



## Rating Rationale

### Arrow Constructions Ltd

13 Feb 2019

**Brickwork Ratings reaffirms ratings of BWR BB+(Positive)/A4+ with revision in outlook for the Bank Loan Facilities of ₹. 25.02 Crores of Arrow Constructions Ltd. (ACL or ‘The Company’)**

## Particulars

Facility	Amount (₹ Crs)		Tenure	Rating*	
	Previous	Present		Previous (Oct, 2017)	Present
<b><u>Fund based</u></b>					
Cash Credit	2.00	<b>8.00</b>	<b>Long Term</b>	BWR BB+ (Pronounced as BWR Double B Plus) Outlook: Stable	BWR BB+ (Pronounced as BWR Double B Plus) Outlook: Positive <i>Reaffirmed with revised outlook</i>
<b><u>Non Fund Based</u></b>					
Bank Guarantee ILC	8.00 1.00	<b>16.02</b> <b>1.00</b>	<b>Short Term</b>	BWR A4+ (Pronounced as BWR A Four Plus)	BWR A4+ (Pronounced as BWR A Four Plus) <i>Reaffirmed</i>
<b>Total</b>	<b>11.00</b>	<b>25.02</b>	<b>INR Twenty Five Crores and Two Lakhs Only</b>		

\*In the previous review, HDFC Bank's loan facilities were not rated

\*Please refer to BWR website [www.brickworkratings.com/](http://www.brickworkratings.com/) for definition of the ratings  
Complete details of Bank facilities is provided in Annexure-I

## Rating Reaffirmed

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

BWR has essentially relied upon the audited financials upto FY18, publicly available information and information/clarifications provided by the management.

The rating continues to draw strength from the experienced management in civil construction industry, established relations with reputed clientele in government departments, healthy order book position and company's healthy financial risk profile aided by efficient working capital management. However, the rating continues to be constrained by improving though modest scale of operations and Risks related to tender-based nature of business.

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Going forward, ability of the company to increase its scale of operations with improvement in profit margins, regular and timely execution of contract without any cost overrun are the key rating sensitivities

### **Key Rating Drivers**

**Extensive experience of Promoters:** The promoters have experience in civil construction industry spanning over two decades and have an established track record withstanding industry cycles. Over the years of its operations, ACL has developed long standing relationship with clients in various government departments in Karnataka, Andhra Pradesh and Telangana and gained significant experience in tender bidding process which helps in continuous receipt of orders

**Healthy order flow providing revenue visibility:** Successful implementation of various civil construction and irrigation projects, with no significant time and cost overrun, have helped to gain healthy orders worth Rs 395 crore as on Nov 30, 2018. This provides medium-term revenue visibility.

**Moderate financial risk profile:** Financial risk is marked by moderate networth and low gearing of Rs.18.25 Crs and 0.25 times as on 31st March 2018 due to limited reliance on external debt and absence of any major, debt-funded capex plans. Debt protection metrics are also strong with DSCR at 3.84 times and Interest coverage at 2.44 times as on 31st March 2018. Profitability margin was healthy and stood at 4.17%.

**Average scale of operations:** Although revenue grew at 46% during the past two years, it remained moderate at Rs 77.69 crore in FY18. Moreover, operating margin although stable, remained average at 4.17% for fiscal 2018 as the company remains exposed to geographical risks. Further, intense competition may continue to constrain scalability, pricing power, and profitability.

**Susceptibility to risks inherent in tender-based business:** Since the entire income is tender based, the business will depend on the ability to bid tenders successfully. Also, majority of orders are from government entities, resulting in high dependence on timely clearances for tenders and payment. Revenue and profitability are expected to remain susceptible to risks inherent in tender-based operations.

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: Positive**

BWR believes the ACL's business risk profile is likely to benefit from execution of tender-based orders,. The ratings may be upgraded if the company reported better-than-expected operating performance, while ensuring stability in financial risk profile. The outlook may be revised to 'Stable' if lower-than-expected revenue and operating profitability or large debt-funded capex, weakens the financial risk profile.



### About the Company

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 industrial projects, industrial sheds, warehouses etc. The company has ongoing projects with total value of Rs. 412.47 Crs as on January 2019 to be executed Karnataka, Andhra Pradesh and Telangana.

### Financial Performance

ACL reported Operating Revenue of Rs 77.69 Crs and Net Profit of Rs 3.24 Cr for FY18 as against Operating Revenue of Rs. 78.40Crs.and Net Profit of Rs 2.58 Cr for FY 17. Tangible Net Worth was Rs 18.25 Crs and Total debt was Rs.4.59 Crs as on March 31 2018. Current ratio was adequate at 1.45 times as on March 31 2018.

The key financial indicators are summarized in Annexure II

### Rating History for the last three years

Instrument /Facility	Current Rating (Feb 2019)			Rating History		
	Type	Amount (₹ Crs)	Rating	Oct 2017	2016	2015
<b>Fund Based</b> Cash Credit	Long Term	8.00	<b>BWR BB+ (Outlook: Positive) (Pronounced as BWR Double B Plus) Reaffirmed with revised outlook</b>	BWR BB+ (Outlook: Stable) (Pronounced as BWR Double B Plus) Assigned	-	-
<b>Non Fund Based</b> Bank Guarantee ILC	Short Term	16.02 1.00	<b>BWR A4+ (Pronounced as BWR A Four Plus) Reaffirmed</b>	BWR A4+ (Pronounced as BWR A Four Plus) Assigned	-	-
<b>Total</b>		<b>25.02</b>	<b>₹ Twenty Five Crores and Two Lakhs Only</b>			

Status of non-cooperation with previous CRA (if applicable)- NA

Any other information- NA

**Annexure I**

**Bank Facilities Details-**

<b>Facilities**</b>	<b>Type</b>	<b>Karur Vysya Bank</b>	<b>HDFC Bank</b>	<b>Total</b>
Cash Credit	Fund Based	2.00	6.00	<b>8.00</b>
Bank Guarantee	Non Fund Based	8.00	8.02	<b>16.02</b>
ILC	Non Fund Based	1.00	(1.00)	<b>1.00</b>
<b>Total</b>		<b>11.00</b>	<b>14.02</b>	<b>25.02</b>

**Annexure II**

**Key Financial Indicators**

<b>Key Parameters</b>	<b>Units</b>	<b>2018</b>	<b>2017</b>
<b>Result Type</b>		<b>Audited</b>	<b>Audited</b>
Operating Revenue	Rs. in Crs	77.69	78.40
EBITDA	Rs. in Crs	3.24	3.31
PAT	Rs. in Crs	3.24	2.58
Tangible Net worth	Rs. in Crs	18.25	15.01
Total Debt/Tangible Net worth	Times	0.25	0.06
Current Ratio	Times	1.45	1.75

**Hyperlink/Reference to applicable Criteria**

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



For any other criteria obtain hyperlinks from website

[https://www.brickworkratings.com/download/Criteria\\_ManufacturingCompanies.pdf](https://www.brickworkratings.com/download/Criteria_ManufacturingCompanies.pdf)

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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**

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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.

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