC’ or ‘the Company’) sanctioned by Canara Bank.

Facility	Limits ( ₹Cr)	Tenure	Rating
Fund Based : Cash Credit	4.00	Long Term	BWR BB (Pronounced as BWR Double B) (Outlook:Stable)
Fund Based : Term Loan (Vehicle)	0.21		
Fund Based Project Finance (OCC)	9.00	Short Term	BWR A4 (Pronounced as BWR A Four )
Non-Fund Based Bank of Guarantee	2.00		
<b>Total</b>	<b>15.21</b>	<b>(INR Fifteen Crores and Twenty One Lakhs Only)</b>	

*Note: Term Loan is the outstanding balances as on November 5, 2014.*

BWR has principally relied upon the audited financials results for FY11-FY14, Projections for FY15 for Advance Rail Controls Private Limited, publicly available information and information / clarifications provided by the management.

The rating factors in the promoter’s experience in electronics’ equipment manufacturing and technical director’s experience in Indian Railways for more than three decades and consistent growth in the top line since FY12 to FY14. The rating is however constrained by relatively modest scale of operations, High-dependence on single customer which is the Indian Railways, working capital intensive nature of operations and currency risk (No currency hedge on import of raw materials which contributes 60 per cent in raw material consumption).

#### Background:

M/s. Advance Rail Controls Private Limited (ARC) is a Private Limited Company incorporated in February 2005. ARC is into manufacturing and developing high end embedded control solutions for Electric Locomotives (3 Phase)-Railway domain. Also, ARC is developing electronic systems with customized software for Indian railways and has an ISO-9001:2008 certification. The Company’s manufacturing unit and registered office are located in Bangalore, Karnataka.

<sup>1</sup> Please refer to [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the Ratings

ARC has R&D division to find optimum solutions for Indian Railways and other complex real time data interpretation to give remote management such as speed & health of Electric Locomotives. It's products list includes Diagnostic tools, Speed sensors, Driver Display Units, Radio Remote Control equipment's for Distributed Power Operation for Heavy Haul, Hall Effect based Active Rotational Speed Sensors for Traction Motors (Wireless), Remote diagnostic systems, Master control units (Torque control) etc.

ARC is a part II approved vendor (Part I & II vendors are preferred suppliers) for Indian Railways for the Driver's Display Units and Active speed sensors for traction motors for WAG-9 & WAP-5 Electric locomotives. (As per the information obtained from the company terms of payment vary from purchase order to purchase order. Normally for supply payment terms are 90% to 95% against delivery and balance against R/Note. For other items 80% is against supply and commissioning and balance 20% payment against field validation. This sometimes takes more than 180 days, although generally, the balance is received within that time).

### **Management Profile**

Mr. Surekh Nayak is Chairman & Managing Director and has vast experience in the field of manufacturing electronic equipment's for more than three decades. Since 2005, ARC is exclusively in to manufacturing of railway equipment's. Mr. Sadasivan is the technical director, leading R&D department and has successfully developed a number of products for use by the Railways to improve its operating safety and efficiency. Mr. Sadasivan has worked for Indian Railways for more than three decades, he was chief electrical engineer (In charge of Design & Development) and since 2007, after retirement, he become a shareholder and technical director for ARC. Mr. G.M. Nayak is the general manager and has vast experience in accounts & administration for more than two decades.

### **Business Operations**

ARC is into manufacturing of equipment for Indian Railways which contributes 90 per cent of sales revenue for FY14. Since 2005, ARC has developed a number of equipment with the aim of better performance by the said customer.

ARC's 60 per cent of raw materials are procured from Dubai and USA. ARC is strategically buying material from traders who are selling good quality raw material with replacement option (within next order execution) and credit period up to 90 days. The major imported raw materials are Connectors, Main mother board, IC's, Rectifiers, LCD display, Capacitors, Diode etc. There are ~75 employees out of whom ~60 are in the technical side and the remaining are in Finance & other departments.

## Financial Performance

During FY14, ARC has reported Net revenues from operations of ₹ 23.29 Crs and Net profit of ₹ 2.19 Crs, while the Net-worth stands at ₹ 8.18 Crs. The Company's operating profit margin decreased to 18.19 per cent in FY14 from 26.60 per cent in FY13 and the net profit margin to 9.50 per cent in FY14 from 14.98 per cent in FY13.

The tangible net-worth increased to ₹ 8.18 Crores in FY14 from ₹ 5.99 Crores in FY13. The current ratio of 1.49 times for FY14.

## Rating Outlook

The outlook is expected to be stable for the current year. Going forward, the Company's ability to achieve projected turnover, sustain and maintain profitability margin from tender based nature of business, maintaining the capital structure to optimum level and manage working capital efficiently will be the key rating sensitivities.

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