



Rating Rationale

27Feb2020

Arihant Associates

Brickwork Ratings assigns the ratings for the Bank Loan Facilities of ₹. 60.00 Crores of Arihant Associates.

Particulars

Facility	Amount (₹ Crs)	Tenure	Rating*
Fund based	60.00	Long Term	BWR BB- Stable
Total	60.00	INR Sixty Crores Only	

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

RATING ACTION / OUTLOOK

BWR has considered the standalone financials of the firm and essentially relied upon the CA certified unaudited financial statements upto FY19, projected financial upto FY22 and publicly available information and clarifications provided by the firm's management.

The rating assignment draws strength from the advanced stage of project completion and comfortable capital structure on back of funds infusion through capital and unsecured loans. However, the rating is constrained by susceptibility to time and cost overruns in project execution and exposure to risks and cyclically in the real estate sector.

BWR believes the Arihant Associates business risk profile will be maintained over the medium term. The 'Stable' outlook indicates a low likelihood of rating change over the medium term.

KEY RATING DRIVERS

Credit Strengths:

- **Experienced promoters** : The promoters have extensive experience in the construction line and also support the firm by infusion of the funds as and when required.
- **Strategic Location of the project and Requisite approval for the project in place:** The Firm is developing a commercial project viz; Magob-Dumbhal, Surat which is a prime location in Surat. The project has all the necessary approval in place and is registered with the Gujarat Real Estate Regulatory Authority.



- **Stage of the Project and Cost Incurred:** The commercial project is funded by ~34.28 % bank loan, ~47.97% promoters funding and unsecured loans from friends and relatives and rest from customer advances. The commercial project is in the advanced stage with ~76.01% cost incurred as of January-2020. As per the sanction term, the promoters have infused the total fund of Rs. 41.50 Crs by the way of Capital and Rs. 41.50 Crs as an unsecured loan. and the same will be maintained till the debt repayment .

Credit risks:

- **Exposure to execution Risk for the remaining portion of the project work:** The Firm has completed ~76% of the construction work for the commercial project, completion of the remaining project work within the expected timelines and without any significant time and cost overrun remains critical.
- **Exposure to Market risk for the remaining unsold portion and Inherent risks in the real estate industry:** The Firm has booked 291 units out of the total 780 units for the commercial project as on 31st December, 2019 (CA Certified financials). As disbursement will end in April 2021, Firm will realize sales after the said disbursement period. Hence, sale of units will start after completion of construction and the same will be realized from FY22. The real estate segment is volatile, resulting in fluctuations in cash flows on account of volatility in realization and sales. Cash out flow for the project and debt obligation are relatively fixed which can lead to substantial cash flow mismatch. Maintaining the sales velocity and pricing as envisaged and healthy collection efficiency remain critical for achieving desired profitability and avoiding cash flow mismatches.
- **Risk associated with a partnership firm–** The firm is exposed to the risk of capital withdrawals by partners, negatively impacting the capital structure and further limiting financial flexibility of the firm.

RATING SENSITIVITIES

Positive:

- Timely project execution and increase in bookings and receipt of customer advances as envisaged on a timely basis.

Negative:

- Any delay in project execution due to lower than expected or delayed collections, sales slowdown.
- Further deterioration in leverage on account of withdrawal of capital by partners, repayment of unsecured loans & vulnerability in cash flow will be negative for the ratings.

LIQUIDITY POSITION- Adequate

Liquidity is adequate, as reflected in financial support by promoters and customer advances, however it is susceptible to the risk of a slowdown in the flow of customer advances. The firm received advances of Rs. 17.70



crore till 31st January, 2020 from its ongoing project and has completed construction of Rs 97.36 crores (Projected construction cost Rs. 128.09 Crs). Also, it has availed for term loan of Rs 60 crore out of which Rs. 26 Crs has been disbursed by the bank till 20th February, 2020. With healthy booking for projects, the firm is likely to generate sufficient cash flow to meet debt obligation. However, any delay in the sale of shops or realisation of customer advances due to a slowdown in the real estate sector could impact liquidity.

FIRM PROFILE:

M/s. Arihant Associates, was incorporated on 27th October, 2015 as a Partnership Firm in Surat, Gujarat.

The firm is executing a commercial project namely "Raj Textile Tower " at Dumbhal-Magob, Surat, Gujarat. The project consists of a nine storey three towers that offers 780 shops/offices with a built up area of 897226.26 sq. fts.

The land was acquired in December-2016 and construction work commenced thereafter, which is expected to be completed by December-2021. The firm has obtained all necessary approval/permissions for land & construction and RERA Approval for the proposed plan.

KEY COVENANTS OF THE INSTRUMENT/FACILITY RATED : Not Applicable

KEY FINANCIAL INDICATORS (in ₹ Cr)

Key Parameters	Units	FY19	FY18
Result Type		Unaudited	Unaudited
Operating Income	₹ in Cr	0.00	0.00
EBITDA	₹ in Cr	10.86	5.57
Net Profit	₹ in Cr	0.00	-0.04
Tangible net worth	₹ in Cr	29.45	24.90
Debt/Tangible net worth	Times	2.40	1.72

NON-COOPERATION WITH PREVIOUS RATING AGENCY IF ANY : Not Applicable

RATING HISTORY

Facilities	Current Rating (2020)			Rating History		
	Tenure	Amount (₹ Cr)	Rating	2019	2018	2017



Fund Based	Long Term	60.00	BWR BB-Stable	Not Rated	Not Rated	Not Rated
Total		60.00	INR Sixty Crores Only			

#Moved to “Not Reviewed” category on 12th September due to non availability of information.

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](#)

For any other criteria obtain hyperlinks from website

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Arihant Associates

ANNEXURE I

Details of Bank Facilities rated by BWR



Sl. No.	Name of the Bank	Type of Facilities	Long Term {(₹ Cr)}	Short Term (₹ Cr)	Total (₹ Cr)
1	State Bank of India	Fund Based Term Loan- Sanctioned	60.00	-	60.00
TOTAL					60.00

Total Sixty Crores Only.

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