

## Rating Rationale

Agarwal Company

19Mar2019

**Brickwork Ratings reaffirms the ratings for the Bank Loan Facilities of ₹26.00 Crores of Agarwal Company ('AC' of 'the firm')**

### Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Nov 2016)	Present
Fund based	6.00	6.00	Long Term	BWR BB (Pronounced as BWR Double B) Outlook: Stable	BWR BB (Pronounced as BWR Double B) Outlook: Stable Reaffirmed
Non Fund Based	20.00	20.00	Short Term	BWR A4+ (Pronounced as BWR A Four Plus )	BWR A4+ (Pronounced as BWR A Four Plus ) Reaffirmed
<b>Total</b>	<b>26.00</b>	<b>26.00</b>	<b>INR Twenty Six Crore Only</b>		

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings. Rating was moved to 'Rating Not Reviewed' on 7.8.2018. Complete details of Bank facilities is provided in Annexure-I.

### Ratings: Reaffirmed

#### Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financial results up to FY18, projected financials of FY19 & FY20 publicly available information and clarifications as provided by the firm's management.

The rating factors in the promoters' business experience, firm's operational track record, clientele base, status of 'Class A' contractor, order book position and financial parameter marked by improved profit margin, adequate cash accruals and satisfactory interest coverage indicator. The rating, however, is constrained modest scale of operation, low networth, high total outside liabilities to tangible networth, tender based nature of operation and constitution of the firm.

Going forward, the ability of the firm to grow its order book position with additional orders and enhance its scale of operations along with timely execution of current orders will be the key rating sensitivities.



### **Description of Key Rating Drivers**

- **Credit Strengths:** Managing Partner of the firm, Mr. Manoj Agarwal, has around 27 years of experience in the industry. The firm was established in 1980 and has more than three decades of operational track record. With a status of 'Class A' contractor, the firm's client profile primarily includes government entities in Uttar Pradesh, with which it maintains low receivables due to relatively low counterparty credit risk. The established relationship with clients has resulted in repeat orders and currently, the firm has an order book position of ₹286.45 Cr, which is to be executed within the next 18 to 24 months. As on 28.02.2019, the firm has completed orders worth of ₹24.04 Cr. The operating profit of the firm has improved from 8.68% in FY17 to 9.47% in FY18; reason primarily attributed to decrease in commercial tax amount. Thereby, the net profit has improved from 5.90% in FY17 to 7.03% in FY18. Cash accruals to total debt, though declined due to increase in debt level, stands adequate at 0.52 times in FY18 resulting in improved interest coverage ratio from 3.81 times in FY17 to 5.25 times in FY18.
- **Credit Risks:** The scale of operation of the firm remains moderate with an average total operating income of ₹72.67 Cr in last three financial years and has decreased from ₹75.45 Cr in FY17 to ₹70.65 Cr in FY18. The firm has a networth of ₹5.82 Cr as at 31st March 2018. With increased debt level, the total outside liabilities to tangible net worth stands at 2.24 times in FY18. Nature of operations being tender-based with competition from other organised players, has restricted the pricing power of the firm. The concern being a partnership firm is exposed to risk of capital withdrawal.

### **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 **Agarwal Company** 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 Firm**

Agarwal Company, established as a partnership firm in the year 1980 operates as a Class A Contractor, mainly undertaking civil and structural works for public infrastructure & residential buildings etc. in Lucknow, Kanpur, Agra and Varanasi. Clientele of the firm includes Kanpur Development Authority, Agra Development Authority, Northern Railways, Bajaj Resources etc. and procurement of orders is being done through e-tenders. The firm is promoted by Mr. Manoj Agarwal and Mr. Vikas Agarwal with a profit share holding of 65% and 35%, respectively.



### Firm's Financial Performance

As per audited financials of FY18, the firm has achieved an operating income of ₹70.65 Cr with an operating profit ₹6.69 Cr and net profit of ₹4.97 Cr.

### Rating History for the last three years

S.No	Facility	Current Rating (2019)			Rating History		
		Type	Amount (₹ Crs)	Rating	7.8.2018	2017	21.11.2016
1.	Fund Based	Long Term	6.00	<b>BWR BB</b> (Pronounced as BWR Double B) <b>Outlook: Stable</b> Reaffirmed	<b>Rating Not Reviewed</b>	<b>Not Rated</b>	<b>BWR BB</b> (Pronounced as BWR Double B) <b>Outlook: Stable</b> Reaffirmed
2.	Non Fund Based	Short Term	20.00	<b>BWR A4+</b> (Pronounced as BWR A Four Plus) Reaffirmed			<b>BWR A4+</b> (Pronounced as BWR A Four Plus) Reaffirmed
<b>Total</b>			<b>26.00</b>	<b>₹ Twenty Six Crores Only</b>			

On 12.8.2014 initial rating was done and assigned a rating of BWR BB/A4+ and on 16.9.2015, the rating was reaffirmed as BWR BB/A4+

**Status of non-cooperation with previous CRA - None**

**Any other information - Nil**

### Key Financial Indicators

Key Parameters	Units	FY18	FY17
Result Type		Audited	Audited
Operating Revenue	₹ Cr	70.65	75.45
EBITDA	₹ Cr	6.69	6.55
PAT	₹ Cr	4.97	4.45
Tangible Net worth	₹ Cr	5.82	5.57
Total Debt/Tangible Net worth	Times	1.80	1.18
Current Ratio	Times	1.63	2.58

**Hyperlink/Reference to applicable Criteria**



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

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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](http://www.brickworkratings.com/download/ComplexityLevels.pdf) Investors queries can be sent to [info@brickworkratings.com](mailto: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**

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**Annexure I**

₹ Cr

<b>Name of the Bank</b>	<b>Name of Facility</b>	<b>Tenure</b>	<b>Previous Amount</b>	<b>Present Amount</b>
Punjab National Bank	Overdraft	Long Term	6.00	6.00
	Bank Guarantee	Short Term	20.00	20.00
<b>Total</b>			<b>26.00</b>	<b>26.00</b>