

RATING RATIONALE

04 June 2020

Advanced Rail Controls Private Limited

Brickwork Ratings downgrades the long term ratings and reaffirms the short term ratings for the enhanced Bank Loan Facilities of ₹ 34.86 Crores of M/s. Advanced Rail Controls Pvt Ltd

Particulars:

Facilities	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (February 2019)	Present
<u>Fund based:</u>					
Term loan # Cash credit	1.36 7.00	9.30 7.00	Long Term	BWR BB Stable	BWR BB- Stable (Downgrade)
SDB/BE STL ODBD (sublimit of CC) DPN	- - (5.00) 5.00	10.00 5.00 (5.00) -	Short Term	BWR A4	BWR A4 (Reaffirmation)
<u>Non Fund Based:</u>					
Bank Guarantee	1.00	3.56	Short Term	BWR A4	BWR A4 (Reaffirmation)
Total	14.36	34.86	INR Thirty Four Crores and Eighty Six lakhs Only		

Term loan amount outstanding as on 21.5.2020

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

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

RATING ACTION / OUTLOOK

Brickwork Ratings downgrades the ratings of BWR BB to BWR BB- Stable for the long term facilities of Rs. 16.30 Crs and reaffirms the ratings of BWR A4 for the short term facilities of Rs. 18.56 Crs of M/s. Advanced Rail Controls Pvt Ltd.



BWR has essentially relied upon the company's audited financial results up till FY19, projected financial statements for FY20 till FY22 and publicly available information and clarifications provided by the management.

KEY RATING DRIVERS

The rating has factored inter-alia, vast experience of the promoters for more than 3 decades in the Electronic & Engineering equipment manufacturing sector, adequate liquidity position, improved net worth and ability to meet its debt obligations. However, the ratings are constrained by reduced operating revenue & profitability level, increase in the gearing ratio, decline in debt service coverage ratio, high cash conversion cycle, high competition from many small & medium manufacturing units in the region of Karnataka and intense working capital requirement.

- **Credit Strengths:**

Management having vast experience in the relevant industry: Promoters to the company have been in the relevant industry for more than 3 decades and supported by a team of qualified and experienced personnel.

Net worth of the company: Net worth of the company for FY19 was at Rs. 12.16 crs as against Rs. 11.45 crs

Comfortable liquidity level of the company: Liquidity position of the company was adequate with a current ratio of 1.20 times for FY19. Although the cash conversion cycle, was quite high at 360 days with stretched receivables of 263 days

Ability to sustain competition in the relevant industry: The company has been able to face competition from many small and medium players in the region.

- **Credit Risks:**

Reduced operating revenue and PAT level for FY19: Operating income for FY19 has come down at Rs. 24.62 crs as against Rs. 33.36 crs in FY18. Further, as per the management, sales revenue from Apr till Mar 2020 was estimated at Rs. 22.03 crs (against projected revenue of ~ Rs. 35.00 crs). While, PAT level for FY19 was at Rs. 0.70 crs as against Rs. 1.78 crs in FY18

Increased gearing level of the company: Gearing level of the company had increased for FY19, DE ratio stood at 1.84 times as against 1.29 times in FY18



Reduced Debt protection matrix for the year: Debt service coverage has declined for FY19, with ISCR at 2.00 times and DSCR at 1.35 times as compared to 4.22 times & 2.34 times respectively in FY18

Dependance on government projects: The company mainly caters to the work projects of railways, hence, projects inherits the risk relating to delays as to sanctioning and approvals from relevant authorities

ANALYTICAL APPROACH AND APPLICABLE RATING CRITERIA

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 SENSITIVITIES

Going forward, the ability of the Company to increase its scale of operations with improved revenue and profitability level, to improve its gearing, to maintain its liquidity position and to manage its working capital requirements will be the key rating sensitivities.

Positive:

- Improvement in net worth of the company
- Adequate liquidity position

Negative:

- Reduced Operating revenue for FY19 as compared to FY18. However, as per Provisional statement, sale revenue has further come down.
- Gearing level of the firm has increased with DE ratio at 1.84 times for FY19

LIQUIDITY POSITION

Liquidity level of the firm was adequate with a current ratio of 1.20 times for FY19. Cash conversion cycle was high for FY19 at 360 days with stretched receivable of 263 days.

ABOUT THE COMPANY

M/s. Advanced Rail Controls Private Limited (ARCPL) was incorporated as a 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'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 equipment for the railways for more than 3 decades. ARCPL supplies mainly to Indian Railways which contributes more than 90 percent of its sales revenue and balance comprises companies in the 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 ~96 employees for the day to day operations of the company. ARCPL has an R & D division to find optimum solutions 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.

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY19	FY18
Result Type		Audited	Audited
Operating Revenue	₹ Crs	24.62	33.36
EBITDA	₹ Crs	3.72	4.93
PAT	₹ Crs	0.70	1.78
Tangible Net worth	₹ Crs	12.16	11.45
Total Debt/Tangible Net worth	Times	1.84	1.29
Current Ratio	Times	1.20	1.23

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : None

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

Facilities	Current Rating (2020)			Rating History		
	Tenure	Amount (₹ Cr)	Rating	11.2.2019	FY18	FY17
Fund Based:						
Cash Credit	Long term	7.00	BWR BB-stable	BWR BB stable	-	-
Term loan		9.30				
DPN	Short term	-	BWR A4	BWR A4	-	-
SDB/BE		10.00				
STL		5.00				
Non Fund Based:						
Bank Guarantee	Short term	3.56	BWR A4	BWR A4	-	-
Total		34.86	INR Thirty Four Crores and Eighty Six Lakhs Only			

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](#)
- [Manufacturing Companies](#)

Analytical Contacts	Investor and Media Relations
<p>[Suma G] Rating Analyst [Board: +91 80 4040 9940 Ext: 345] [suma.g@brickworkratings.com]</p> <p>[K Nagaraj] [Assoc. Director – Ratings] Board: +91 80 4040 9940 [nagaraj.ks@brickworkratings.com]</p>	<p>Liena Thakur Assistant Vice President - Corporate Communications +91 84339 94686 liena.t@brickworkratings.com</p>

Advanced Rail Controls Pvt Ltd
ANNEXURE I

Details of Bank Facilities rated by BWR

Sl. No.	Name of the Bank	Type of Facilities	Long term Rs. crs	Short term Rs. crs	Total (₹ Cr)
1	Canara Bank	Cash credit	7.00		7.00
2		Term loan#	9.30		9.30
3		DPN	-	-	-
4		SDB/BE	-	10.00	10.00
5		STL	-	5.00	5.00
6		Bank Guarantee	-	3.56	3.56
TOTAL AMOUNT					34.86

Term loan outstanding as on 21.5.2020

Total Rupees Thirty Four Crores and Eighty Six Lakhs 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 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 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