Brickwork Ratings for Informed Investment Decisions

Rating Rationale

Brickwork Ratings upgrades the rating to 'BWR BBB-' & 'BWR A3' from 'BWR BB+' & 'BWR A4+' for Bank Loan Facilities amounting to ₹ 249.09 Cr of Atlanta Limited.

Brickwork Ratings (BWR) upgrades the **Ratings**[1] to 'BWR BBB-' & 'BWR A3' from 'BWR BB+' & 'BWR A4+' to the below mentioned outstanding bank loan facilities.

Facility	Limits (₹ Cr)	Tenure	Rating
Fund Based CC	67.75	Long Term	**BWR BBB-** (Pronounced BWR Triple B Minus) **Outlook : Stable**
Non Fund Based LC BG	40.00 141.34	Short Term	**BWR A3** (Pronounced BWR A Three)
Total	**249.09**	**(INR Two Hundred Forty Nine Crores and Nine Lakhs only)**	

BWR has principally relied upon the audited financial results up to FY 14 and further projected financials of Atlanta Ltd, publicly available information and information/clarification provided by the Company management.

The rating continues to factor in the improvement in the operating performance of the company in FY14 with a healthy order book position, replacement of certain portion of high cost debt by way of takeout finance and fulfilment of 100% capital commitment towards its subsidiaries. Further the rating continues to draw strength from long-standing experience and expertise of AL's senior management personnel in the surface transportation sector and AL's strong project management and implementation abilities demonstrated in their road projects over three decade and extended support from GOI towards infrastructure sector in terms of regulatory approvals . However the rating strengths are partially mitigated by the execution risk associated with its subsidiaries on-going projects, significant off-balance-sheet exposure in the form of corporate guarantee and other financial support extended towards its subsidiaries from time to time, order concentration within the group , significant intra-group transactions leading to sizeable receivables from group companies; banking sector outlook for infra project funding and significant increase in debt levels in FY14 and the sectoral concentration of AL's order book to the roads segment.

Background

Incorporated in 1977, Atlanta Ltd is an ISO 9001:2008 certified public limited company promoted by Mr Ambalal Bbarot and Mr Rajoo Bbarot. Atlanta's main focus areas are Road infrastructure development both on EPC (Engineering-Procurement-Construction) contract basis and BOT (Build-Operate-Transfer) basis. Since inception, AL has been involved in the development, operation and maintenance of national and state highways, roads and bridges and

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

expanded its scope of activities .The company has more than 3 decade of expertise in execution of infra projects across various states of the country and also has business interest in real estate sector. Atlanta is an early entrant in the BOT roads space and has been present in the infrastructure space since 1977.

Operation

Atlanta's mainstay is the EPC segment - contributing 70% to its revenues in FY14. Within the Atlanta Group, Atlanta Limited functions as the project execution agency for implementing the various infrastructure projects of the group, particularly in the roads segment. Project-specific SPVs promoted by AL on winning bids for infrastructure projects award EPC contracts to AL, which then implements the project. As on June 30, 2014, the Atlanta group has a portfolio of four BOT road projects of which two are operational and two is under development. The entire BOT projects in the portfolio are toll based. All BOT projects are held under 100% subsidiary of Atlanta Infra Assets Limited. Public Works Department, Government of Maharashtra has stopped toll collection from Mumbra Bypass from midnight of 21st September, 2014

Management

Company's management team is led by Mr. Rajhoo Ambalal Bbarot, promoter and MD of Atlanta group. He has vast experience in execution and management of wide variety of construction projects in the field of BOT/EPC and real estate development. The Company is professionally managed and has qualified personnel from the field of engineering; finance and administration to assist the top-level management

Financial Performance

Atlanta Limited derives substantial portion of revenues from the EPC segment and toll collection. In FY14 AL posted TOI of Rs. 359.88 Cr against Rs.280.95 Cr in FY13 translating a Y-o-Y growth of 28%. The growth is mainly on account of receipts from Mora project which contributed ~Rs.150.24 Cr to the top line. The total income of Atlanta was improved by growth in EPC income from Rs.187.78 Cr in FY13 to Rs.252.47 Cr in FY 14 reflecting 34.45% increase, however the income from toll collection fell by 2.69% to Rs.81.52 Cr in FY 14 which is attributable to lower average daily traffic of heavy vehicle than the estimated average daily traffic. Operating margin of the company declined to 30.79% in FY 14 from 34.50% in FY 13 attributable to incremental operating expenditure. However PAT margin improved to 15.15% during the year as against (0.89) % in FY 13 on account of lower depreciation and reduction in interest expenses. Interest coverage ratio of the firm has marginally improved to 1.78 times in FY 14 from 1.45 times in FY 13 on account of higher proportionate EBITDA. Overall gearing has increased from 0.97x as on March 31, 2013 to 1.13x as on March 31, 2014 on account of increase in debt position mostly from banks (from Rs.556.96 Cr as on Mar 31, 2013 to Rs. 733.37 Cr as on Mar 31, 2014).

Atlanta has EPC order book of Rs.1150 Cr as on Sep, 2014. Over the past many years, it has been observed that the top five projects have accounted for over 70% of its revenues. The company's order book as on Sep 2014 shows the same trend, with top five projects contributing to 70% proportion. The order book to EPC income ratio stood at 7.17 times of FY14 revenues, which imparts strong revenue visibility. ~ 87% of order book is from the road segment and the rest is from real estate. Though Atlanta has a healthy order book, the timely execution of these orders will be critical to achieve the envisaged revenue and also for the improvement in its liquidity profile. The majority of EPC contracts entered by Atlanta are fixed price in nature. AL has already infused required contribution (including equity and subordinate debt) for its under-construction projects. AIAL, Group Company of AL has recently been awarded an OMT project in Assam

AL have significant exposure in its group companies and JVs, however this is a common practice in construction companies where various projects are executed through the subsidiaries and JVs. Further, the subsidiaries and the JVs are contributing to the profit of the group on a consolidated basis. The consolidated net revenue and PAT for FY14 was Rs.359.88 Cr and Rs.53.97 Cr respectively as against the standalone net revenue and PAT of Rs. 312.10 Cr and Rs.41.95 Cr. AL recorded Rs.192.34 Cr of revenue ending H1 FY 15 vis-à-vis Rs.89.46 Cr for corresponding period of previous year. H1 FY 15 PAT is up by 154.36% to Rs.27.98 CR

Rating Outlook

Going forward, the ability of the company to effectively manage its working capital requirements in light of elongation in receivables period, raising resources to manage growth in operations, improving profitability and gearing ratios by timely execution and receipt of contract proceeds would remain the key rating sensitivity. Moreover, any significant change in the strategy/operations of the company impacting the business and financial risk profile would also constitute a rating sensitivity.

The ratings may be downgraded in case AL's accruals are muted with delay in the on-going projects of its subsidiaries thus impacting its timely debt servicing ability or in case AL extends more-than-expected support to its subsidiaries, most likely by way of extending financial support for any new projects. On the contrary in case there is more-than-expected realisation of value from its subsidiaries, thereby supporting its liquidity may result in positive rating action

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