Rating Rationale

Advanced Rail Controls Pvt. Ltd **11 Feb 2019**
(Formerly rated as Advance Rail Controls Pvt. Ltd)

Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹ 14.36 Crores of Advanced Rail Controls Pvt. Ltd (Formerly rated as Advance Rail Controls Pvt. Ltd).

Particulars

Facilities	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (November, 2014)	Present (Reaffirmed)
<u>**Fund based:**</u> **Term loan #** **Cash credit**	**0.21** **13.00**	**1.36** **7.00**	**Long Term**	**BWR BB (Pronounced as BWR Double B) Outlook:Stable**	**BWR BB (Pronounced as BWR Double B) Outlook:Stable**
ODBD (sublimit of CC) **DPN**	**-** **-**	**(5.00)** **5.00**	**Short Term**	**BWR A4 (Pronounced as BWR A Four)**	**BWR A4 (Pronounced as BWR A Four)**
<u>**Non Fund Based**</u>**:** **Bank Guarantee**	**2.00**	**1.00**			
Total	**15.21**	**14.36**	**INR Fourteen Crores and Thirty Six lakhs Only**		

 # Term loan amount outstanding as on 6.2.2019

*Please refer to BWR website www.brickworkratings.com/ for definition of the ratings
Complete details of Bank facilities is provided in Annexure-I

Ratings: Reaffirmed

Brickwork Ratings reaffirms the ratings of BWR BB/A4 (outlook stable) for the Bank Loan Facilities of ₹ 14.36 Crores of M/s. Advanced Rail Controls Pvt Ltd.

BWR has essentially relied upon the Company's audited financial results up till FY 18, projected financials statements for FY19 to FY21, publicly available information and clarifications provided by the management.

Rationale/Description of Key Rating Drivers/Rating sensitivities:
The rating has factored inter-alia, vast experience of the promoter and management team for more than 3 decades in the Electronic & Engineering equipments manufacturing sector, moderate liquidity position, improved revenue and profitability level, reasonable track record and ability to meet its debt obligations. However, the ratings are constrained by increase in the gearing ratio, volatility in profit margins and in debt service coverage ratio, high competition from many small & medium manufacturing units in the region of Karnataka and intense working capital requirement.
Going forward, ability of the Company to improve its revenue and profitability level, to improve its net worth, to maintain its gearing & liquidity position and to manage its working capital requirements will be the key rating sensitivities.

Description of Key Rating Drivers

- **Credit Strengths:**

Experienced Promoters and Management team: Promoters of the business are qualified and have experience in the relevant business for more than three decades. It is further supported by a team of professionals and experienced members for the day to day operations

Improved Operating revenue and profitability level: Operating revenue for FY18 was at Rs. 33.36 crs as against Rs. 25.11 crs in FY17 and Rs. 16.01 crs in FY16. While, operating profits for FY18 was at Rs. 28.43 crs as against Rs. 22.18 crs in FY17 and PAT stood at Rs. 1.78 crs for FY18 as against Rs. 0.91 crs in FY17. As per the management, estimated revenue till Jan 2019 stood at Rs. 17.04 crs.

Net worth of the company: Net worth of the company for FY18 stood at Rs. 11.45 crs as against Rs. 9.67 crs in FY17

- **Credit Risks:**

Increase in gearing ratio of the company: Debt Equity ratio for FY18 was at 1.29 times as against 0.25 times in FY17 and 0.50 times in FY16

Volatility in profitability margin: Operating profit margin for FY18 was at 14.78 percent as compared to 11.66 percent in FY17 and 13.72 percent in FY16. While Net profit margin for FY18 was at 5.34 percent as against 3.64 percent in FY17 and 4.68 percent in FY16

High working capital requirement: Intensive working capital requirement type of business which reflected from the high conversion cycles. It stood at 177 days for FY18 along with an elongated Receivable days of 121

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 that M/s. **Advanced Rail Controls Pvt. Ltd (Formerly rated as Advance Rail Controls Pvt. Ltd)'s** 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

