



Rating Rationale

Arrow Constructions Ltd

09th October 2017

Brickwork Ratings assigns “BWR BB+ (Stable)/A4+” for the Bank Loan facilities aggregating Rs. 11.00 Crs of Arrow Constructions Ltd (‘ACL’ or ‘the Company’)

Particulars

Facility Rated	Amount (Rs. Crs)#	Tenure	Rating [^]
<u>Fund Based</u> CCBD	2.00	Long Term	BWR BB+ (Pronounced BWR Double B Plus) Outlook: Stable Assigned
<u>Non-Fund Based</u> BG ILC	8.00 1.00	Short Term	BWR A4+ (Pronounced BWR A Four Plus) Assigned
Total	11.00 (INR Eleven Crores Only)		

[^] Please refer to BWR website www.brickworkratings.com/ for definition of the ratings

Annexure-I provides details of bank wise facilities

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has principally relied upon the audited financials upto FY16, provisional financials for FY17, financial projections upto FY19, publicly available information and information/clarifications provided by the management.

The ratings draw comfort from the extensive experience of the promoters in the civil construction industry, long-standing relationships with government departments and medium term revenue visibility due to healthy order book. The ratings, however, are constrained by the moderate scale of operations, exposure to tender-based business in the highly competitive industry and working capital intensive nature of the business.

Going forward, the ability of the Company to ensure timely execution of contracts, increase its scale of operations, strengthen its overall credit profile and effectively manage its working capital requirements would be the key rating sensitivities.

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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).

Key Rating drivers

Credit strengths

🔗 **Experienced management and long-standing relationships with government departments:** The promoters have experience in civil construction industry spanning over two decades and the company has an established operational track record with various government departments in Karnataka, Andhra Pradesh and Telangana in execution of contracts.

🔗 **Healthy order book position** of Rs.261.41 Crs as on June 30, 2017 covering building works and irrigation projects, to be executed over two years, ensures medium term revenue visibility.

🔗 **Moderate financial profile:** The company has been reporting y-o-y revenue growth with operating profit margins in the range of ~6% for the last four years, adequate debt protection metrics with Debt Service Coverage Ratio (DSCR) at 3.30 times as on March 31 2017 (Prov.), low gearing (0.06 times as on March 31, 2017 (prov.)) and adequate liquidity position with current ratio of 1.75 times as March 31, 2016 and 2.65 times as on March 31, 2017 (Prov.)

Credit Weaknesses

🔗 **Tender based business:** The company procures its orders through tenders from various government departments. The growth of its business depends on its ability to successfully bid for the tenders at competitive prices.

🔗 **Working capital intensive nature of business:** Collection period is usually high, which results in an elongated working capital cycle.

Rating Outlook: Stable

BWR believes 'ACL'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 margins show sustained improvement. The rating outlook may be revised to 'Negative' if the revenues go down and margins show lower than expected figures.

About the Company

Arrow Constructions Ltd (ACL) was incorporated on December 05 1995 at Hyderabad, Telangana. ACL is engaged in the construction of buildings, hospitals and irrigation projects. Some of the executed projects include hospital building, staff quarters, allied infrastructure, irrigation projects, government building works and other engineering projects, industrial sheds, warehouses etc. The company has ongoing projects with total value of Rs.261.41 Crs as on June 30, 2017 to be executed in Karnataka, Andhra Pradesh and Telangana.



Mr. S Vijaya Kumar, Mr. DVKV Prasad and Mr. S V Prabhakar are the directors.

Financial Performance

ACL reported Net Revenue of Rs.53.02 Crs. and net profit of Rs.1.73 Cr. for FY16 as against Net Revenue of Rs.52.03 Crs. and net profit of Rs.1.70 Crs for FY15. Tangible Networth stood at Rs.12.81 Crs. as on March 31 2016 and estimated Net worth as on March 31 2017 was Rs.15.31 Crs. On a provisional basis, for FY17, ACL reported Net Revenue of Rs.75.38 Crs. and net profit of Rs. 2.79 Crs.

Rating History for the last three years:

Instrument/ Facility	Current Rating (October 2017)			Rating History		
	Type	Amount (Rs. Crs)	Rating	2016	2015	2014
<u>Fund Based</u> CCBD	Long Term	2.00	BWR BB+ (Pronounced BWR Double B Plus) Outlook: Stable Assigned	Not Rated	Not Rated	Not Rated
<u>Non- Fund Based</u> BG ILC	Short Term	8.00 1.00	BWR A4+ (Pronounced BWR A Four Plus)			
Total		11.00 (INR Eleven Crores Only)				

Status of non-cooperation with previous CRA: CRISIL Ratings, vide its press release dt May 24 2016, has suspended its ratings of the bank loan facilities of the company on account of non cooperation by the company with its efforts to undertake a review of the ratings outstanding.

Any other Information: Not Applicable

Hyperlink/Reference to applicable Criteria

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

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Annexure I – Details of Rated Facilities

Name of Bank	Bank Facilities	Type of Facility	Tenure	Amount (Rs. Crs)
Karur Vysya Bank, SR Nagar Branch, Hyderabad	CCBD	Fund Based	Long Term	2.00
	BG ILC	Non-Fund Based	Short-term	8.00 1.00
Total				11.00

Annexure II Key Financial Indicators

	FY15 (A)	FY16 (A)	FY17 (provisional)
Net Revenue (Rs. Cr)	52.38	53.02	75.38
EBITDA (Rs. Cr)	2.85	2.84	5.14
PAT (Rs. Cr)	1.70	1.73	2.50
Tangible Networth (Rs Cr)	11.09	12.81	15.31
Total Debt: TNW (Times)	0.10	0.00	0.06
Current Ratio (Times)	1.80	1.75	2.65

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For print and digital media

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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 Investors queries can be sent to info@brickworkratings.com.

About Brickwork Ratings

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, has also been 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 Nationalized 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, Guwahati, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations. BWR has rated debt instruments/bonds/bank loans, securitized paper of over ₹ 9,30,000 Cr. In addition, BWR has rated about 5000 MSMEs. Also, Fixed Deposits and Commercial Papers etc. worth over ₹19,700 Cr have been rated. Brickwork has a major presence in rating of nearly 100 cities.

DISCLAIMER

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