

Rating Rationale

Brickwork Ratings assigns 'BWR BB' & 'BWR A4+' for the Bank Loan Facilities aggregating ₹ 20 Cr of Agarwal Company.

Brickwork Ratings has assigned the following **Ratings**¹ for Bank Loan facilities of Agarwal Company (AC or the firm).

Facilities	Limits (₹ Cr)	Tenure	Rating
Fund Based			
Overdraft	6.00	Long Term	BWR BB (Pronounced BWR Double B) Outlook - Stable
Total Fund Based	6.00		
Non Fund Based			
Bank Guarantee	14.00	Short Term	BWR A4+ (Pronounced BWR A Four Plus)
Total Non-Fund Based	14.00		
Total (FB+NFB)	20.00	INR Twenty Crores only	

BWR has essentially relied upon the audited financials of Agarwal Company up to FY 13 and Provisional financials of FY 14, publicly available information and information/clarifications provided by the firm.

The rating reflects, promoters experience in the industry, long and established track record of operation in construction business, well reputed and established customer base ensures steady flow of orders to the firm, classified as class- A contractor with various government departments and healthy order book position project value of around Rs.82.00 Cr.

¹ Please refer to www.brickworkratings.com for definition of the Ratings

The rating is, however, constrained by modest scale of operations, moderate financial risk profile marked by low tangible Net worth, high gearing level and moderate debt service coverage ratios, high project concentration risk since all the projects restricted to the state of UP and Delhi, risks inherent in a partnership firm like limited ability to raise equity capital, risk of dissolution due to death/retirement/insolvency of partners etc., competitive nature of the industry and working capital intensive nature of operations.

Background:

Agarwal Company (AC), was established as partnership firm in 1980 with Mr. V. P. Agarwal, Mr. Manoj Agarwal and Mr. Vikas Agarwal as partners. AC is engaged in the construction business with its head office located in Lucknow and Branch offices in Agra & Varanasi. The partners have significant experience in the construction business for more than four decades. AC is registered as an A-class contractor with Agra Development Authority, Varanasi Development Authority and various government departments. The firm has executed various projects including multi-storey structures work on turnkey basis, development works, external & internal sewerage & water supply works, water proofing works, road works, overhead water tanks, land scaping & warehouses of big capacities, along with internal & external electrical work, façade works and major interior works etc. AC is currently executing projects worth around Rs. 82 Cr.

Financial Performance:

As per provisional financial details for FY 14 submitted by company, the net revenue from operations increased from ₹ 20.50 Cr in FY13 to ₹ 40.54 Cr in FY14. EBITDA and PAT margins were at 9.34 % and 0.74% respectively in FY14, marginally decreased from 10.45% and 6.26% respectively in FY13 due to high interest and finance charges in FY 14.

Due to retention of profits, tangible Net worth increased from Rs.2.59 Cr in FY 13 to Rs. 3.30 Cr in FY 14. In addition, interest-free unsecured loan from promoters was Rs. 1.81 Cr, which are sub-ordinated to the bank and continued in business. Borrowings are essentially by way of working capital facilities and the ratio of Total Debt to Equity was 2.19x times in FY 13 which include unsecured loans of Rs. 1.81 Cr. Treating promoters' loans as quasi-equity, adjusted debt to equity ratio will be around 1.06 x times. During four months of operation, the firm has achieved revenues of around Rs.10 Cr and Rs.3 Cr bills pending with government authorities.

Rating Outlook:

The rating outlook is expected to be stable over the current year. Going forward, the ability to achieve the projected turnover by completion of projects in estimated time, realization of receivables on time, improving profitability margins, strengthening its capital structure, and effectively management of working capital - will remain key rating sensitivities.

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