M/s. Advanced Rail Controls Private Limited (ARCPL) was incorporated as private limited company on February 15, 2005 for the manufacturing and developing high-end embedded control solutions for Railways, Defence and Aerospace industry. The registered office of the company is located at Bangalore, Karnataka. ARCPL supplies mainly to Indian Railways which contributes more than 90 percent of its sales revenue and balance comprises of companies in private sector. The products manufactured includes, Diagnostic tool, Speed sensor, Driver display, Radio remote control equipment for Distributed Power Operation for Heavy Haul, Hall Effect based Active Rotational Speed Sensors for Traction Motors (Wireless), Remote diagnostic systems (Remote Diagnostics & Fleet Tracking of Locomotives, Test Loop, GTO firing kit, Vehicle control, Simulator, Master control unit (Torque control) etc. Presently, there are ~77 employees of which ~60 are ITI trained, diploma holders and engineering graduates employed in the R&D, Site engineering and Software development. ARCPL has R&D division to find optimum solution for railways and other complex real time data interpretation to give remote management such as speed & health of any locomotives. Raw materials required for the manufacture include, Electronic items, Cable, Display and mechanical enclosure, which are procured from suppliers located in and around Bangalore and in the UAE.

Management Profile

ARCPL's management is constituted by three directors namely, Mr. Surekh Nayak, Chairman & Managing Director, Mrs. Shweta Nayak, Director and Mr. Sadasivan V, Director. All the directors are qualified and have experience in the field of electronic equipments for the railways for more than 3 decades. Mr. Sadasivan being technical director of the company has more than three decades of experience with the Indian Railways and retired as Chief Engineer (Design &

Development) before joining ARCPL. They are further joined by a team of professionals for the day to day operations.

Company Financial Performance

Operating revenue of ARCPL for FY18 was reported at Rs. Rs. 33.36 crs as against Rs. 25.11 crs in FY17 and Rs. 16.01 crs in FY16. Operating profits of the company was at Rs. 28.43 crs as against Rs. 22.18 crs in FY17. While, PAT stood at Rs. 1.78 crs for FY18 as against Rs. 0.91 crs in FY17. Net worth of the company for FY18 was at Rs. 11.45 crs. Increase in gearing ratio of the company for FY18, at 1.29 times as compared to 0.25 times in FY17 and 0.50 times in FY16. Liquidity position of the company was comfortable for FY18 with Current ratio at 1.23 times. Debt service coverage has been volatile for FY18, ISCR was at 4.22 times as against 5.06 times in FY17 and 3.56 times in FY16, while DSCR was at 2.34 times as compared to 3.50 times in FY17 and 2.85 times in FY16. Conversion cycles have been slightly stretched at 177 days for FY18 with elongated receivables of 121 days.

Rating History for the last three years

S.No	Facilities	Current Rating (2019)			Rating History		
		Type	Amount (₹ Crs)	Rating	FY18	FY17	FY16
1 2	**<u>Fund Based:</u>** **Cash credit** **Term loan**	Long term	7.00 1.36	**BWR BB (Pronounced as BWR Double B) Outlook stable**	-	-	-
3 4	**DPN** **ODBD (cc sublimit)**	Short term	5.00 (5.00)	**BWR A4 (Pronounced as BWR A Four)**	-	-	-
5	**<u>Non Fund Based:</u>** **Bank Guarantee**	Short term	1.00	**BWR A4 (Pronounced as BWR A Four)**	-	-	-
	Total Amount		**14.36**	**₹ Fourteen Crores and Thirty Six lakhs Only**			

Status of non-cooperation with previous CRA (if applicable)-Reason and comments: Not Applicable

Any other information: None

Key Financial Indicators

Key Parameters	Units	2018	2017
Result Type		Audited	Audited
Operating Revenue	₹ Crores	33.36	25.11
EBITDA	₹ Crores	4.93	2.93
PAT	₹ Crores	1.78	0.91
Tangible Net worth	₹ Crores	11.45	9.67
Total Debt/Tangible Net worth	Times	1.29	0.25
Current Ratio	Times	1.23	2.29

Hyperlink/Reference to applicable Criteria

- General Criteria
- Approach to Financial Ratios
- Manufacturing Companies
- Short Term Debt

Analytical Contacts	Media
Nagaraj KS *Associate Director-Ratings* analyst@brickworkratings.com	media@brickworkratings.com **Relationship Contact** bd@brickworkratings.com
Phone: 1-860-425-2742	

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.

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, 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 leading public sector 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, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

DISCLAIMER