

## Rating Rationale

### Avadh Rail Infra Ltd

19 Nov 2018

Brickwork Ratings assigns ratings for Bank Loan facilities aggregating to Rs. 46.82 Crores of Avadh Rail Infra Ltd.

### Particulars

Facilities Availed	Amount to be Rated (Cr)	Tenure	Rating Assigned <sup>^</sup>
<b>Fund Based</b>			
LAP	21.82	Long term	BWR BB + (Pronounced as BWR Double B Plus) Outlook:Positive
Cash Credit	15.00		
<b>Non Fund based</b>			
BG	10.00	Short Term	BWR A4+ (Pronounced as BWR single A Four Plus)
<b>Total Amount to be Rated</b>	<b>46.82</b>	<b>Rupees Forty Six Crores and Eighty Two lakhs only</b>	

<sup>^</sup>Please refer to BWR website: [www.brickworkratings.com](http://www.brickworkratings.com) for definition of the rating assigned.

BWR has assigned Long Term rating of BWR BB+ ( Outlook:Positive) and Short Term rating of BWR A4+ to Avadh Rail Infra Ltd ( ARIL or ‘the company’).

Rationale/Description of Key Rating Drivers/Rating sensitivities:

BWR has essentially relied upon the audited financial statements for up to FY18 and projections from FY19 to FY 21, publicly available information and information/clarifications provided by the management.

The ratings have factored in, inter alia, promoters' extensive business experience in railway wagon parts manufacturing industry, established relationship with reputed customers namely, Indian Railways and Metro Rail Corporation, healthy order book and network position.

The ratings are, however, constrained by small scale of operations in highly competitive industry, risk of customer concentration, high leverage ratio and substantial investment done in sister concerns.

Going forward the outcome of the scaling up of business, improving leverage ratio would be the key rating sensitivities.

### **Description of Key Rating Drivers**

#### **Credit Strengths**

- **Extensive experience of directors:** The company has a pool of qualified manpower having good exposure in the industry. The director of the company Mr. Subhash C Saraff, Director, comes from an entrepreneurial family who is in business for generations with over 44 years of experience and is assisted by his son Abhishek Saraff (MBA from USA) along with the qualified engineers, professional managers and experienced consultants.
- **Established relationship with customers:** Their strong R&D, technical collaboration with number of world wide leaders and extensive experience in the industry has helped them in establishing long term relationship with reputed clients namely, Indian Railways and Metro Rail Corporation which provides them credibility and competitive advantage over the other companies.
- **Healthy order book and Network position:** The order book position of ARIL stood at Rs. 150 Cr. in FY19. Also, their network has increased to Rs. 48.60 Cr. in FY18 as against Rs. 46.31 Cr. in FY17.

#### **Credit Weaknesses**

- **Small Scale of operations:** The total operating income of ARIL stood at Rs. 99.63 Cr. in FY18 as against Rs. 83.53 Cr. in FY17. The top line of the company have registered a growth of 18.74% in FY18. However, looking at the competitive nature of the industry wherein the business is procured on a tender based contract awarding system, the scale of operations of ARIL is small.
- **Customer concentration:** Since majority of orders/tenders are procured from Indian Railways, ARIL is facing the risk of customer concentration in the industry.

- **High leverage:** The financial structure of ARIL is highly leveraged with TOL/TNW of 1.06 times in FY18 which has declined from 0.93 times in FY17 and 0.74 times in FY16.
- **Substantial investment done outside the company in sister concerns.**

### Analytical Approach

BWR has applied its rating methodology on a standalone basis, as detailed in the Rating Criteria (hyperlinks provided at the end of this rationale).

### Rating Outlook: Positive

BWR believes that **Avadh Rail Infra Ltd**'s business risk profile will improve over the medium term, based on healthy order book of INR.150.00 Crs on hand. The '*Positive*' outlook indicates a high likelihood of positive rating change over the medium term. The rating outlook may be revised to 'Stable' in case the revenue and profit show moderate improvement.

### Background:

Avadh Rail Infra Limited is a Limited and was incorporated on 23 July 1980 with Lucknow-headquartered Avadh Rail Infra supplies critical rubber and rubber-to-metal bonded components to Indian Railways for freight wagons, passenger coaches, locomotives and tracks.

The Directors of the company are Mr.Subhashchandra Saraff, Mr. Abhishek Saraff, Mr.Rohit Srivastava and Ms. Priyanka Saraff.

### Company's financial Performance

Key Financials			
Result Type	Units	31/Mar/2017	31/Mar/2018
		Audited	Audited
TOI	Rs. Crs	83.94	99.67
OPBDIT	Rs. Crs	5.99	7.99
PAT	Rs. Crs	2.62	2.29
Tangible Net Worth	Rs. Crs	46.31	48.60
Current Ratio	Times	2.61	2.58

**Rating History for the last three years: (including withdrawn/suspended ratings)**

Facilities	Rating Assigned in 2018			Rating History		
	Amount to be Rated (In Crs)	Tenure	Rating Assigned	2017	2016	2015
LAP	21.82	Long Term	BWR BB + (Pronounced as BWR Double B plus) Outlook : Positive	NA	NA	NA
Cash Credit	15.00			NA	NA	NA
BG	10.00	Short Term	BWR A4+ (Pronounced as BWR Single A four)	NA	NA	NA
<b>Total</b>	46.82	<b>INR. Forty Six Crores and Eighty Two Lakhs Only</b>				

**Status of non-cooperation with previous CRA (if applicable)-** India Rating has moved the rating of ARIL's bank loan facilities to IND BB+(ISSUER NOT COOPERATING)/IND A4+(ISSUER NOT COOPERATING) as on May 31, 2018.

**Hyperlink/Reference to Applicable Criteria**

- |   |  |
|---|--|
| <b>1</b> <a href="#">General Criteria</a>             | <b>4</b> <a href="#">Short Term Debt</a> |
| <b>2</b> <a href="#">Approach to Financial Ratios</a> |  |
| <b>3</b> <a href="#">Manufacturing Companies</a>      |  |

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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**

Brickwork Ratings (BWR), a SEBI registered Credit Rating Agency, 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 leading public sector 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, Hyderabad, Kolkata, Mumbai and New Delhi along with representatives in 150+ locations.

### **DISCLAIMER**

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